seplat

Seplat Petroleum Development Company Plc
Annual Report and Accounts 2018

Stability Performance Growth

As a leading independent upstream oil and gas company in Nigeria, we are differentiated in our offering. The only Nigerian company fully dual listed on both the Nigerian Stock Exchange (SEPLAT) and the Main Market of the London Stock Exchange (SEPL), we are an indigenous business that also has an international profile.

We have differentiated Seplat through strong management and strategic development which can be demonstrated across three areas:

Financial strength and flexibility

Production capability

Portfolio diversity

Find out more online:
ar2018.seplatpetroleum.com

The Seplat difference

Financial strength and flexibility

We have continued to carefully manage our finances, making focused investments across the portfolio and optimising our capital structure to finance our ambitious future growth plans.

We continue to retain discretion over the majority of our capital expenditure to allow flexibility to scale our investments appropriately.

Alongside this, we have kept downward pressure on our cost base to enhance margins.

Production capability

Seplat is underpinned by a high quality asset base and has invested to consistently grow oil production and capacity.

Our policy to establish multiple export routes for all assets will de-risk over reliance on any one third party system to ensure distribution of our production to market.

Looking ahead, we have a large inventory of production drilling opportunities in our current portfolio that we will high-grade and implement a work programme to exploit.

Portfolio diversity

We have prioritised the commercialisation and development of the substantial gas reserves and resources identified at our blocks, positioning Seplat today as a leading supplier of processed natural gas to the domestic market in Nigeria that will help increase Nigeria's power generation capacity and industrial output.

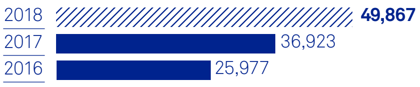
Our gas business is making an increasingly important financial contribution for Seplat with gas prices de-risked from the volatility of the oil price.

2018 Highlights

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

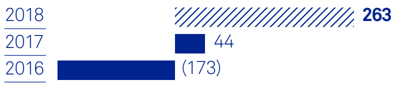
WI production within guidance

49,867 boepd



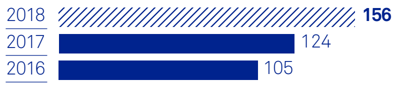
FY 2018 profit before tax

US$263m



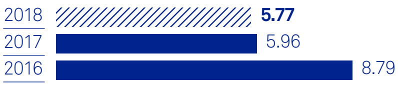
Gas revenues at record levels

US$156m



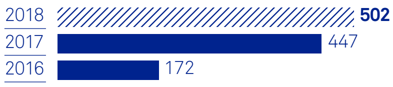
Low unit production opex

US$5.77/boe



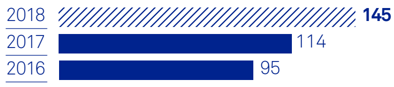
Strong cash flow from operations

US$502m



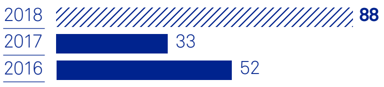
Net WI domestic market supply

145 MMscfd



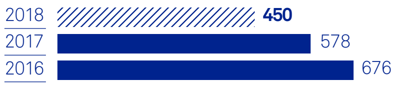
Capital investment

US$88m



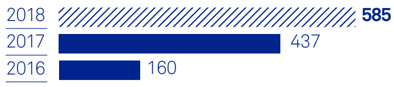
Gross debt

US$450m



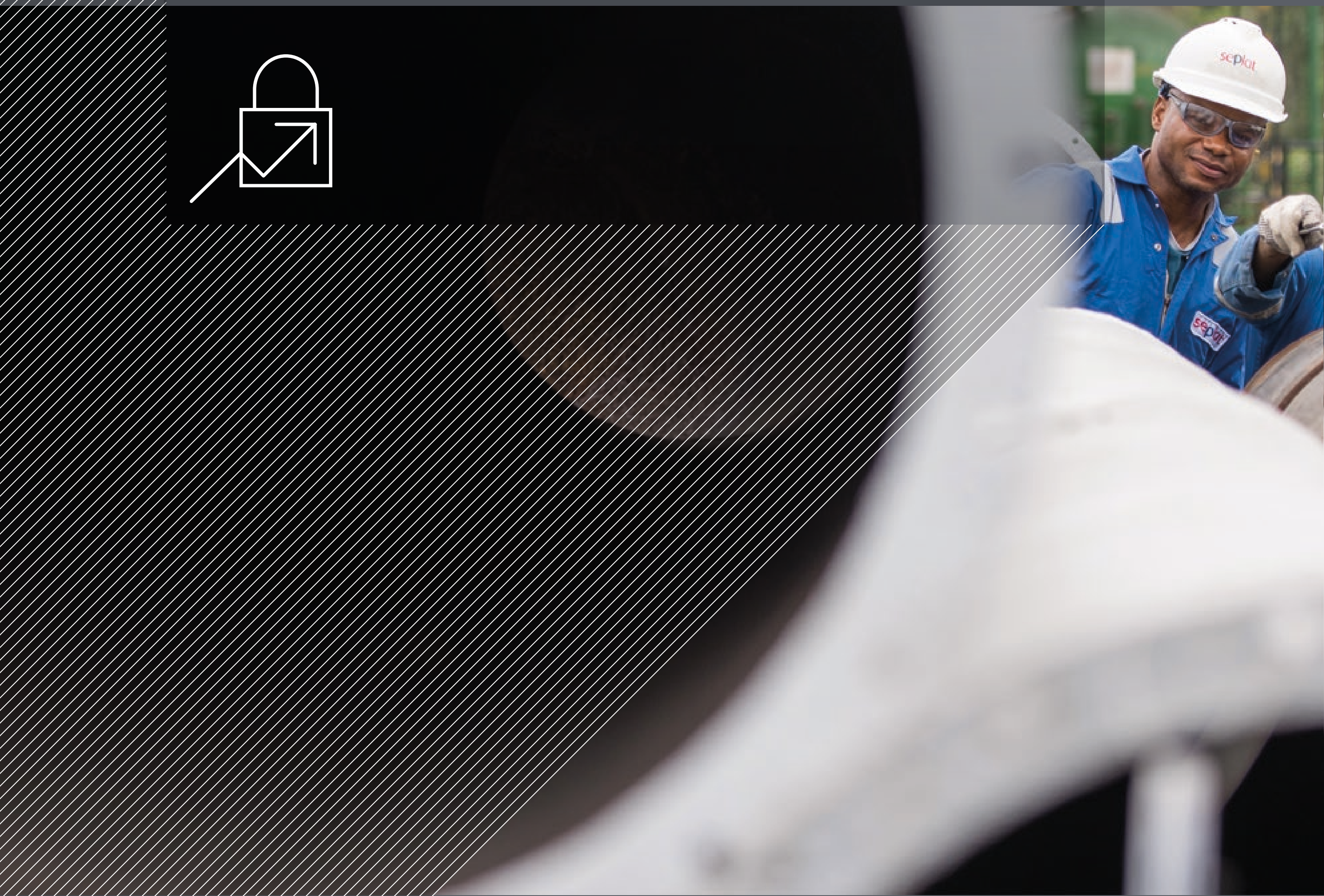
Cash position

US$585m



Financial strength and flexibility

We have continued to carefully manage our finances, making focused investments across the portfolio and optimising our capital structure to finance our ambitious future growth plans. Alongside this we have kept downward pressure on our cost base to enhance margins.



Strong profitability, high margin cash flow and dividend reinstated

Seplat recorded strong financial performance in 2018 with revenue up 65% year-on-year at US$746 million and gross profit standing at US$391 million, representing a 52% margin. Profit before tax increased by 480% year-on-year to US$263 million and, after adjusting for non-cash corporate tax and non-cash deferred tax of US$117 million, profit after tax stood at US$147 million.

Alongside this, cash generated from operations in 2018 was US$502 million while capital investments were US$88 million. This translated into a significant strengthening of the balance sheet with cash at bank of US$585 million at end 2018 and gross debt of US$450 million, placing Seplat in a net cash position of US$135 million at year end. In light of these significant improvements in Seplat's liquidity and financial position, the Board reinstated dividend payments and in April the Company declared a special dividend of US$0.05 per share to help normalise returns to shareholders after the Board had suspended dividends for 2016 and 2017. This was followed by an interim dividend of US$0.05 per share declared in October which boosted the total dividend return in the calendar year to US$0.10 per share. A final dividend of US$0.05 has been proposed by the Board subject to shareholder approval at the AGM.

Successful refinancing and debut bond issue

In March 2018 Seplat successfully completed a debut issuance of US$350 million 9.25% senior notes due 2023 and refinanced an existing US$300 million revolving credit facility with a new four-year US$300 million revolving credit facility due June 2022 carrying initial interest of LIBOR +6%.

This successful re-financing is a strong endorsement of the quality of Seplat's underlying asset base and ability to proactively manage the business in what can be a challenging macro backdrop and operating environment. Our debut bond issuance in particular further diversifies our capital base and along with the new RCF strengthened our liquidity position which will allow us to scale up our work programme in 2019 and focus on delivering our growth strategy.

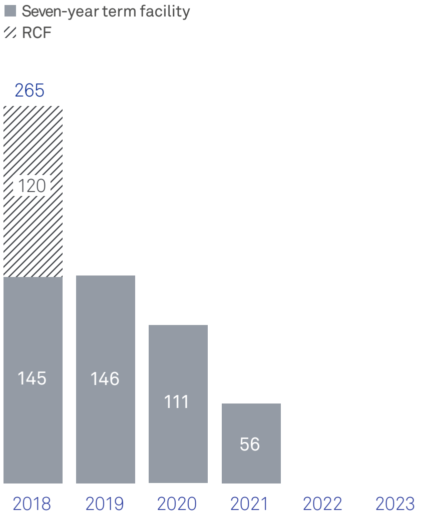
Flexibility and discretion over spend

As operator of our core production and development projects we have been able to retain discretion over the majority of capital expenditures and a level of operational and budget control that has afforded us the necessary flexibility to scale our investments appropriately to live within our means. Having pulled back on capital expenditures in 2016 and 2017 owing to the extended period of force majeure at the Forcados terminal, in 2018 we scaled up our capital investments to US$88 million which was directed mainly towards the gas business and facilities upgrade projects.

Looking ahead into 2019, we will seek to further scale up our investment programme, taking account of the prevailing operating environment and availability of crude export terminals, oil price and the influence of these factors on free cash generation within the underlying business. We will maintain our strict discipline of only allocating capital to the opportunities that offer the greatest returns to deliver shareholder value.

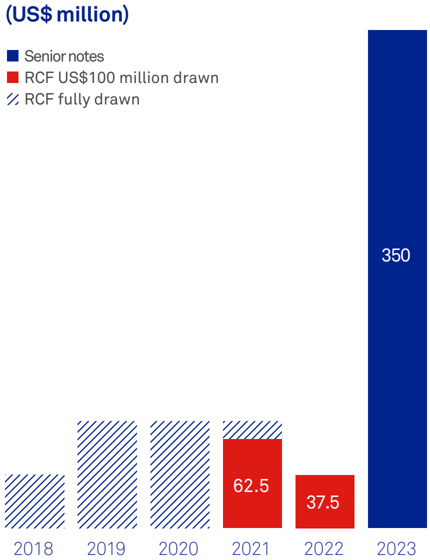
See our financial review on **page 58**

Pre refinancing debt maturity profile (US$ million)



Year end balance	2018	2019	2020	2021	2022	2023
	313	167	56	-		

Debt maturity profile at 31/12/18[1] (US$ million)



Year end balance	2018	2019	2020	2021	2022	2023
	450	450	450	387.5	350	–

1 Based on US$100 million debt drawn on four-year RCF.
Note that the RCF was paid down to nil at the end of February 2019.

Strong operational track record

Seplat is underpinned by a high quality asset base and has invested to consistently grow oil production capacity. Looking ahead, we have a large inventory of production drilling opportunities in our current portfolio that we will high-grade and implement a work programme to exploit.

2018 production within guidance range

2018 full year average working interest production stood at 49,867 boepd and represents an overall increase of 35% year-on-year. Within this liquids production was up 44% year-on-year whilst gas production was up 27% year-on-year. The 2018 figures reflect an uptime level of 85% while overall reconciliation losses arising from use of third party infrastructure were around 8% for the year.

Multiple oil export routes to de-risk access to market

Seplat's policy is to establish multiple export routes for all of its current and any future oil producing assets. This resulted in the Company actively pursuing alternative crude oil evacuation options for production at OMLs 4, 38 and 41 and potential strategies to further grow and diversify production in order to reduce any over-reliance on one particular third party operated export system. In line with this objective, repairs and upgrades undertaken on two jetties at the Warri refinery in 2017 provide a back-up option that can sustain exports of 30,000 bopd (gross) if required in the future. Longer term, the Amukpe to Escravos 160,000 bopd capacity pipeline will provide a third export option for liquids production at OMLs 4, 38 and 41 once completed in 2019. With line of sight on the availability of three independent export routes it is Seplat's ultimate intention to utilise all three to ensure there is adequate redundancy in evacuation routes, reducing downtime which has adversely affected the business over a number of years, significantly de-risking the distribution of production to market.

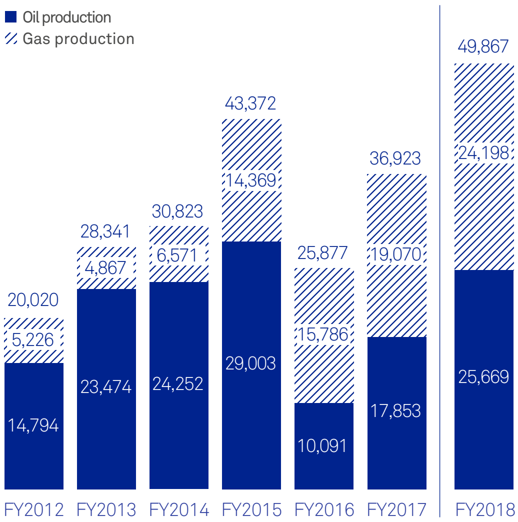
See our operational review on **page 52**

A safe and responsible operator

The health and safety of our people and communities together with minimising our environmental impact are at the core of how we conduct our business. We have been working to deliver safe and reliable processes in our business since we began operations in 2010 and have taken a proactive approach to HSSE management to ensure continual improvement towards our clearly defined key performance indicators. In 2018, we continued to promote best practice operating procedures and a safe culture at every Seplat location.

In tandem with this we have built strong relationships with our host communities since inception, promoting trust and confidence amongst the various stakeholders, ultimately resulting in a stable environment at our operated facilities and infrastructure. In December 2010 (renewed in 2016), we entered into a five year Global Memorandum of Understanding with the host communities within OMLs 4, 38 and 41 and established a trust fund structure for projects based on sustainable development principles. These initiatives seek to support capacity building, community participation and enhance quality of life through provision of high-standard healthcare, education and development programmes. Since 2011, we have not suffered a single day of production downtime due to disruption at our operated facilities and infrastructure. It is this successful model of engagement that also forms the basis of our community engagement activities at our other operated assets.

Strong operational track record (boepd)



85%

Production uptime in 2018 and reconciliation losses around 8%

35%

Overall production increase in 2018

Portfolio diversity

Portfolio diversification through the gas business. We have prioritised the commercialisation and development of the substantial gas reserves and resources identified at our blocks, positioning Seplat today as a leading supplier of processed natural gas to the domestic market in Nigeria.

Looking ahead, we plan to further increase our gas production and processing capacity to help meet Nigeria's growing demand, particularly in the gas-to-power and industrial sectors.

US$156m

Gas revenues in 2018 (21% of total revenues in the period and up 26% year-on-year)

Early mover advantage and entrepreneurial vision

Whilst natural gas was largely viewed as a by-product from oil production in previous years, Seplat was quick to see the opportunity created by the increasing importance of natural gas as a key source of energy for Nigeria. We have invested in the installation of dedicated gas production and processing facilities as well as the drilling of gas production wells to help meet domestic supply obligations as well as providing a more environmentally friendly feedstock by displacing diesel generated off grid power. Rather than being just a by-product, natural gas for Seplat is a valuable primary commodity in its own right that will form a significant component of its future growth and success in Nigeria.

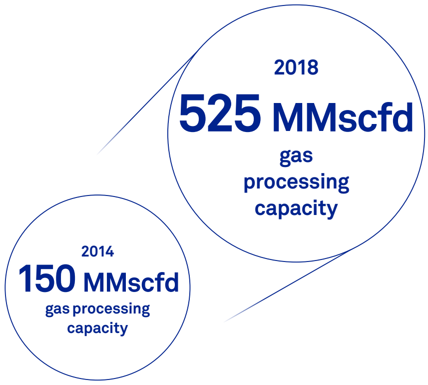
A growing and strategically important gas business

A major driver behind the rapid growth of Seplat's gas business to date 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 on the Lagos and Abuja axes. As a result, Seplat's overall operated gas processing capacity has increased to the 525 MMscfd level. Of this, 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 investment project.

Our gas business is making an increasingly important financial contribution for Seplat. In contrast to the oil business where the volatility of oil price has offset the volume growth we have delivered in recent years, the gas business is an area where we have been able to realise the combined benefit of increasing price and increasing volume. Gas prices in the Nigerian domestic market are de-linked from the oil price and have shown a steady increase in recent years, with the domestic service obligation price increasing from US$0.3/Mscf in 2009 to the current US$2.5/Mscf. Beyond this we have entered into a number of additional gas sales agreements on a willing buyer/willing seller basis that has seen commercial pricing move towards the US$3.5/Mscf level.

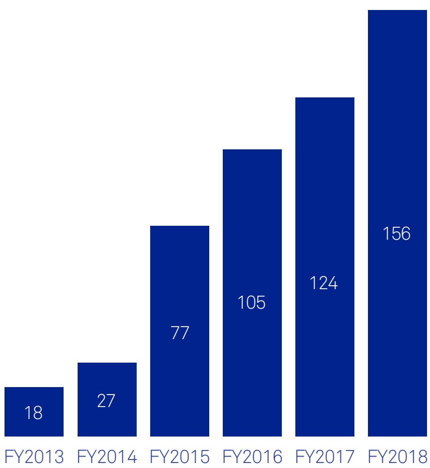
Greenfield development of ANOH to drive future growth

The ANOH gas development at OML 53 (and adjacent OML 21 with which the upstream project is unitised) is set to underpin the next step-change expansion of our gas business. Seplat's involvement positions it at the heart of one of the largest greenfield gas and condensate developments onshore the Niger Delta to date. The project represents an opportunity for us to leverage the experience and track record we have gained at Oben to derive repeatability gains and optimal configuration of facilities. In 2018 we established an incorporated joint venture, ANOH Gas Processing Company Limited, between Seplat and government which was an important precursor to the Final Investment Decision ('FID') for the ANOH project, that was taken post period end in March 2019.



See our operational review on **page 58**

Portfolio diversity (Gas revenues US$ millions)

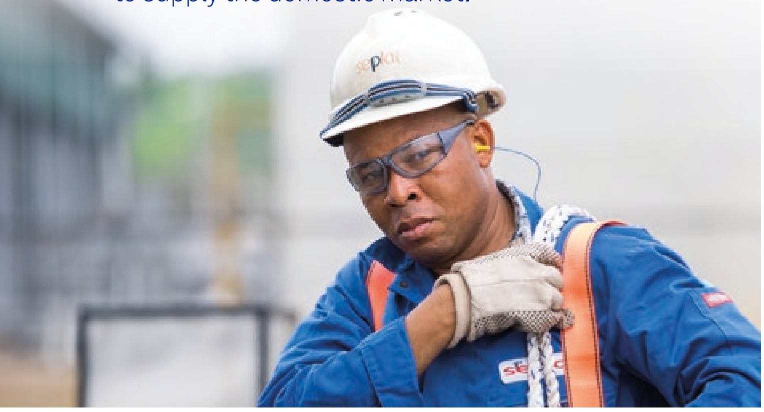


Who we are

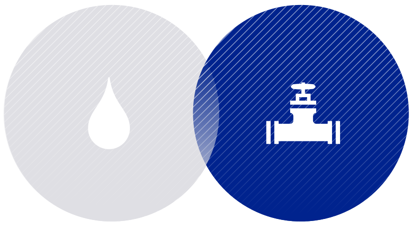
Seplat is a leading independent oil and natural gas producer in the prolific Niger Delta area of Nigeria and a leading supplier of processed natural gas to the domestic market.

Who we are

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



What we do



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

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

Our strong track record

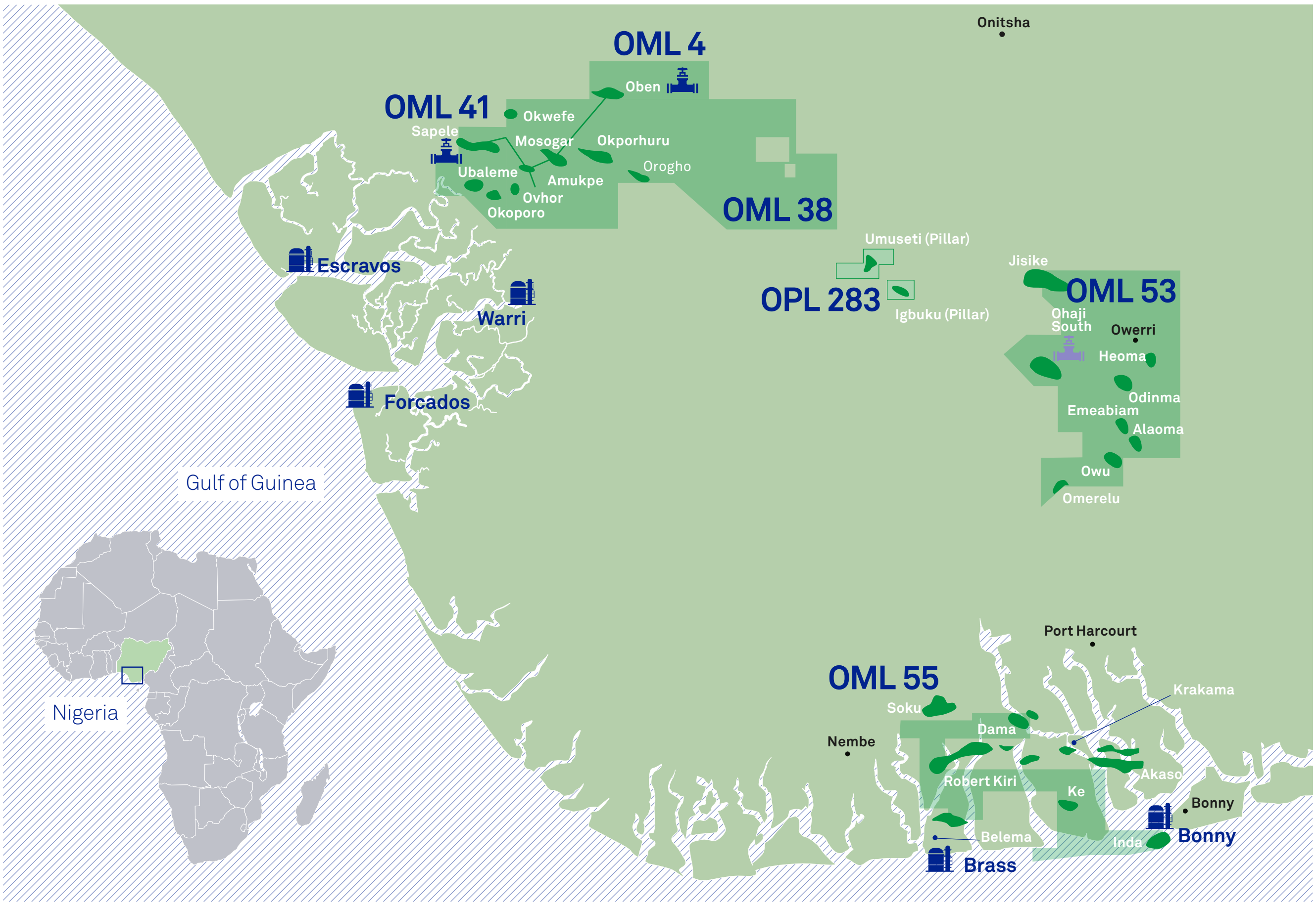
A high-quality asset base
We have consistently increased oil and gas production capacity and grown reserves through both organic and inorganic activities since inception. We have grown gross operated liquids production at OMLs 4, 38 and 41 almost six-fold and augmented this with inorganic growth via strategic acquisitions, most notably the acquisition of an interest in OML 53 and in turn participation in one of Nigeria's largest greenfield gas/condensate development projects.

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

Strong relationships with local communities
We have built strong relationships with our host communities, promoting trust and confidence amongst our various stakeholders. This has ultimately resulted in stability at operations under our control, which then facilitates the creation of shared value. To continue to nurture these relationships, we are fully focused on proactive engagement with the communities where we operate, implementing community projects based on sustainable development principles. These initiatives seek to promote local capacity building and aim to support host community participation and enhance the quality of life for individuals within these communities.

Corporate social responsibility **page 62**

Where we operate



Key

Terminal point

Gas processing facility

Future gas processing facility

Operational review page 52

Working interest 2P liquid reserves (2010 to 2010)

Movement in working interest 2P liquid reserves from end 2010 to end 2018.

+0.4%

2018 – 227 MMboe[1]
2017 – 226 MMboe
2010 – 139 MMboe

Working interest 2P gas reserves (2010 to 2018)

Movement in working interest 2P gas reserves from end 2010 to end 2018.

+1%

2018 – 254 MMboe[1]
2017 – 251 MMboe
2010 – 142 MMboe

Total working interest 2P reserves (2010 to 2018)

Movement in total working interest 2P reserves from end 2010 to end 2018.

+1%

2018 – 481MMboe[1]
2017 – 477MMboe
2010 – 281 MMboe

1 As certified by Ryder Scott CPR dated 1/1/19.

Looking ahead

Our portfolio provides a robust platform of oil and natural gas reserves and production capacity together with an extensive opportunity set of material organic upside opportunities through further field developments, 2C to 2P conversion and exploration and appraisal drilling. We will retain the flexibility and financial discipline that has allowed us to successfully operate in a sometimes unpredictable operating environment and volatile macro backdrop. With line of sight on the availability of multiple export routes at our core oil producing blocks, we aim to significantly de-risk distribution of oil production to market and buffer the impact of future disruption. Our gas business is continuing to make an increasingly important contribution to our performance with its revenues providing a key source of growth and diversification, as well as delivering a much-needed reliable supply of gas to the Nigerian power and industrial sectors. Alongside this Seplat is well positioned to capture value accretive inorganic growth opportunities that may present themselves, remaining true to its price disciplined approach, to accelerate growth and further consolidate its position as a leading Nigerian independent E&P company.

Chief Executive Officer's statement **page 14**

A focused and performing business

Dear shareholders,

I am pleased to welcome you to Seplat's sixth AGM and the presentation of our annual report and consolidated financial statements. Looking at Seplat from an external perspective five years on from our landmark IPO and dual listing in April 2014 it is clear that while the Company has operated in a challenging macro and operational environment, it has demonstrated a strong resilience and discipline while retaining its growth potential. I am more confident than ever as we enter the 2019 financial year that we have the right combination of a high quality underlying portfolio with organic growth headroom coupled with the financial capacity and flexibility to capitalise on step-change inorganic opportunities which we envisage in the global business environment. Most importantly I firmly believe we have the right strategy for success and the right management team to deliver on that strategy.

2018 full year working interest production

49,867 boepd

2018 gas revenue

US$156m

2018 contained some notable highlights for Seplat. Production was in line with guidance and the strong underlying profitability and cash flow performance allowed for reinstatement of the dividend.

A.B.C. Orjiako
Chairman

We successfully refinanced the balance sheet, making our debut bond issuance in the process, and are now in a position to accelerate delivery of our growth ambitions.

2018 performance overview

Our 2018 operational and financial performance reflects the significantly higher year-on-year levels of production uptime at our core oil producing assets combined with a firmer, albeit still volatile, oil price and increased contribution from our gas business. As you are aware our results from the previous two years were characterised by the extended period of force majeure at the Forcados terminal from February 2016 to June 2017. I am pleased to report that in 2018 we achieved an overall production uptime of about 85%, within our budgeted levels, meaning that our working interest production of 49,867 boepd fell comfortably within the guided range of 48,000 boepd to 55,000 boepd and was evenly balanced between oil and gas. While the Brent oil price averaged US$71/bbl over 2018 it remained volatile throughout the year (trading between a low of US$62/bbl in February to a high of US$86/bbl in October before falling off sharply to exit the year at around US$51/bbl) which, once again, served to emphasise the complementary benefit of having a stable and growing gas business where prices and corresponding revenues are de-linked from oil price volatility.

Seplat continues to pride itself on being able to withstand and effectively navigate through an often challenging operating environment to deliver on its strategy, and in turn generate long-term sustainable value to our shareholders. I am pleased to report that in 2018 our Nigerian and UK lines of equity closed the year up +2.2% and +4.8% respectively, outperforming Brent oil (down -17.1%), the Nigerian ASI (down -17.8%) and listed peers (down -26.9%). In terms of financial performance we recorded a post-tax profit for the year of US$147 million while cash generated from operations stood at US$502 million, emphasising the high quality of our underlying portfolio and strength of our business fundamentals. The strong operational and financial performance led the Board to reinstate the dividend for shareholders, with a special dividend of 5 cents per share in April paid to normalise returns to shareholders after the Board had suspended dividends for 2016 and 2017 and an interim dividend of 5 cents per share declared in October in line with our normal dividend distribution timetable.

The combined total of 10 cents per share dividend paid in the calendar year 2018 amounts to a return of US$59 million to our shareholders. The Board has recommended a final dividend of 5 cents per share which is subject to shareholder approval at this AGM.

A strong financial footing

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

We ended 2018 with US$585 million of cash on our balance sheet, up from US$437 million a year earlier. At the conclusion of the refinancing in March our gross debt stood at US$550 million, comprising US$200 million drawn on the RCF and the US$350 million bond. Prudent financial management and efficient capital allocation have remained a priority of the Board and given the strong free cash generation of the business throughout the year we took steps to deleverage the balance sheet in the fourth quarter by repaying US$100 million of the RCF, whilst retaining the undrawn headroom in our capital structure should we require it going forward to fund our growth initiatives. As a result our gross debt at year-end was US$450 million meaning we exited 2018 with an enviable net cash position of US$135 million compared to a net debt position of US$141 million a year earlier.

As operator of our core production assets, we are able to exercise discretion over spend and in 2018 stepped up capital investments to US$88 million (compared to just US$33 million the year before), the majority of which was allocated to the gas business and infrastructure upgrades. Looking ahead we intend to scale up our level of organic growth investments considerably in line with our expected free cash generation. Meanwhile, with our capital structure reset we have the headroom to accelerate growth through inorganic acquisitions, while all the time remaining true to our price disciplined approach.

Continued expansion of our gas business

Our strategy to diversify and grow our sources of income through the expansion of our gas business continued to gain momentum in 2018, with Seplat remaining at the forefront of gas commercialisation and continuing to make substantial investments in support of the government's energy agenda. In 2018 our gas revenue derived from the Oben hub once again reached a new high of US$156 million, up from US$124 million the year before and representing over an eight-fold increase since 2013 when our gas revenue stood at just US$18 million.

The ANOH greenfield development project, which incorporates the development of OML 53's Ohaji South field (large scale gas and condensate reserves), will underpin the next phase of growth in our gas business. In August we signed the Shareholder Agreement and Share Subscription Agreement with the Nigerian Gas Processing and Transportation Company ('NGPTC'), a wholly owned subsidiary of Nigerian National Petroleum Corporation ('NNPC'), whereby NGPTC subscribed for 50% of the shares in ANOH Gas Processing Company Limited ('AGPC'), a company that was incorporated in 2017 for the purpose of processing future wet gas production from the upstream unitised gas fields at OML 53 & OML 21, which is operated by Shell. The signed Shareholder Agreement will govern Seplat's and NGPTC's respective interests in the AGPC incorporated joint venture together with other commercial agreements with NNPC and the Nigerian Gas Marketing Company ('NGMC') that were also executed during the signing ceremony held at NNPC headquarters in Abuja. These agreements are an important precursor to FID which was sanctioned by the Board at the February Board meeting. Phase 1 of the ANOH project will comprise a 300 MMscfd gas processing plant with accommodation space for future expansion as we strive to become the single largest supplier of processed gas to the domestic market.

20-year licence renewal for OMLs 4, 38 and 41

We were delighted to receive consent from the President and Honourable Minister of Petroleum Resources in November for the renewal of OMLs 4, 38 and 41 to a new expiry date of 21 October 2038. Seplat holds a 45% working interest in OMLs 4, 38 and 41 and in 2018 production from the licences accounted for 92% of Seplat's total oil production and 100% of Seplat's gas production. The early renewal of these licences enables us to plan and invest with confidence long into the future to realise the full potential of our core asset base and continue to deliver value to all of our stakeholders.

Move to Premium Board of the Nigerian Stock Exchange

2018 saw an important step taken by Seplat when we migrated to the Premium Board of the Nigerian Stock Exchange, the listing segment for an elite group of issuers who have met the Exchange's most stringent corporate governance and listing standards, capitalisation and liquidity requirements. The Premium Board gives us enhanced access to a wide pool of investors and we are particularly proud of the fact that Seplat has achieved another first in becoming to date the only oil and gas company to achieve this status. It also means that Seplat gains inclusion in the Premium Board Index and NSE Corporate Governance Index in addition to the Nigerian All Share Index. As part of the process all of Seplat's Directors were required to pass the Fiduciary Awareness Certification Test, which was achieved. Seplat also achieved a rating of 88% under scrutiny from the Corporate Governance Rating System, well ahead of the minimum requirement of 70% required for Premium Board status.

A responsible corporate citizen and employer of choice

Regardless of the external environment, our corporate responsibilities will always remain of paramount importance to us. The health and safety of our people and communities together with minimising our environmental impact are at the core of how we conduct our business. We have been working to deliver safe and reliable processes in our business since we began operations in 2010 and have taken a proactive approach to HSSE management to ensure our continual improvement towards our clearly defined key performance indicators.

A key responsibility of the Board is also to ensure we have a comprehensive and effective risk management framework in place. Our risk management framework has been stress-tested to the extreme at times and I am pleased to say its effectiveness is evidenced in how we have prudently managed our way through difficult periods to deliver us to where we are today with our operations, finances and growth prospects not just intact but in excellent health. Details of our full risk management framework can be found on pages 44 to 47 of this report.

Seplat continues to remain extremely proud of its identity as an indigenous Nigerian independent energy company, and carries a strong sense of responsibility to Nigeria and, in particular, our host communities. One of our central priorities is to leave a lasting, positive legacy in our host communities through implementation of our shared value model. We have focused on environmental stewardship, healthcare, education, economic empowerment & capacity building and infrastructure development as key areas to achieve our goal of being a responsible business at all times. Our CSR committee has oversight and has developed policies and a framework which are regularly monitored at senior management and Board levels.

We recognise that our growth and success are enhanced by the commitment and professionalism of our people and will continue to evolve our employment practices to ensure that we can attract and retain the best people.

Outlook

As we enter 2019 our reliable production base, low unit cost of production and discretion over capital commitments will allow the business to remain highly free cash flow generative and profitable. Absent any major interruption or force majeure event, this will enable Seplat to honour its dividend policy and provide an attractive yield to our shareholders in addition to the potential for capital appreciation. We will selectively invest in low risk oil production drilling opportunities within the existing portfolio and the continued expansion of the gas business, with 2019 set to be the year that activity intensifies at the large scale ANOH gas and condensate development. Seplat remains an ambitious growth orientated company that is in a position of strength to capture inorganic opportunities where we can leverage our competitive advantages to seek out carefully considered, price-disciplined and value accretive acquisitions.

Finally, I would like to thank all our employees and wider stakeholders for their efforts and continuing support and I look forward to updating all of our stakeholders on our progress throughout the year ahead.

A.B.C. Orjiako
Chairman

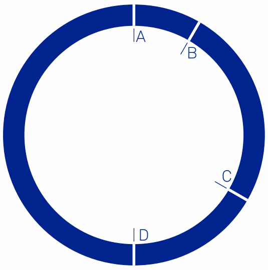
A robust approach to governance

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

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

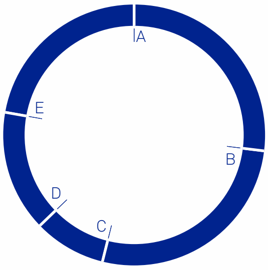
As a Board, we remain focused on building and maintaining a strong reputation that is defined by good corporate governance especially in the area of business conduct. The Board is confident that with our well-thought-out and well-articulated business and strategic objectives, the Company's vision to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

Board composition as at 28 February 2018



A Chairman	1
B Executive Directors	3
C Non-Executive Directors	2
D Independent Non-Executive Directors	6

How the Board spent its time during the year (%)



A Corporate strategy	27
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C Structure and capital	9
D Risk management and internal control	15
E Corporate governance	22

Board of Directors

1. **Macaulay Agbada Ofurhie**
   Non-Executive Director
2. **Effiong Okon**
   Operations Director; Executive Director
3. **Lord Mark Malloch-Brown**
   Independent Non-Executive Director
4. **Charles Okeahalam**
   Independent Non-Executive Director
5. **Michael Richard Alexander**
   Senior Independent Non-Executive Director
6. **Ambrosie Bryant Chukwueloka ('A.B.C.') Orjiako**
   Non-Executive Chairman
7. **Ojunekwu Augustine ('Austin') Avuru**
   Chief Executive Officer; Executive Director
8. **Ifueko M. Omoigui Okauru**
   Independent Non-Executive Director
9. **Basil Omiyi**
   Independent Non-Executive Director
10. **Roger Thompson Brown**
    Chief Financial Officer; Executive Director
11. **Michel Hochard**
    Non-Executive Director
12. **Damian Dinshiya Dodo**
    SAN, OFR, FCIArb, FNIALS
    Independent Non-Executive Director

Board meetings and main subjects discussed in 2018[1]

23 January
– Performance review
– Strategy and budget review

13 February
– Corporate strategy
– Risk management

19 April
– Refinancing

16 May
– Corporate strategy
– Corporate governance

6 June
– Risk management

19 July
– Corporate strategy
– Performance review
– Risk management

20 September
– Corporate strategy
– Corporate governance

19 October
– Corporate governance
– Strategy and budget review

See our Governance on **page 68**

1 13 board meetings in total held during 2018. See more details on page 77.

Exploiting improved operating environment to deliver strong profitability growth

How would you summarise Seplat's performance in 2018?

2018 was a solid year for Seplat, and a continued validation of our business model and strategy. We performed in line with our operational guidance and achieved robust profitability and cash flow generation, providing us with a strong foundation for growth in the coming years. This is clearly evidenced when viewing our performance in 2018 against the key performance indicators and other performance metrics we use to assess the strength of our business on pages 40 to 43 of this report. Based upon this operational stability and financial performance of the business we reinstated the dividend and declared a special dividend of 5 cents per share in April paid to normalise returns to shareholders after the dividend suspension in 2016 and 2017, and an interim dividend of 5 cents per share in October in line with our normal dividend distribution timetable. Further to this, the Board of Seplat is recommending a final dividend of 5 cents per share which is subject to approval of our shareholders at the AGM. It should be noted that since the IPO we have returned US$210 million to shareholders. Furthermore our Total Shareholder Return ("TSR") for 2018 was 11.8% and 7.1% for the LSE and NSE lines respectively, representing an upper quartile performance compared to our peers, oil price and relevant indices and also against a challenging equity market backdrop.

2018 was a solid year for Seplat, and a continued validation of our business model and strategy.

Austin Avuru
Chief Executive Officer

A robust strategy for growth

Since inception we have been guided by a clear and consistent strategy that is carefully designed to provide sustainable long-term value creation and growth for our shareholders and other stakeholders. We aim to do this by leveraging our core strengths and expertise to capitalise on growth opportunities available to us across the upstream oil and gas and midstream gas value cycle.

Our strategy comprises the five key priorities that we have identified as essential in allowing us to run the business efficiently and responsibly in order to achieve our vision of being the leading Nigerian independent oil and gas company.

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

Strategy **page 30**

What were the key operational targets for 2018 and have they been met?

Having set production guidance for full-year 2018 of 48,000 to 55,000 boepd, I am pleased to be able to report that our 2018 outcome fell within this range at 49,867 boepd, comprising 25,699 bopd of oil production and 145 MMscfd (or 24,198 boepd) of gas production. We also aim, at a minimum, to replace the reserves we produce in the year and in 2018 achieved a reserve replacement ration of 121%. As a result our working interest 2P reserves at 1 January 2019 stood at 481 MMboe, comprising 227 MMbbls of oil and 1,473 Bscf of gas, and up marginally from 477 MMboe the prior year. Alongside this we have working interest 2C resources of 80 MMboe, comprising 38 MMbbls oil and 244 Bscf gas, that provides us with further potential to replace production and organically grow reserves.

More broadly, it remains a key operational policy to ensure multiple oil export routes exist for all of our assets in order to reduce any over-reliance on one particular third party operated export system. In line with this, even though it was not required in 2018 we have retained access to two jetties at the Warri refinery that will enable sustained exports of 30,000 bopd (gross) if required in the future. Looking further ahead, the Amukpe to Escravos 160,000 bopd capacity pipeline is set to provide a third export option for liquids production at OMLs 4, 38 and 41. While completion work on the pipeline has been slower than we would have liked we now expect the new pipeline to be commissioned imminently and be fully operational to the initial permitted volume for the Seplat / NPDC joint venture of 40,000 bopd in the third quarter. With line of sight on the availability of three independent export routes it is our intention to ensure all three remain available to provide adequate redundancy in evacuation routes, significantly de-risking the distribution of our production to market and reducing downtime which has adversely affected the business over a number of years.

Why did you issue a bond as part of the March 2018 refinancing?

As part of the overall refinancing in March 2018 we concluded a refinancing of the existing US$300 million revolving credit facility with a new four-year US$300 million RCF at LIBOR +6% and alongside this issued a debut US$350 million bond priced at 9.25%. Proceeds of the refinancing were used to repay and cancel pre-existing indebtedness and also to cash settle crude oil prepayments entered into during 2016 and 2017.

This successful refinancing really represents our final step in resetting the business following the extended period of force majeure in 2016 and 2017 that restricted distribution of oil production to market and limited oil sales during that period. As a consequence we took certain measures to ensure we maintained a liquidity buffer and protected the core business, including the re-profiling of our debt facilities which in-turn increased repayment obligations in 2018 and subsequent years. The refinancing has enabled Seplat to longer date its debt maturities and free up significant cash flow in 2018 and beyond that would otherwise have been consumed by servicing debt, thereby providing a greater financial resource to reinvest in our organic and inorganic growth plans.

The bond issuance has also, in particular, diversified Seplat's long term capital base and helped to lower our overall cost of borrowing. In August the bond was listed on the International Securities Market of the London Stock Exchange in addition to the original listing on the Euro MTF market of the Luxembourg Stock Exchange, further raising Seplat's profile in the international capital markets.

How will you prioritise allocation of Seplat's capital?

The combination of our strong cash generation in 2018 (when operating cash flow stood at US$502 million) and the debt refinancing has translated into balance sheet strength, meaning that we exited the year with US$585 million of cash, up from US$437 million at the end of 2017, and a net cash position of US$135 million compared to a net debt position of US$141 million a year earlier. With this robust capital structure and a portfolio that can continue to generate significant cash flow we have a considerable financial resource to deploy as we continue to deliver our growth strategy and build value for our shareholders.

In terms of the existing portfolio we expect to step up investments in 2019 to the US$200 million level, and will allocate the capital on a highly disciplined basis to production and development opportunities that offer the highest cash returns. We will maintain discretion over our capital spend and keep it proportionate with the cash flow generated to ensure our existing business can continue to be the free cash generative machine it was in 2018. This in turn can underpin a sustainable core annual dividend yield for our shareholders in line with our policy with the possibility for special dividends when profits, cash and capital investments commitments allow. Further to this we took final investment decision for the large scale ANOH gas and condensate development post period end and will be making a phased equity investment into ANOH Gas Processing Company ("AGPC"), the incorporated joint venture owned 50:50 by Seplat and NGC that is developing a 300 MMscfd Phase I gas processing plant at OML 53.

We have also prioritised deleveraging of the balance sheet and consistently reduced our gross debt level of US$1 billion at the start of 2015 to a level of US$350 million in March 2019. However, we have retained a significant un-drawn headroom in our capital structure with the revolving credit facility that means we are equipped to capitalise on inorganic growth opportunities as and when they may arise, in line with our price disciplined approach and focus on opportunities that provide near-term production growth, cash flow and reserve replacement potential.

What is the optimum oil / gas balance for Seplat?

Our gas business has continued to record significant year-on-year growth with 2018 yet another record year that saw gas revenues climb to US$156 million (21% of Seplat's total revenue in 2018), up 26% year-on-year and up from a level of just US$18 million in 2013 representing over an eight-fold increase in just five years. We have always said that we see the gas business having the potential to consistently contribute around 30% of Seplat's bottom line and we maintain that as an achievable outcome. It should be noted, however, that the importance of the gas business is greatly amplified during periods of oil price weakness or disruption to oil exports.

In contrast to the oil business where oil price volatility can more than offset volume growth in any period, the gas business is an area where we have been able to realise the combined benefit of increasing price and increasing volume. Gas prices in the Nigerian domestic market are de-linked from the oil price and have shown a steady increase since 2012 in particular (when we made the strategic decision to commit investments to capture the gas opportunity), with the domestic service obligation price increasing from US$1.0/Mscf to the current US$2.5/Mscf. Beyond this we have entered into a number of additional gas sales agreements on a willing buyer/willing seller basis that has seen commercial pricing move towards the US$3.5/Mscf level. Today our production and reserve mix is evenly balanced between oil and gas, providing a good level of commodity diversification within the business and our plan remains to grow both our oil business and gas business in tandem into the future.

How much further can you grow the domestic market gas business?

There is considerable scope to grow the gas business further and it is one of our aims to become the largest supplier of processed gas to the domestic market in Nigeria in the coming years. The next driver of step-change growth for our gas business will be the ANOH gas and condensate project that we took final investment decision on in March 2019. The project will see a Phase I development of a 300 MMscfd midstream gas processing plant on OML 53 that will purchase and process the wet gas from the unitised gas fields at OML 53 and OML 21, which is operated by Shell and in which we have a 20% unitised upstream interest. To deliver the new gas plant we have formed an incorporated joint venture, AGPC, with NGC in which we each have a 50% equity interest.

The project will see large scale gas reserves in the eastern Niger Delta connected to Nigeria's major demand centres and I believe Seplat is uniquely positioned to deliver the project by capturing repeatability gains and leveraging our experience of developing the Oben gas processing hub at OMLs 4, 38 and 41 where we have installed an additional 375 MMscfd processing capacity to take overall total capacity to the 525 MMscfd level today.

Upon delivery of the ANOH project and combined with Seplat's existing gas business, there will be sufficient gas processing capacity capable of supporting over 3,000 MW of power generation. We are not limiting ourselves either, as at both the Oben and ANOH hubs we are taking a modular approach to expansion and have ensured that at each location we have sufficient accommodation space to grow processing capacity to over 1 Bscfd over time so that we can meet Nigeria's growing demand for gas and continue to be a first mover in capturing the domestic gas opportunity in the years to come.

What do you see as your main challenges?

There is continuing volatility of the oil price, mainly due to over-supply concerns arising from the seemingly relentless growth in US output we have seen in recent years and continued geopolitical tensions in key markets that could erode demand. This remains a factor, though we have continued to see good demand for Nigerian oil grades and our sales remained strong in 2018. To mitigate the risk of severe negative oil price movements we maintain an active hedging strategy aimed at providing a levels of cash flow assurance taking into account our capex plans and business costs. We also protect our margins through strict cost control and in 2018 lowered our production operating costs to US$5.77/boe from US$5.96/boe the year before. These factors, together with the diversification the gas business brings and discretion we maintain over spend, help to ensure that the business can break even at significantly lower oil price levels.

Another key industry-wide challenge is continued operational delivery in what can be a challenging environment and budget control. Since inception we have safely drilled over 70 new wells at our assets and undertaken major infrastructure projects including the 375 MMscfd expansion of the Oben gas plant. This means that we have built a strong track record and take our learnings from past achievements into future activities. We have also consistently remained within our budgeted expenditures and demonstrated a prudent approach to managing our financial resources that has served us well in more challenging times and delivered us to the position of strength we are in today.

What are your plans for 2019?

In 2019 we will return to a level of drilling and development activity not seen since 2015. At OMLs 4, 38 and 41 we have a number of wells planned at Sapele Shallow, which overlies the main oil productive reservoirs in the main Sapele field and is estimated to hold around 500 MMbbls STOIIP. To date Sapele Shallow has not been fully developed and is set to become a longer term focus of ours as we seek to realise the full potential of our core asset base. Additionally we also have new wells planned at the Ovhor field and re-entries of wells at other locations to ensure that we not just offset natural decline but realise an incremental benefit.

We are also stepping up activities at OML 53 in 2019 and, following the re-entry and completion of two existing wells at the Ohaji South oil field late last year, plan to drill additional wells in 2019 as we start to grow output in the eastern Niger Delta.

In addition to the major ANOH gas and condensate project, which I have already outlined, we will also undertake various facility upgrade and asset integrity projects, including further upgrades to our liquid treatment facilities, booster compression and the Sapele gas processing plant. We have set our 2019 capex budget at US$200 million which is more than double our spend in 2018.

What were your CSR highlights in 2018?

We see a strong HSE performance as being key to our licence to operate. Seplat has always had and continues to have an uncompromising focus on HSE and has developed a well-established safety culture which is ingrained at every level in the business. We have consistently improved our Lost Time Injury Frequency Rate ("LTIF") towards zero and in 2018 our LTIF was 0.14, a significant improvement on the prior year LTIF of 0.31. However, we understand that there is always more to do, and our safety policies and training procedures are therefore consistently reviewed and amended to reflect this.

Equally important is our commitment to deepening relationships with the communities where we operate and have always prioritised the long-term relationships with our host communities ahead of short term gains. As one of Nigeria's leading indigenous operators, we understand the importance of working with our host communities to our mutual benefit and to establish lasting relationships based on respect and trust. Collaboration is key and in 2018 we held 298 community meetings, 19 meetings with traditional rulers and four town hall events. In tandem, we continued to invest in community projects, supporting infrastructure development, education and health programmes in the areas around our assets.

You are five years on from IPO, what might the next five years hold for Seplat?

In simple terms we will continue to create value by leveraging our core strengths and remaining true to our tried and tested strategy and business model. I remain confident that Seplat has the right team, the right approach, the right assets and access to the right opportunities to achieve our goals and create significant value for all of our stakeholders. In positioning the business for the next five years and beyond we will seek to:

1 Manage the current portfolio to maximise value and maintain significant financial capacity and flexibility by:

- Disciplined allocation of capital to highest cash return production opportunities
- Ensuring the current portfolio continues to be free cash flow generative and is able to underpin a sustainable dividend yield for shareholders

2 Capture transformational value accretive acquisition opportunities by:

- Capitalising on the Nigerian opportunity set that remains one of the most prolific in Africa
- Prioritising new opportunities that offer near term production, cash flow and reserve growth potential
- Leveraging our core production and development expertise to capture upside

3 Realise the strategic premium to be derived from the gas business by:

- Aiming to become the largest single supplier of processed gas to the domestic market
- Controlling midstream processing capacity to attract and grow third party tolling business
- Considering strategic initiatives to demonstrate the equity value of the gas business

4 Become the African indigenous oil and gas investment of choice by:

- Aspiring to mirror our Premium Segment status on NSE and achieve a premium listing on LSE
- Continuing to capitalise on Seplat's unique position in the capital markets as the only company to fully dual list on the NSE and main market of the LSE

Our key focus areas as we look to the year ahead

Key focus areas	Progress in 2018	Outlook for 2019
Manage and optimise our production and development operations to maximise cash flows and value of the business	Working interest production up 35% year-on-year at 49,867 boepd and in line with production guidance. Re-entered two wells in Ohaji South, drilled a new gas production well at Oben and completed a workover of an existing gas well.	Strong margins at current oil prices, reliable and significant contribution from the gas business and a more aggressive work programme will generate free cash flow to be reinvested to offset natural decline and incrementally boost production.
De-risk distribution of oil production to market	The Company's policy is to establish multiple export routes for all assets. The barging export solution from Warri capable of sustained exports of 30,000 bopd (gross) was available as a back-up option if required in the year.	Slower than expected progress on completion of the 160,000 bopd capacity Amukpe-Escravos pipeline means it is expected to be commissioned and operational in Q2 2019. Utilising all three routes will ensure adequate redundancy in evacuation routes.
Grow and maximise utilisation of gas production and processing capacity	Gas revenues reached a new high of US$156 million from working interest production of 145 MMscfd in 2018. Deliveries to the Azura Edo IPP commenced on take or pay terms.	In March 2019 the Board sanctioned FID for the large-scale ANOH greenfield development project at OML 53. The Company will also undertake an upgrade of the existing Sapele gas plant at OMLs 4, 38 and 41.
Organically grow reserves	Achieved a reserve replacement ratio of 121% in 2018 with working interest 2P reserves at 1 January 2019 independently assessed to be 481 MMboe.	In 2019 the Company will scale up its drilling programme and in doing so incorporate an appraisal element into our activities.
Effective risk management	Risk management continues to be an integral part of all business activities in Seplat and good HSSE performance was achieved in 2018.	Seplat will continue to closely monitor risks to the business and implement our proven and reliable risk management framework.
Prudent financial management	In March 2018, Seplat refinanced its debt with a new four-year RCF and debut bond issuance. Unit production opex and G&A were further reduced by 3% and 13% respectively.	The significantly strengthened balance sheet and improved liquidity will allow for capital investments into growth opportunities to be scaled up.
Operate safely and securely and minimise the impact on the environment	Oil and gas activities carry significant levels of HSSE risks if not properly managed. In 2018, we achieved an LTIF of 0.14, an improvement over the 0.31 recorded in 2017, and once again avoided any employee or contractor fatalities.	As activity levels continue to increase there is a strong focus on preventing major environmental, health or safety incidents.
Value accretive acquisitions	No acquisitions were made during the year.	With a robust operational platform and headroom in the capital structure Seplat is in a position to capitalise on new business opportunities such as acquisitions, farm-ins and bid rounds in accordance with our price-disciplined approach.
Maintain strong relationships with host communities	In 2018 Seplat invested over US$4.6 million (US$64 million since inception) and undertook a wide range of community activities focusing on healthcare, education, economic empowerment, infrastructure development and environmental stewardship.	2019 will see continued investment in our host communities to develop local talent, creating a domestic multiplier effect in the communities where we operate.

Generating value for all of our stakeholders

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

Inputs

Operational expertise and control

97%

of our production is Seplat operated

More on p52

Unified and motivated workforce

400+

multi-discipline employees

More on p66

Strong financial management and access to capital

US$585m

Cash at bank

More on p58

Effective HSSE and risk management

0.14

LTIF

More on p62

Good corporate governance

88%

Corporate Governance Rating System score

More on p70

Strong relationships with host communities

US$64m

Invested in our communities since 2010

More on p64

Our core activities

1 Acquire

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

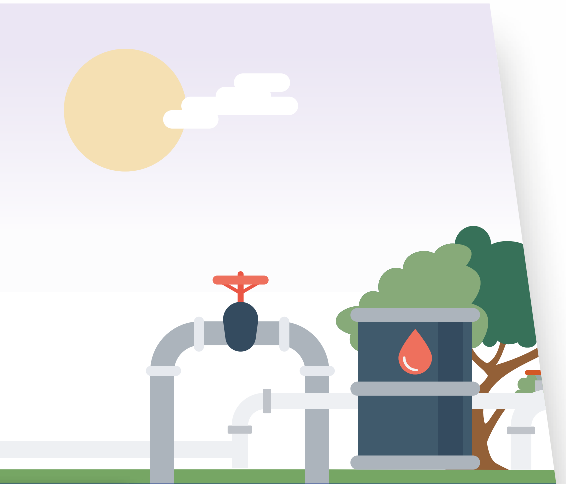
2 Explore & appraise

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

3 Develop

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

Read more overleaf **page 20**



4
Produce, process & sell

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

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

Outcome

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

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

Strong margin cash flow

– High grading of portfolio opportunities
– Disciplined allocation of capital

Value

Value for our stakeholders

For our shareholders

– Capital growth
– Dividends

LSE

US$59m Paid out to shareholders in 2018

11.8% Total Shareholder Return in 2018

For government

– Royalty and tax revenue
– Foreign and local capital investments

US$926m Payments and production entitlement to government reported in 2018

For Nigeria

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

1/3 of Nigeria's current power generation can be underpinned by our gas production

For our host communities

– Economic empowerment
– Healthcare and education

1,300 jobs created via Seplat operations

Our core activities

1. Acquire

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

At any point in time we have an active pipeline of new acquisition and farm-in targets to help us grow our reserves and production on an ongoing basis.

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

2018 was a year where we returned to "build and grow" mode following a period of stabilisation and consolidation as we navigated through the extended period of force majeure at the Forcados terminal in 2016 that continued through the first half of 2017. Our focus turned to optimising production by increasing Well, Reservoir and Facilities Management (WRFM) activities.

Looking ahead, with the resumption of operations back to full production and steps underway to achieve long-term diversification of oil export routes, Seplat will benefit from the sustained profitability and strengthened capital structure, and in turn resume the active identification and execution of new growth opportunities that is central to our strategy.

Key strengths & priorities

- First Nigerian operator to acquire blocks from Major IOCs
- Six blocks acquired to date (five direct interests and one revenue interest)
- Ability to match opportunities with access to capital
- Debut US$350 million dollar bond issued and refinanced existing US$300 million RCF in March 2018

2. Explore & appraise

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

In 2018, we did not drill any operated exploration or appraisal wells, electing to focus capital expenditures on development drilling opportunities that would offer the greatest cash returns and rapid payback. Rig based activity will increase significantly in 2019 and we plan to drill exploration wells at Owu.

Key strengths & priorities

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

3. Develop

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

Since we acquired our interest in OMLs 4, 38 and 41 in July 2010, as operator we have drilled 47new development wells, completed 23 workovers, reactivated production from pre-existing wells, constructed and installed a new liquid treatment facility, upgraded and significantly expanded the Oben gas plant, completed a new liquids pipeline linking our assets directly to the Warri refinery, installed additional storage capacity and implemented gas lift to aid our production with pressure support.

In 2018, we focused rig based work on re-entry and completion activities at Ohaji-South field of OML 53, and drilling and completion of a gas well at Oben of OMLs 4, 38 and 41. Ohaji south-3 was successfully re-entered and completed and the rig is now moving to commence operations on Ohaji south-4, drilling of Oben-47 ongoing.

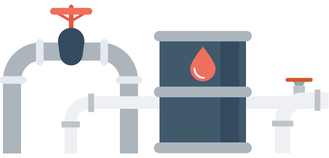
Rig based activities are planned to increase in 2019. In OMLs 4, 38 and 41 a total of nine wells (7-development and 2 re-entries) are planned for 2019; three development wells at Ohaji on OML 53. Early in the year we completed and commissioned the 10kbopd Condensate Train 2 Hook-up, completed and currently operationalising Oben NAG Booster Compressor Project, commenced work on the Sapele Integrated Gas Processing Facilities Project and Oben LPG plant phase I.

Post period, FID at the ANOH project was sanctioned by the Seplat Board in March 2019 following the shareholder agreement with Nigeria Gas Processing & Transportation Company that was signed in August formalising an incorporated joint venture relationship between Seplat and the government subscribed for 50% in ANOH Gas Processing Limited.

Key strengths & priorities

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

4. Produce, process & sell



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

With a significant undeveloped reserves and resource base Seplat has a portfolio capable of yielding significant oil and gas production for many years to come.

At OMLs 4, 38 and 41 we increased liquids production six-fold from an initial gross rate of 14,000 bopd at time of acquisition in 2010 to a peak rate of over 84,000 bopd.

Similarly, we have seen our overall annualised average working interest production grow from 21,431 boepd in 2011 (our first full year of operations) to 49,867 boepd in 2018 as normal operations were restored.

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

The Amukpe-Escravos 160,000 bopd capacity pipeline is set to provide a third export option for liquids production at OMLs 4, 38 and 41. Seplat anticipates the pipeline to be fully commissioned and operational in 2019.

Seplat has grown its natural gas gross processing capacity to 525 MMscfd and in 2018 supplied an average of 323 MMscfd gross exclusively to the domestic market, enough gas to underpin around a third of Nigeria's current power generation.

The Phase II expansion of the Oben gas processing plant provides headroom to further increase future gas production in the near term whilst the development of our gas reserves at OML 53 offers significant growth potential in the medium term.

Key strengths & priorities

- Diversification of oil export routes will see access to three options in 2019 with sufficient redundancy to de-risk distribution of product to market
- Consistently grown oil production capacity since inception
- Operate enough gas production to underpin around a third of Nigeria's current power generation
- Significant inventory of future development opportunities in current portfolio to provide continued growth in coming years

Outputs

Strong margin cash flow

High grading of portfolio opportunities

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

Disciplined allocation of capital

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

Key strengths & priorities

- Low unit of production opex
- Opportunity to capitalise on cost deflation
- Prudent hedging strategy to provide a level of cash flow assurance
- Good balance between oil and gas derived cash flows

Value for our stakeholders

Shareholders

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

Government

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

Nigeria's economy

Seplat has become the second largest supplier of processed natural gas to the domestic market and the gas we supply is enough to underpin around one third of the current grid.

Improved security of supply and greater electrification is a critical multiplier effect to drive future GDP growth for Nigeria.

Host communities

We have directly and indirectly created over 1,300 jobs, and since 2010 invested US$64 million into numerous projects to leave a positive social and economic legacy for our host communities.

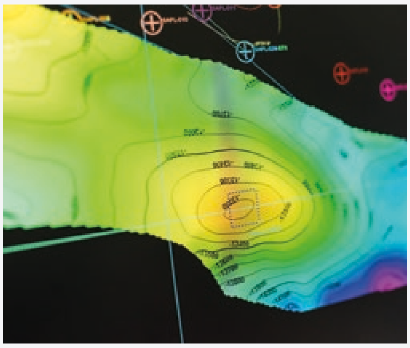
Key strengths & priorities

- Low unit of production opex

The Nigerian opportunity
– a compelling investment proposition

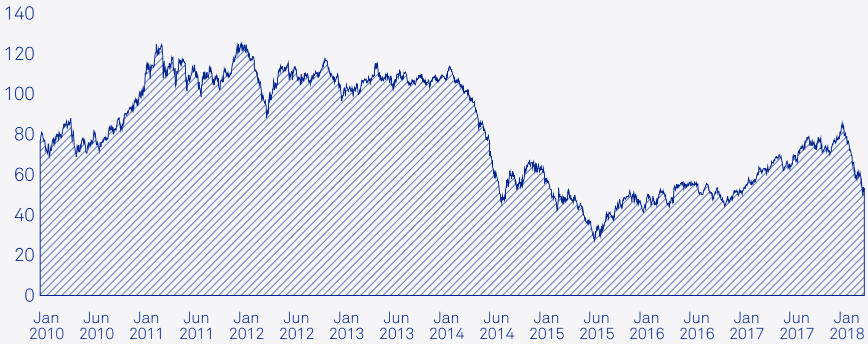
Nigerian oil potential

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



World class hydrocarbon geology

Brent oil price 2010-2018 (US$/bbl)



Source: Bloomberg.

Africa's largest oil producer and 13th largest globally

1.98 mbpd

2017 liquids production

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

37.5bn

Source: BP Statistical Review of World Energy 2018.

Prolific hydrocarbon geology

Nigeria's oil and gas industry represents a compelling value proposition and is attractive, not just to Seplat but also the wider industry, on many levels. It starts below the ground and the prolific hydrocarbon geology of the Niger Delta area, where Nigeria's oil and gas industry is concentrated.

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

Seplat's positioning

Seplat is underpinned by a high quality asset base in the prolific Niger Delta and since inception has invested to consistently grow oil and gas production capacity. Our asset base comprises fields that are currently in production, undeveloped discoveries awaiting development and undrilled exploration prospects that offer future upside potential.

Nigerian ownership of the E&P sector

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

Compared to a decade ago, when indigenous operators contributed only 6% (120kbopd) to the nation's daily production, Nigerian players have started to develop the technical expertise and financial resources to manage their own assets, which has impacted positively on Nigeria's cumulative production numbers. Indigenous operator activity has now doubled and accounts for around 12% (215kbopd) of Nigeria's oil production.

Divestment programmes, whereby the Major IOCs have sold a number of blocks to Nigerian bidders, have also been a significant factor in expanding local Nigerian ownership and participation in the sector. Nigerian independent exploration and production (E&P) companies, which were restricted to marginal assets before the Act was enacted, now have access to larger acreages, due to the divestment of onshore assets by the IOCs to boost indigenous participation in the industry. Between 2009 and the end of 2018, Nigerian operators – including Seplat – had acquired oil and gas blocks with a total estimated aggregate transaction value in excess of US$17 billion from the IOCs, the majority of which was debt funded.

But while progress has been made, and Nigeria's share of ownership in upstream production has been enhanced significantly, long-term sustainability lies in access to funding and development of local capacity. Lower oil prices and under-investment of field development capex have seen the support of domestic banks fade as high exposure to the oil and gas industry along with deteriorating macroeconomic conditions in the country led to higher than expected impairment charges on loans made to the energy sector. Declining profitability and free cash flow generation stifled balancing debt service obligations and capital investments required to increase output has become increasingly difficult for many companies to manage. The longer this situation persists the greater the risk becomes that Nigerian ownership of the oil and gas sector will begin to contract. Those that remain will only continue to succeed if they possess strong fundamentals that ensure low break-even economics, balance sheet strength and access to capital so that they can invest to diversify and dilute asset concentration risk, for example in order to capitalise on the gas-to-power opportunity in the Nigerian market.

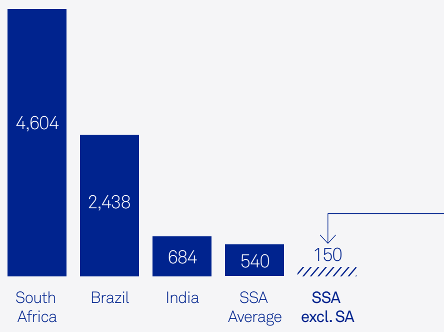
It has been 11 years since the last oil licensing bid round was conducted in May 2007 and plans have since been underway to hold a licensing round in a move to fund a growing budget deficit and jumpstart activities in the upstream sector. Future bid rounds will present opportunities to further grow indigenous ownership towards ambitious targets, which include a campaign to improve production capacity to 4 million bopd and grow reserves from the current 37.5 to 40 billion barrels.

Seplat's positioning

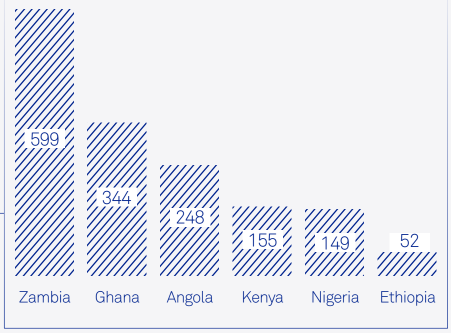
Seplat was one of the first indigenous Nigerian company to directly acquire blocks from the Major IOCs and is fulfilling the Nigerian local content objective and aligns with the vision of the NOGICD act. Seplat is estimated to operate over 20% of Nigerian indigenous oil production and supplies processed gas that underpins up to 1/3 of on grid Nigerian power generation. With a track record of operations delivery and a strong balance sheet, Seplat is well positioned to take advantage of any future bid rounds.

Nigerian gas monetisation

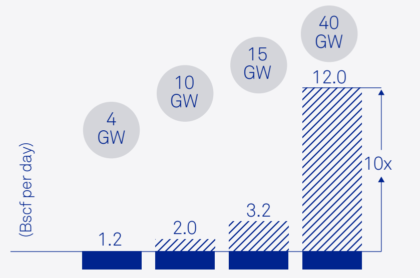
Major emerging markets' power consumption (kWh/capita, 2011)



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



Gas supply required to scale up power generation



Source: McKinsey study, Company data.

Gas opportunity

For over 50 years, oil has been a critical economic driver in Nigeria. However, the country's gas reserves exceed those of its oil at an estimated 184 Tcf (it is ranked tenth in the world for proven gas reserves) with a reserves life estimated at 110 years. Furthermore, prospective gas resources of an estimated 600 Tcf offer substantial longer-term growth potential which if proven could move Nigeria into the top five gas reserves globally. Due to institutional and policy lapses in the past, there has been very little exploration dedicated to non-associated gas in Nigeria and much of the gas discovered to date is associated with oil production and has been flared. Although difficult to measure precisely, Nigeria's current share of total gas flared globally is estimated to be as much as 250 Bscf annually, constituting 11% of global gas flared and ranking seventh out of gas producing countries in the world. It is estimated that flaring gas costs Nigeria around US$700 million a year. The real cost of gas flaring is to the economy; if flared gas is properly exploited, it has the potential to create at least 300,000 jobs, produce 600,000 MT of LPG per year and generate 3.5 GW of power from new and existing IPPs, as approximately 700 MMscfd is thought to be flared at 178 flare sites. Consequently, Nigeria lags behind many of its frontier market peers in electricity production per capita despite considerable domestic demand and its power generation deficit is widely recognised as a critical constraint on economic growth. Despite proven benefits to the economy including revenue and energy generation, natural gas development in Nigeria for the domestic market is still at a relatively early stage.

But Nigeria has started to look at gas differently and the Government, through a combination of penalties, incentives and gas development drive, has been implementing an ambitious strategy through its Gas Master Plan (GMP). The plan, implemented in phases, seeks to liberalise the domestic gas market and provide fiscal incentives for gas producers to almost triple natural gas production capacity to 12 Bscfd to fulfil electricity generation and industrial development demand. Central to the GMP is an extensive upgrade of gas infrastructure – construction of gas processing plants and pipelines and significant investment have been required to translate surplus gas production into gas-fired power generation. The presence of gas supply infrastructure supports the development of industrial hubs, bringing cleaner, cheaper and more environmentally friendly fuel to the markets. The prior awarding of Pioneer Tax Status to local Nigerian operators has allowed them to allocate significant capital expenditure into gas projects to further this development and generate employment. To this end, a more favourable policy environment for producers seeking to commercialise their gas reserves has been institutionalised.

In 2015, Nigeria joined the World Bank-led Global Gas Flaring Reduction Partnership (GGFR) in the "Zero Routine Flaring by 2030" initiative, which aims to end routine flaring of 5 Tscf of natural gas globally every year. Nigeria seeks to end its own gas flaring a full decade before the GGFR by 2020 and has also committed to prohibit any new oil well developments from flaring natural gas. Realising that harnessing the gas industry constitutes significant development of the economy, the government in 2017 introduced the National Gas Flaring Commercialisation Programme (NGFCP) to reward companies that are compliant with the zero flaring policies, to further encourage investment in this space. Furthermore, the Flare Gas (Prevention of Waste and Pollution) Regulations were approved by the President in July 2018 to provide a legal basis for the implementation of the NGFCP. They adopt the "polluter pays" principle and impose significant obligations on producers for the reporting of data in activities related to gas flaring.

Seplat's response

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 processed natural gas to the domestic market in Nigeria. Looking ahead, 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.

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

Source: BP Statistical Review of World Energy 2018.

Africa's largest gas reserve

184 Tcf

Africa's third largest gas producer at

4.7 Bscf per day

Nigeria is estimated to have the world's 10th largest gas reserves

10th

Business environment and the reform of Nigeria's oil industry

The oil and gas sector remains the single largest contributor to Nigeria's GDP and the government made concerted efforts throughout 2018 to resolve local risks to protect the industry's continued growth. In Nigeria, government investment in other sectors to diversify the economy will only be made possible by a robust oil and gas industry that is able to make its maximum economic contribution to the state.

In 2018, the Nigerian government continued to prioritise the reform of the oil and gas industry to increase economic income from the sector and to protect and encourage continued investment in the country. Progress was made, with a particular focus on increasing transparency amongst the key industry institutions such as the NNPC. Importantly, a Petroleum Industry Roadmap titled the '7 Big Wins for the New Nigerian Petroleum Industry' was launched in 2017 and reflects the government's vision to further open up investment opportunities in the country's oil and gas sector.

The militancy risk, which is one of the seven key areas, is being addressed constructively since a period of prolonged disruption occurred in 2016 and 2017. Through dialogue and engagement, the Presidential Amnesty Programme focused on people-oriented programmes to improve the standard of living in the communities, with zero militancy related activities recorded through 2018. Additional key components of the roadmap include increasing transparency and efficiency in the industry and catalysing a gas revolution to enhance socio-economic growth. It is the policy reforms for gas monetisation in terms of infrastructure development and flaring that will help stabilise Nigeria's power supply, increase electrification rates and ultimately support the diversification of the economy by increasing commercial investment in the country. Arrears on cash calls in JVs have also stabilised with a portion of the government's share of oil proceeds remaining with the NNPC allowing the company to honour monthly cash calls. Furthermore, a reform to encourage self-funded JVs will enable incorporated JVs to raise money and distribute oil profits to shareholders as dividends by 2020.

The Petroleum Industry Bill remains a critical component of Nigeria's energy sector reform initiatives and was broken up into separate sections in order to try and expedite its passage. The first, newly titled section, the Petroleum Industry Governance Bill ('PIGB') deals with management of the NNPC and will create four new entities whose powers would include the ability to conduct bid rounds, award exploration licences and make recommendations to the oil minister on upstream licences. The bill moved closer to becoming law after Nigeria's lower house of parliament passed the same version that was approved by the Senate in 2017. The only outstanding formality for it to become law remains Presidential sign off, however, the President in August 2018 withheld assent to the PIGB citing legal and constitutional conflicts as well as divergence from the administration's policy. Another crucial section of the PIB, the fiscal bill (PIFB), which aims to reform the fiscal framework and stimulate oil production under PSCs, was passed by the Senate in July 2017. The passage of these is an important milestone as it means that the government will remove uncertainty in key areas that has held back significant upstream investments in recent years.

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

Seplat's response

Seplat works constructively with all stakeholders for a mutually beneficial and peaceful co-existence in order to create an enabling environment for Seplat's operations to run safely and securely. In November 2018 we concluded the early renewal of our core producing licences, OMLs 4, 38 and 41. With the extension of the licence to 2038 secured, we can now invest with confidence long into the future as we seek to further realise the full oil and gas potential of the licences and continue to deliver value to all of our stakeholders

Global market analysis

Key market trend

Oil prices

Brent started 2018 around US$67/bbl and traded between US$50-86/bbl during the year, ending 2018 around US$51/bbl. Brent price averaged US$71/bbl for the year, US$17/bbl higher than in 2017, and US$27/bbl higher than in 2016. Oil prices increased gradually through the year, peaking at US$86/bbl in early October 2018, but then fell dramatically through November and December to a low of US$50/bbl in late December, a fall of 42% from the peak. The sudden price fall was caused primarily due to the combination of market expectations of higher supply growth during rising concerns over lower demand growth. Forecasts for supply growth rose as the USA and Saudi Arabia were experiencing record production levels as well as the US government's decision to waive some export sanctions on Iran. These factors were occurring at the same time as the outlook for demand growth was deteriorating due to macroeconomic concerns and rising geopolitical tensions as discussed in the 'Global equity markets' and 'Global economy' sections to follow. In December 2018, in order to provide support to oil prices, OPEC and other non-OPEC nations, most notably Russia, agreed to reduce production by 1.2 million bbl/d from October levels. These actions, alongside an improving macroeconomic backdrop, has seen Brent prices gradually increase in the first few months of 2019.

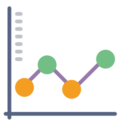
What this means to us

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

In 2018, our oil business accounted for 79% of total revenues. Global oil prices are therefore a key sensitivity that influences our financial performance and correspondingly the level of ongoing investments we can make through recycling free cash flow into growth opportunities, our ability to service our debt and to deliver shareholder returns. Oil price is also a major factor in driving equity valuations and investor appetite for the sector which can influence our trading performance as a listed company. In terms of evaluating new business opportunities, oil price is a major driver of valuations and projected cash flows. High levels of volatility in oil price can therefore lead to higher levels of risk to the business and introduce uncertainty into decision making processes.

Key market trend

Global equity markets



In the UK, Brexit was in heightened focus as negotiations with the EU continued throughout the year, with the Draft Withdrawal agreement published in March and finally agreed in November. The major UK equity indices, FTSE 100, 250 and All-share, were weak in 2018 as a result of the wider market backdrop spurred on largely by Brexit, trade concerns between China and the US, and other geopolitical events. By the end of the year, the FTSE 100 was down 12.5% with its lowest level being on 27 December 2018. Similarly, the FTSE 250 also closed near the year's low, underperforming the FTSE 100, finishing 15.6% down for the year with the FTSE All-share finishing more in line with the large caps, down 12.5%. 2018 marked the end of the longest equity market bull run in history and the change in market sentiment can be traced back to strong US GDP, wage growth and employment data which set the Federal Reserve on a rapid interest rate tightening path. The resulting theme was dollar strength that applied pressure on global equities, bonds and commodities.

In 2018, forecasts for global economic growth outside the US were being trimmed back, not helped by escalating tensions between the US and China, and political turmoil across much of Europe. Markets became even more speculative and macro-driven, reacting to newsflow and economic data (particularly in relation to the US economy and trade) than company fundamentals. Volatility picked up and volumes thinned, the VIX reaching its highest level since the initial February sell-off. In the US, the focus was remained on President Trump's foreign policy, primarily on US-China trade relations. The S&P 500 outperformed the majority of global equity markets and closed the year down 0.4%. In general, high growth and cyclical stocks fared the worst whilst defensive sectors such as healthcare and utilities outperformed, however no sectors were immune in the final quarter of the year. The FTSE lagged global peers in 2018 as a lack of progress in Brexit negotiations stole most of the focus, with smaller companies outperforming large companies due to, generally, lower exposure to movements in Sterling. Emerging markets underperformed and suffered a rocky final quarter as Argentina and Turkey both saw significant devaluations in their currencies and Venezuelan inflation was projected to hit 1 million percent. The performance of the Nigerian Stock Exchange ASI was also weaker, finishing the year 17.8% lower.

What this means to us

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

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

Key market trend

Global economy

Figures show that global economic growth eased slightly to 3.6% in 2018 from the 3.7% recorded in 2017. However, this masked a more pronounced slowdown towards the end of the year in a number of key geographies as the fallout from the US-China trade dispute broadened out.

Over 2018, the Federal Reserve raised interest rates four times under the stewardship of its new Chairman, Jerome Powell, as a considerable fiscal boost lifted full-year economic growth to just shy of 3%. In the UK, the Bank of England raised rates by a further 25 basis points in order to safeguard against the inflationary consequences of tightening labour market conditions. Meanwhile, the European Central Bank (ECB) concluded net asset purchases (or QE) after having judged that inflation was set to converge with its target over the medium-term.

Over in Asia the Chinese economy slowed to 6.6% in 2018, the slowest annual growth recorded since 1990. It is set to weaken further over 2019, with the authorities having lowered the official growth target from "around" 6.5% to a range of 6.0-6.5%. To prevent the pace of growth slipping below this year, Beijing has announced wide-ranging tax cuts and has signalled that further targeted monetary stimulus.

What this means to us

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

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

Key market trend

Global oil and gas corporate activity

Global oil and gas total deal value increased by US$79.7 billion during 2018 to total US$426.8 billion, despite a decrease of 18% in deal volume. The first two quarters of 2018 saw greater deal appetite aided by rising oil prices, however corporate deal making appetite dropped in the second half of the year due to the sudden decline in Brent prices. Upstream specific deal value declined from US$164.8 billion to US$130.3 billion during 2018, while deal counts declined by 26%. Consolidation and optimisation continued to be a major driver of deal flow in 2018, with corporate buyers looking to demonstrate their ability to return value to shareholders and reduce debt. Despite the expectations of the transition from oil to gas production, this did not seem to translate into transactions activity, with gas specific deals declining from 21% to 13% over the course of 2018.

Looking geographically, the United States accounted for a record-high share of the total global oil and gas transitional activity, making up more than two-thirds of deal value. Each of the top 10 oil and gas deals in 2018 involved acquisitions of North American assets. Outside of North America, the Middle East experienced record M&A activity, primarily due to the United Arab Emirates government's sale of interests in a number of producing fields to several international oil companies and national oil companies for US$8 billion. Private equity buying in the upstream sector fell by 40% this year, but remained net buyers of upstream assets, indicating that they still saw value in upstream assets and continue to view the oil and gas sector positively. More broadly, global upstream capital expenditure, which dropped by just under 45% between 2014 and 2016, is now forecast to marginally rise year-on-year for the medium term and global exploration spending is on the rise again for the first time since the global recession.

What this means to us

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

The oil and gas sector is highly competitive with an often large number of corporate participants pursuing new business opportunities in overlapping areas. The level of competition and relative availability/scarcity of new opportunities can result in competitive tension that can drive up benchmark acquisition multiples. The cost of new business opportunities can also help drive the allocation of capital if opportunities represent good value versus organic investment, or vice versa. Currently, Seplat is solely focused on the Nigerian oil and gas sector where we believe we have distinct competitive advantages as an indigenous operator with a strong track record of delivery and price-disciplined acquisition strategy combined with broad access to multiple classes of international and domestic capital. Seplat is, to date, the only Nigerian company to be fully dual listed on Nigerian Stock Exchange and the main market of the London Stock Exchange making it a unique investment and partner of choice in sub Saharan Africa's largest and most productive oil and gas plays.

Key market trend

Nigerian economy

2018 was slated to be a year of recovery but underperformed GDP growth expectations. A soft recovery in the agricultural and other non-oil sectors, weighed by ongoing domestic concerns including the resurgence of Boko Haram attacks in the North East and the escalation of clashes between cattle herders and farmers negatively impacted agricultural output. Economic growth was also dampened by heightened capital outflows on the back of rising yields in developed countries such as the US and the UK and uncertainty in the political environment.

On the whole, the economy expanded 1.93% compared to 0.83% reported in 2017 driven by a 2.7% growth in the non-oil sector. With a marginal growth in oil production, the oil sector decelerated by 1.1% compared to the previous year of 4.7%. The recovery remained fragile through the year as most macro economic performance indicators remained sluggish.

The pressing issue remains the Government's dependence on the oil sector, receiving around 70% of its tax revenue and 90% of export income, even though it accounts for only 10% of GDP. Consequently, crude oil revenue is critical to the financing of the government's Economic Recovery and Growth Plan (ERGP) which constitutes a bold attempt to speed up the country's economic growth and development. The key execution priorities of plan launched in April 2017 include stabilizing the macro economic environment, achieving agriculture and food security, ensuring energy sufficiency (power and petroleum products), improving transportation infrastructure and driving industrialization with a focus on SMEs. Some positive results have manifested in key economic indices such as year on year GDP growth, growth in foreign reserves, downward trend in inflation, converging foreign exchange rates and capital importation. Capital importation to Nigeria was up 37% in 2018 to US$16.8 billion. However, political uncertainties due to upcoming elections in Nigeria and risk averse sentiments for emerging and frontier markets saw foreign portfolio investment (FPI) flows drop from US$4.6 billion in Q1 2018 to US$1.4 billion by Q4 2018.

Through the CBN's Multiple Currency Policies (MCP) Forex stability remained a priority with marginal spreads between NIFEX and NAFEX and parallel market rates. Naira rates to the dollar averaged NGN364 with the official CBN reference rate at around NGN306, its level since September 2016. The foreign reserves are in a healthy position (closed 2018 at US$42.5 billion) with liquidity effectively managed in the forex markets through the year.

The monetary policy environment has remained tight since 2016 with the MPR rate held at 14% through 2018 to curb inflation. Inflation dropped to an average of 12.15% in 2018 from an average of 16.5% in 2017 helped by the tight monetary policy and moderation in food prices increases.

Concerns of volatile oil prices, weaker global economic growth and US policies continues to weigh on emerging market dynamics. Nigeria's future economic performance will depend on the outcome of the Presidential Election in February, which will determine policy direction and implementation. However, given Nigeria's dynamics with historical stable political environment, large population and growing middle class, growth is expected to strengthen in 2019 against a backdrop of favourable oil prices, sustained oil production and execution of the ERGP.

What this means to us

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

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

A robust strategy for growth

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

Strategic pillar	Progress
Maximise production and cash flows from operated assets The development stage of the upstream value chain is where the majority of capital investments are usually made. It is imperative that we do this well, maintaining strict cost control, implementing the most appropriate technical solutions and organising ourselves and our service providers so that we deliver projects on time and within budget. This enables us to generate strong margins and cash flows from our production, which in turn underpins our ability to fund our work programme. At the same time, we seek to improve operational efficiency by maximising uptime and reducing reconciliation losses, mitigating asset concentration and sole reliance on third party export infrastructure.	• Established alternative oil export route via Warri refinery jetties with line of sight on access to the Amukpe–Escravos pipeline • Discretion over level and timing of spend allows alignment with cash flow
Move up 2C resources into 2P reserves category Our drilling campaigns have, in addition to development wells, an appraisal component built in so that we are constantly testing upside potential at our assets, gathering and interpreting new information to allow us to maximise hydrocarbon recovery from the reservoirs and capitalise on low risk reserve addition opportunities. We also recognise the importance of exploration as a means of growing reserves. It is our intention that we will return to our objective of drilling at least one exploration well per year when oil prices and production recover and stabilise, with a focus on prospects that if successful can offer rapid monetisation, utilising our existing infrastructure where possible.	• Converted 151 MMbbls oil and 84 MMboe gas from 2C resources to 2P reserves and revisions since 2010 • Current 2C resource base 38 MMbbls oil and 244 Bscf gas
Commercialise and produce gas reserves Nigeria has a vast natural gas resource that, to date, has barely been developed. We see the commercialisation and monetisation of Nigeria's natural gas resource as an attractive long-term opportunity and have strategically positioned ourselves by developing the Oben facility as a core gas processing hub through which Nigeria's greatest demand centres can be accessed and supplied whilst the acquisition of an interest in OML 53 positions Seplat as a key participant in what will be one of Nigeria's largest greenfield gas developments. During periods of oil price weakness, the gas business takes on added importance. Gas prices are de-linked from oil price and have steadily increased to commercial levels, meaning that we can confidently plan, finance and invest in gas opportunities independent of oil price dynamics.	• Seplat has become the second largest supplier of processed gas to the domestic market • Oben Phase I and II expansion projects expanded plant processing capacity to 465 MMscfd from 90 MMscfd
Pursue a focused acquisition and farm-in strategy We see a rich opportunity set and a wide range of growth opportunities in Nigeria including further asset divestments from the Major IOCs, asset farm-in and acquisition opportunities amongst the independent E&P sector as liquidity in the secondary asset inevitably increases and future licensing awards occur. Our focus is on securing blocks in the onshore and offshore areas of the Niger Delta that offer near-term production growth, cash flow and reserve replacement potential.	• Acquired direct interests in five blocks and further revenue interest in one block to date • Well positioned to access future deal flow in Nigeria
Be a highly responsible corporate citizen Being a highly responsible and accountable corporate citizen is a key priority of ours. We recognise that minimising the effects of our activities on the environment, understanding local issues, positively contributing to our host communities, being a first-rate employer and providing our staff with a safe working environment and career development opportunities are essential enablers that allow us to achieve our goals. Underpinning all of this is a strict adherence to strong corporate governance and business integrity throughout our organisation.	• Established and proven community engagement model aligns Seplat with its host communities • High retention rate of our skilled and motivated workforce

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

Local content development in the Nigerian oil and gas industry

A model for indigenisation

Local content development is critical for countries like Nigeria that are rich in natural resources but whose oil and gas sector has traditionally operated in isolation from the rest of the economy, thereby allowing minimal participation from local citizens in its development.

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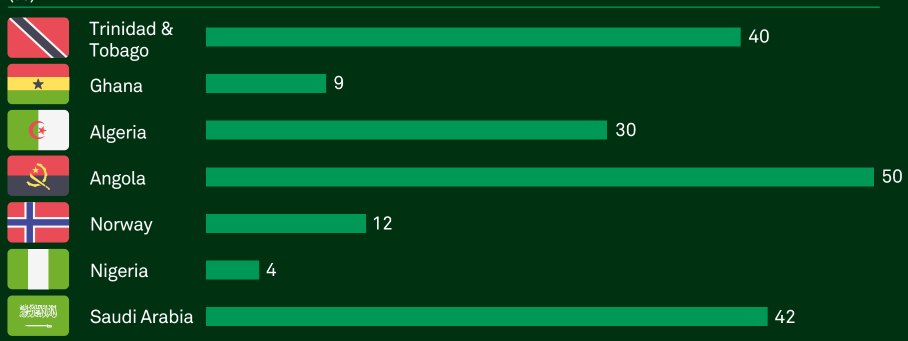
An effective local content development policy seeks to promote inclusiveness and integration of the sector with the rest of the economy to ensure that the country and its people benefit from the ownership of these significant reserves. It also seeks to promote local employment and the use of local goods and contractors so that a country's citizens are involved throughout the entire supply chain. Other desired outcomes include the increase of domestic capabilities and competencies over time, improvement of national technological capacity and to manage the equal distribution of wealth across the country.

Traditionally, major International Oil Companies (IOCs) have dominated the oil and gas sector in Nigeria due to their technological and financial advantages, alongside a lack of proper regulation in the past. This has meant that local content development has been lacking due to the isolated bubble which the IOCs operated in and a critical lack of infrastructure to support processing and refining locally. For example, prior to 2010, nearly US$380 billion and 2 million jobs were estimated to have been lost as the majority of construction, engineering and procurement undertaken by the IOCs was carried out overseas.

The poor integration of the oil and gas sector with the wider economy has long been a concern for successive Nigerian Governments. There is a general understanding that the huge potential of the sector is not being appropriately leveraged and that, as a result, the country is not reaping the associated benefits. In 2017, the oil and gas industry accounted for 97.7% of total export earnings and 77.5% of government revenue in June 2018 (according to the CBN), its share of the GDP is a meagre 9%. Between 1960 and 2016, Nigeria has earned in excess of US$1.27 trillion from oil exports. Figure 1. compares oil-GDP ratio in Nigeria with selected oil producing countries showing that the country still has a long way to go to improve on the non oil synergies.

Figure 1: Oil contribution to GDP
(%)



However, the landscape in Nigeria is gradually changing with new regulations and policies aiming to put local content development at the heart of the country's natural resources sector, ensuring it is in-line with international best practice. In addition, we can now see indigenous oil and gas companies such as Seplat and Oando competing directly with the IOCs, leading the way in promoting local content development around the regions they operate in.

Nigeria, which sits astride one of the largest oil and gas reserves in Africa, ratified the Nigerian Oil and Gas Industry Content Development (NOGICD) Act in 2010 to promote local content development throughout the sector. This central piece of legislation has been put in place to reverse some of these trends discussed above and established the Nigerian Content Development and Monitoring Board (NCDMB) as the regulatory body responsible for ensuring local content requirements set out in the act are implemented across the industry.

The act aims to achieve 70% local content by 2020 and there has been significant progress as can be seen by the increased number of independent and marginal producers in Figure 2. and the increased production from these independent producers in Figure 3.

Post the implementation of the NOGICD Act, the Federal Ministry of Petroleum Resources launched the Petroleum Industry Roadmap which set out the "7 Big Wins", providing a set of aims for the industry to achieve between 2015-2019. Key elements of the new policy, its benefits and delivery status as at year-end 2018 are outlined in Figure 4.

Figure 2: Number of Independent and Marginal Field Producers
(Source: NNPC Annual Statistical Bulletin, 2010-2017)

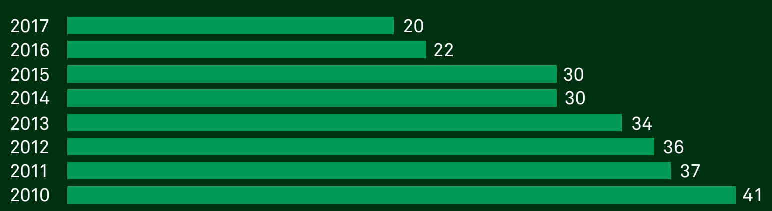
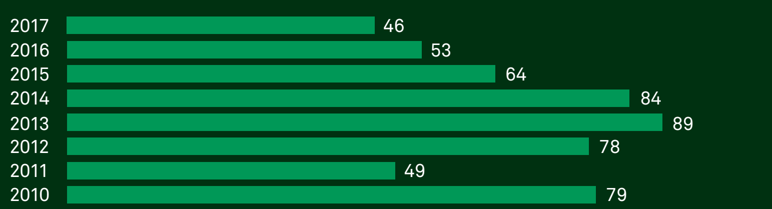


Figure 3: Independent and Marginal Field Production Trend (Oil Production MMbbls)
(Source: NNPC Annual Statistical Bulletin, 2010-2017)



Key Legislation/Regulatory bodies in Nigeria

2010

- Nigerian Oil and Gas Industry Content Development Act(NOGICD)
- Nigerian Content Development and Monitoring Board (NCDMB)
- Nigerian Content Development Fund (NCDF)

2016

- Petroleum Industry Roadmap Launched

2018

- Ministerial Regulation on Local Content Passed
- NCDMB Guide-line on Community Content Published
- NCDMB Guideline on Research and Development
- Presidential Execute Order 5 on Local Content

Figure 4: Priority areas, benefits and delivery statuses of the 7 Big Wins

Priority	Benefit	Delivery status
Policy & Regulation	Robust fiscal Policy & Instrument	PIGB yet to be passed
Business Environment & Investment Drive	Increased oil production	Oil production below 2mbbl/day
Refinery & Local Production Capacity	• Reduced Petroleum Products Import • Net Petroleum Product Exporter	• No cost refinery license issued • Modular Refineries Commissioned • NCIF launched
Gas Revolution	Shift to gas from oil	• Gas Policy and Gas Flare Regulation
Niger Delta Security	• Improved Security • Environmental Safety	• No major attack on crude oil facilities • But increased crude oil theft
Transparency & Efficiency	Parastatals and Institutions driven by profitability and accountability	• No information on disaggregated revenue streams and quasi-fiscal activities
Stakeholder Management & International Coordination	Visibility of Nigeria in global oil production	• Construction of Dangote Refinery • Fabrication of Egina FPSO

7 Big Wins

These 'wins' aim to stimulate greater indigenous participation and encourage technological advancements, infrastructure development and an increase in economic synergies. While these milestones are ambitious, their success will ensure greater security in the Niger Delta, deepened local participation in domestic refining, greater domestic production and improved environmental safety.

The ultimate objective is to capitalize on Nigeria's status as the ninth-largest gas reserve holder in the world. These robust projects aim to support the growing 'gas revolution' in the country which looks to shift Nigeria away from being an oil-based economy to a gas-based one. This includes expanding Nigeria's existing domestic refinery capacity, improving gas supply infrastructure across the country and maximising the use of gas powered generation in order to encourage economic development through access to a continuous, cheap and reliable power source.

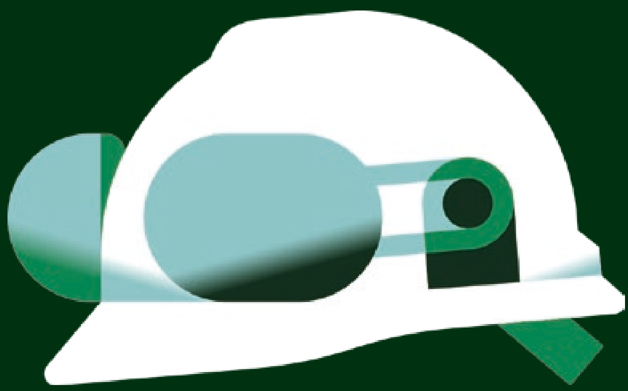
Key achievements of local content policy to date

To date, the NOGICD Act and supporting policies have been well received, with tangible successes. Despite this, there are still obstacles to overcome, which are illustrated in Figure 5.

This demonstrates that while strides are being made, local content development must remain a central focus for both the national government and the oil and gas sector to ensure its success.

Figure 5: Implementation challenges facing the Nigerian Oil & Gas Sector:

1	**Inadequate local capacity and technical competency**
2	**Inadequate national training from internationally certified institutions**
3	**Quality control in infrastructure development and construction/ engineering**
4	**Lack of economic synergies**
5	**Low oil price**
6	**Security issues in the Niger Delta**
7	**Lack of funding for local contractors**
8	**Difficulty in enforcing the provisions of the NOGICD Act**



Increased Indigenous Participation

More than 30,000 direct and indirect jobs have been created for local Nigerians in the sector since 2010. Indigenous companies such as Seplat have been instrumental in maximizing opportunities for local content development at their operations. In 2018, 99% of the Company's entire workforce is Nigerian and Nigerians account for nearly 80% of the Company's top management positions. The Company also has a rigorous Workforce Capacity Development training programme to ensure its workforce has the necessary skills and knowledge required to operate to an international standard.

99%

of the Company's entire workforce is Nigerian

80%

of the Company's top management positions are held by Nigerians

Local contractor development

The NOGICD Act has led to a sizeable portion of the goods, services and equipment vital for the every-day running of operations to be sourced locally. The number of contracts awarded to indigenous contractors and sub-contractors has increased over the years, thereby guaranteeing increased local employment and ensuring the emergence of more local companies.

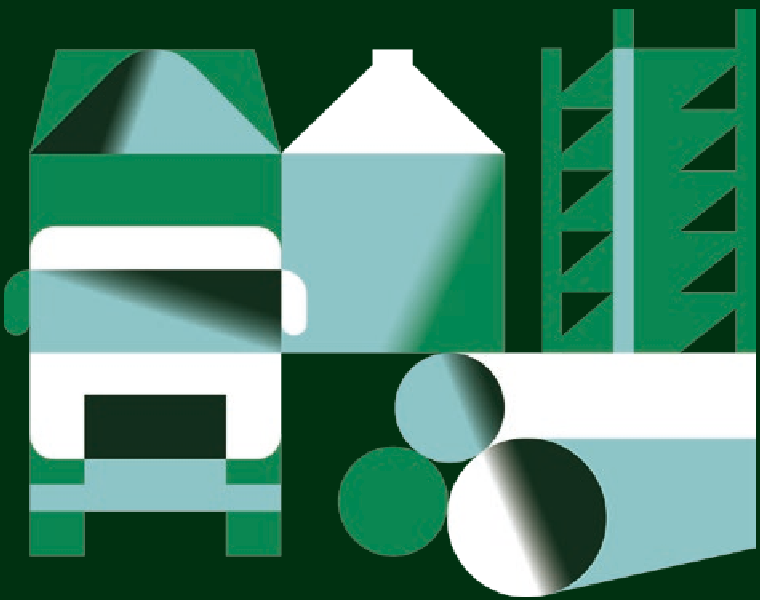
Indigenous companies are increasingly providing programmes specifically designed to support local contractors and businesses. Seplat operates their annual flagship Community Contractors' Capacity Building programme which equips local contractors with the necessary skills to help them develop their business processes to an international standard.

Since 2014, over 300 contractors from the Delta and Imo states have benefitted from this programme. This has enabled up to 40% of host community contractors to gain technical skills which were lacking at the time they originally registered as contractors. In addition, 98% of Seplat's contractor are Nigerian companies – in line with the provisions of the NOGICD Act. Since 2013, contracts worth up to US$1bn have been awarded to Nigerian companies.

Furthermore, Seplat has consistently patronized locally manufactured goods through its in-sourcing strategy ensuring local participation throughout their supply chain.

Case Study

Judenith Nigerian Limited is a vehicle rental company operating in the Jess community in Delta State. The Company is currently contracted to supply Seplat with the buses that we use to transport our staff to locations across our portfolio of assets. In 2014, Judenith attended the inaugural community contractor's empowerment programme where they were inspired to expand into flowline and production maintenance activities. Through the programme they also were able to meet and join forces with a local technical partner who has supported their growth in this area. A second company, Flow Impacte International has also benefited from the programme, Flow Impacte has since gone from strength to strength, executing all flowline jobs for Seplat in 2018.



Addressing militancy and youth unemployment

Militancy in the Niger Delta has long been a key issue facing the oil and gas sector in Nigeria and these policies have created opportunities which has reduced levels of unrest in the region. Communities are now actively engaged through community development programmes to support local stakeholders. Seplat's annual 'Eye Can See' and 'Safe Motherhood' programmes deliver comprehensive eye care and medical care for expectant mothers.

This two-way dialogue between Seplat and the local community alongside the Global Memorandum of Understanding (GMOU) signed in 2010 and jointly reviewed and renewed in 2016 has meant that, production downtime due to community unrest against Seplat-owned assets has been kept to a bare minimum.

The Company also has an additional graduate training programme which aims to help Nigerian graduates with no prior oil and gas industry experience to develop their knowledge of the sector and expose them to the technology used. Since 2014, the Company has spent over US$8m on employee training.

While there is still work to be done across the industry, existing data shows that pipeline vandalisation and human error related spillages have reduced in the Delta.

> "the continued progress of local content development policy remains vital to ensure the company benefits from its vast reserves."

Increase in infrastructure development and facility upgrades

Until recently, activities such as engineering, welding and construction were done outside of Nigeria as there were no international standard dockyards or construction sites in place in-country. There have been huge strides in this area with industry leading construction yards built by companies such as Total, Aveon and Saipem to ensure projects can be completed in-country, providing thousands of local jobs.

A key example of this is the recent construction of the Egina Floating Production Storage and Offloading Vessel (FPSO), the largest vessel of its kind ever installed in Nigeria. 77% of the construction was completed in-country, a ground-breaking achievement for the country. This confirmed that the Nigeria's well-equipped construction yards met international standards and were successfully managed by competent local personnel.

Gas and support to the power sector

Gas supply performance relative to Domestic Gas Supply Obligation (DGSO) has greatly improved across indigenous operators including Seplat, Frontier Oil and Gas, and Energia. These companies have been heavily investing in gas production in order to capitalize on the announcement made by the Ministry of Petroleum in 2014, that the DGSO prices were to increase from $0.3/Mscf to $2.5/ Mscf.

For example, Seplat's average daily gas supply was above 230% of its DGSO in 2017, making it one of the leading domestic suppliers of gas in the country. In addition, it currently contributes 3.5% of the total gas production in Nigeria.

The aim of the 2014 price increase was to encourage investment in-country in order to deliver the envisaged 30GW generation, up from the current 5GW level. Ultimately this will guarantee access to reliable, affordable power for local Nigerians, a vital step to achieve accelerated economic growth.

Outlook and conclusions

For Nigeria, as Africa's largest economy and with a growing population of 200m, the continued progress of local content development policy remains vital to ensure the company benefits from its vast reserves. The country still has a lot to do to strengthen local participation in the oil and gas sector and to enhance the sector's integration with the rest of the economy.

There is no doubt that impressive achievements have already been made with regard to the national content goals set out in the NOGICD Act, as highlighted above. However, there is still more to be done for the benefits of the sector to be felt locally.

Seplat: A poster child for indigenisation

Seplat's current and future initiatives will continue to provide a good example to other indigenous operators. The Company has also been able to position itself as a leader in the fast-expanding domestic gas sector, helping to provide reliable access to power for millions of Nigerians. In August 2018, Seplat signed five agreements with the NNPC for the development of the "Assa North and Ohaji South (ANOH) Gas Development Scheme". The project, which will be developed, operated and maintained by the ANOH Gas Processing Company is aimed at delivering between 3 to 3.4 billion standard cubic feet of gas per day by 2020. The gas processing plant will be situated in Imo State, providing thousands of jobs for local workers.

The future for Seplat and local content development programmes in Nigeria looks very bright. The Company must therefore continue to promote local capacity development through collaboration with local Nigerian institutions to ensure quality infrastructure, equipment and manpower for the oil and gas industry.

Measuring our progress

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

Key

Year-on-year progress

- Below expectations
- In line with expectations
- Above expectations

Linked to remuneration?

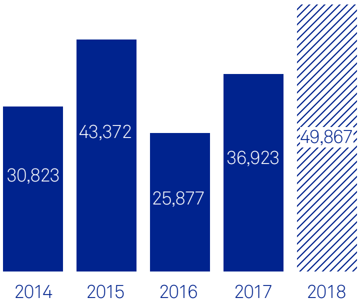
- Yes, this KPI is linked to remuneration
- No, this KPI is not linked to remuneration

Strategic pillars

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

Net working interest production (boepd)

49,867



Progress

Linked to remuneration?
(See page 98)

Delivering on our strategic pillars:

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

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

Progress
Rig based activity at OMLs 4, 38 and 41 was limited in the year to the drilling of one new gas production well at the Oben field and the workover on one further existing gas well. The average annual production rate is also influenced by the number of days third party export infrastructure is shut-in. 2018 production performance reflects an uptime level of 85% over the full year.

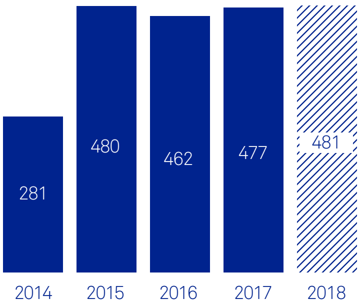
Working interest gas production increased year-on-year by 27% to 145 MMscfd while oil production increased by 44%, meaning total production was up 35% at 49,867 boepd. Average reconciliation losses arising from use of third party infrastructure were around 8%.

Outlook
The Company expects net working interest production in 2019 to be between 49,000 to 55,000 boepd, comprising 24,000 to 27,000 bopd liquids production and 146 to 164 MMscfd (or 25,000 to 28,000 boepd) gas production.

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

2P reserves movement (% increase/decrease)

+1%



Progress

Linked to remuneration?
(See page 98)

Delivering on our strategic pillars:

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

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

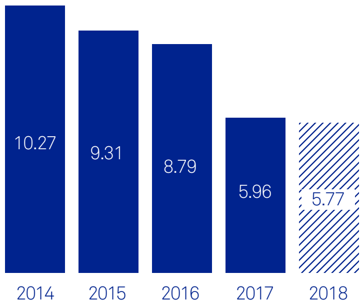
Progress
Working interest 2P reserves at end 2018 stood at 481 MMboe, an overall increase of 1% year-on-year and 121% reserve replacement ratio. The main driver to this revision year-on-year is due to the incorporation of updated 3D seismic data into field reservoir models (in the case of oil) and the anticipated compression benefits resulting from upgrades to the Sapele gas plant. Sustained good performance from the Oben gas wells also contributed to the upward revision, partially offsetting the gas volumes that were produced during the year.

Outlook
The Company has a significant working interest 2C resource base of 80 MMboe that offers good long-term reserves growth potential. The Company will also continue to evaluate acquisition opportunities and undertake a focused E&A drilling programme.

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

Production opex (US$/boe)

5.77



Progress ○●○

Linked to remuneration? ⊗

Delivering on our strategic pillars:

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

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

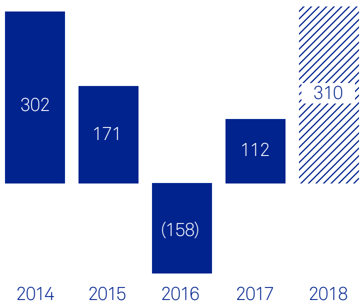
Progress
Opex costs per unit of production reduced 3% year-on-year to US$5.77d per boe as a result of continued efforts to improve operational efficiency, helped by increased production.

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

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

EBIT (US$m)

310



Progress ○●○

Linked to remuneration? ✓ (See page 98)

Delivering on our strategic pillars:

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

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

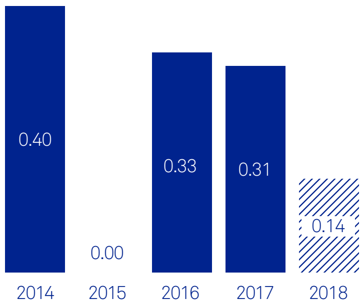
Progress
EBIT in 2018 increased to US$310m from US$112m in 2017, and reflects the higher oil and gas production year-on-year combined with higher oil price realisations. It has also been positively impacted by ensuring operational efficiency and improved cost controls.

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

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

LTIF (number of incidents per million man hours)

0.14



Progress ○●○

Linked to remuneration? ✓ (See page 98)

Delivering on our strategic pillars:

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

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

Progress
Rig-based activity in 2018 was selective and the Company remained operationally active as full year uptime increased to 85% compared to 50% in 2017. The Company achieved an LTIF of 0.14 in the year, a reduction of 55% compared to 0.31 in 2017.

Outlook
In 2019 efforts will continue to minimise the frequency of lost time incidents in all areas of operations. The Company will continue to ensure high HSE standards are met and assess opportunities to constantly improve its HSE systems and protocols.

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

Tracking our performance

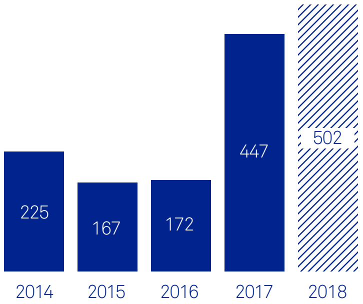
In addition to its key performance indicators, Seplat also tracks performance against additional metrics that further assist in measuring progress.

Strategic pillars

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

Net cash flow from operating activities (US$m)

502



Delivering on our strategic pillars:

Definition
The Company's operating cash flow in the year before taking into account movements in working capital.

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

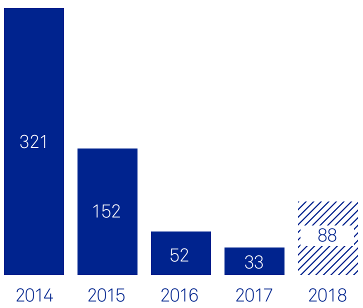
Progress
The Company's operating cash flow in 2018 primarily reflects the higher year-on-year production levels at OMLs 4, 38 and 41 during the year. Cash flow was also positively impacted by higher oil prices and a greater contribution from the gas business, which continued to increase during the year. In 2018, all the outstanding legacy cash calls due from NPDC were settled.

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

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

Capital expenditure (US$m)

88



Delivering on our strategic pillars:

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

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

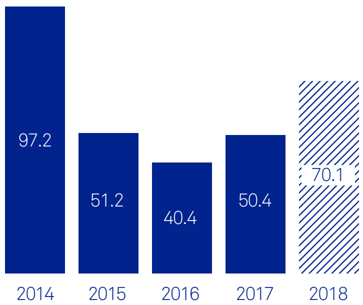
Progress
The Company has continued to invest in the development of its portfolio of blocks onshore the Niger Delta and stepped up field development in the second half of 2018. By having discretion over capex, 2018 spend was increased to US$88 million, which was directed mainly towards the gas business and facilities upgrade projects.

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

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

Realised oil price (US$/bbl)

70.1



Delivering on our strategic pillars: 

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

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

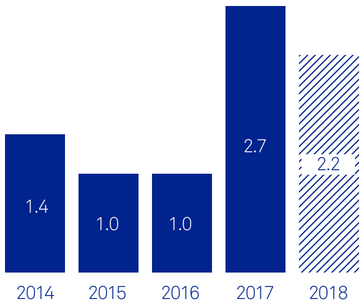
Progress
Oil prices improved in 2018, recording a high of US$86.29/bbl in October and exiting the year with a low around US$51/bbl. The Company put in place dated Brent put options covering a volume of 6.60 MMbbls in 2018 at a combined weighted average strike price of US$44.5/bbl. This hedging programme has been continued in 2019 where upfront premium put options at a strike price of US$50.0/bbl were entered into, protecting a volume of 4.0MMbbls.

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

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

Staff turnover (%)

2.2



Delivering on our strategic pillars: 

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

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

Progress
The Company has continued to develop its employment policies with the aim of attracting and retaining high calibre industry talent. Staff turnover remained low in 2018 at 2.2% which is slightly lower than the prior year which was 2.7%.

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

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

Protecting our business

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

Basil Omiyi
Chairman, Risk Management and HSSE Committee

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

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

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

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

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

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

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

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

Activities in 2018
In 2018, the Committee analysed and evaluated the various key risk exposures for the Company. In doing so, we reviewed the Corporate Risk Register and the risk reports presented by management. These reports detail the key risks, the potential impact of the risks and the likelihood of occurrence. Mitigating strategies were comprehensively considered, including but not limited to those related to Niger Delta militancy, oil price, export line breaches and alternative crude oil evacuation options, funding challenges with the majority joint venture partner, liquidity, market, contractual and litigation risks. The status and effectiveness of mitigation actions were reviewed and any residual gaps or follow-up actions were identified. Key performance indicators and other risk indicators and trends were monitored. Key risks requiring risk tolerance considerations and strategic actions were presented to and debated by the Board.

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

In the last quarter of the year, the Committee undertook a physical inspection of the Company's key field infrastructures, including the Oben gas plant and flow station, Amukpe flow station, LTF and Buffer Tanks, and Sapele flow station and gas plant. The visits identified operational risk matters which have been reported and are being addressed by management.

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

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

Our risk management framework

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

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

Risk Management & HSSE Committee of the Board
— Approves and updates risk management policy and system
— Defines risk appetite
— Oversees and monitors enterprise risks

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

Risk Management Team
— Coordinates enterprise risk management activities
— Articulates and updates risk management policy and system
— Risk identification, assessment, quantification and rating
— Risk reporting and monitoring
— Enterprise risk register and dashboard
— Risk champion activities

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

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

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

High profile risks and uncertainties

Highlighted below are the high profile risks that the Company dealt with in 2018 and will continue to monitor going into 2019.

1. Niger Delta stability and geo-political risk

Seplat core operations are located in the Niger Delta region of Nigeria and that comes with significant risks. Historically, the Niger Delta has always been a high risk environment. Cases of militancy, crude oil theft, pipeline vandalism, environmental pollution arising from illegal bunkering activities, and other lawless activities are rife in the region. However, militancy activities reduced significantly in 2018 compared to the prior two years. The Trans Forcados export system (major export route for Seplat) saw a remarkably improved uptime in 2018 compared to 2016/2017. The Company, working with other industry players in the region, continues to put pressure on government to find a lasting solution to Niger Delta restiveness and the current government's strategy of dialogue with stakeholders in the region seems to be working.

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

Seplat's primary crude evacuation for its main assets (OMLs 4, 38 & 41) is a third party operated Trans Forcados export system and this poses a significant risk to the Company. The system was out of operation for more than a year between 2016 and 2017 due to sustained breaches by the militants leading to extended shut-in of production. Even though there was no major breach of the line in 2018, the risk remains significant. The Company is mitigating the risk by seeking a second major export line. Work is already advanced in completion of the line. When commissioned, sometime in 2019 as expected, the Company will have at its disposal two major export systems to evacuate crude from its main assets. The Company also continues to maintain relationship with WRPC to retain use of the jetty facilities as an export option albeit for limited volumes.

3. Low oil price environment

Seplat's operating results are highly dependent on the prices of crude oil and natural gas. The Company's estimated proved reserve, revenue, operating cash flows and margins, liquidity and future earnings are all impacted by the volatility of crude oil and natural gas prices. Seplat's price risk management policy is to protect the Company's crude oil cash flow from downside scenarios with hedging. The Company protected about 4 million barrels of crude oil at an average strike of US$50/bbl in 2018. Our long-term natural gas contracts have contracted USD denominated tariffs and escalation clauses that protect the Company against price declines.

4. JV receivable and future cash call funding

Seplat has the Nigerian government as Joint Venture (JV) partner in significant parts of its business. Cash call funding from the government partners has historically been poor resulting in a build up of legacy cash call receivables over time. However, 2018 saw a remarkable improvement in cash calls from government partners. The built-up legacy cash calls have all been paid off and government JV partners are now current in paying cash calls. The risk of cash calls sliding back to the pre-2018 practice of late payments is still there. To mitigate this exposure, the Company continues to manage its JV relationships very closely and actively engages the respective government partners on timely payment of cash calls.

5. Liquidity risk

With the improved uptime on the TFP export line and early 2018 conclusion of the Company's global debt refinancing, the liquidity state of the Company improved significantly in 2018. We manage liquidity risk by ensuring that sufficient funds are available to meet commitments as they fall due, using both long-term and short-term cash flow projections to monitor funding requirements for activities; and to ensure there are sufficient cash resources to meet operational needs. Our cash flow projections take into consideration the Company's debts and covenant compliance. Surplus cash held is transferred to the treasury department which invests in interest bearing current accounts, time deposits and money market deposits.

Conclusion

In conclusion, 2018 has been a good year for Seplat as an oil and gas company operating in Nigeria. The year saw a good uptime on the TFP export line, oil price rally, presidential approval to renew its major assets' licences and a global refinancing of its debt portfolio. Overall, the Committee is satisfied that the Company has a robust risk management system that serves to ensure integrity of business processes, decisions and activities going into the future. The Company's HSSE Management System is also mature and reliable and has continued to deliver good HSSE performance year on year.

Basil Omiyi
Chairman, Risk Management and HSSE Committee

Monitoring and mitigating risks to the business

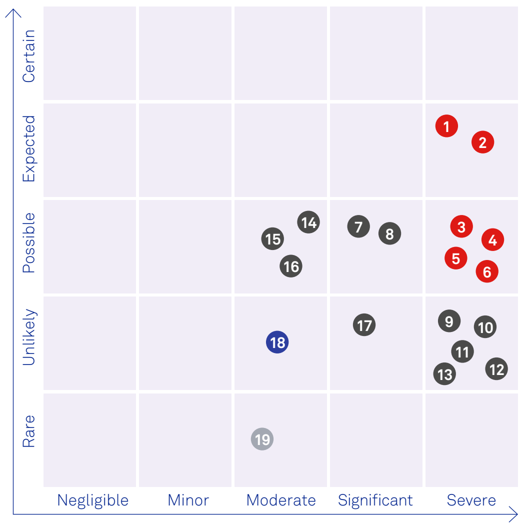
The implementation of our strategy can be hindered by various risks and uncertainties. The risks that the Board considers most significant are described here.

Strategic pillars

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

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

Mapping our risk



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

Assessment
- Very high
- High
- Medium
- Low

Movement trend
- ∨ Decreasing
- ∧ Increasing
- — Steady

KPI/Performance metric	Strategic pillars	Assessment		Trend
• Net working interest production • Operating costs per boe		High	We continue to refine our project management approach for improved speed of delivery and efficiency	—
• Net working interest production • Days downtime • EBIT		Very high	Remarkably improved uptime of Forcados export system and progress made towards completing Amukpe – Escravos export line as alternative	∨
• HSSE scorecards • LTIF • TRIR		High	Though the risk is inherent, we will continue to deploy our HSSE risk management in line with best practices and with strong emphasis on prevention.	—
• Reserve replacement		Very high	Reduced E&A activities. Will monitor the outcomes as E&A activities ramp up.	∧
• LTIF • TRIR • Security incidents		Very high	Significant drop in targeted oil and gas facilities attacks in the region in 2018. We will continue our monitoring and vigilance.	∨
• Net working interest production • LTIR • TRIR • Host community incidences		High	We continue to enjoy good working relations with our stakeholders.	—
• Occurrences of civil unrest and terrorism.		High	With elections in 2019, we will continue to monitor situations closely.	∧

Key risk	Description	Mitigation

Financial risks

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

Strategic risks

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

Strategic pillars

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

KPI/Performance metric	Strategic pillars	Assessment	Trend	
• Realised oil price • Operating cash flow		Very high	Though oil price rallied to above $80 in 2018, we will continue to take hedge positions and apply cost reduction strategies.	—
• Effective tax rate • Tax status		High	PIB is going through legislative process. Versions in circulation do not have significant impact on Seplat valuation.	∨
• JV receivables • Capex • New M&A activities		High	JV partners cash calls are now on time and legacy cash call receivables have been cleared.	∨
• Operating cost per boe • EBIT • Capex • Well costs		High	Cost discipline remains key focus of the business.	—
• Operating cash flow • Capex		High	Improved uptime of TFP; improved JV cash call payment; oil price rally; and debt refinance have all greatly improved liquidity risk.	∨
• Operating cash flow • Capex		High	Historically, the Company holds majority of its cash and cash equivalent in US dollar. Gas contracts are indexed in US dollar. However, the Naira may be devalued post elections.	∧
• Successful execution of new acquisition and farm-in opportunities		Very high	The Company is in portfolio expansion phase.	—
• Successful execution of new acquisition and farm-in opportunities		Very high	DRB process in place to vet opportunities and deals. But current M&A landscape is competitive.	—
• Whistleblowing reports • Number of disciplinary cases		High	As geographical location continues to be susceptible to corruption.	—
• Staff turnover		Low	Remains low risk for the Company.	—
• Number of reported cases		High	Risk is still high and the Company continues to maintain a zero tolerance policy.	—
• Information security identification and containment reports		Medium	While cyber security continues to hold international attention, there has not been a material IT breach on our operations.	—

A strong operating track record

Seplat achieved full year average working interest production of 49,867 boepd, which represents an overall increase of 35% year-on-year.

Effiong Okon
Operations Director; Executive Director

Overview

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

Working interest reserves

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

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

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

Working interest 2P liquid reserves (2010 to 2018)

Movement in working interest 2P liquid reserves from end 2010 to end 2018.

Working interest 2P gas reserves (2010 to 2018)

Movement in working interest 2P gas reserves from end 2010 to end 2018.

Total working interest 2P reserves (2010 to 2018)

Movement in total working interest 2P reserves from end 2010 to end 2018.

1 As certified by Ryder Scott CPR dated 1/1/19.

Alternative oil export route

The Company's policy of creating multiple export routes for all of its assets has resulted in it actively pursuing alternative crude oil evacuation options for production at OMLs 4, 38 and 41 and potential strategies to further grow and diversify production in order to reduce any over-reliance on one particular third party operated export system. In line with this objective, the Company has retained access to two jetties at the Warri refinery that will enable sustained exports of 30,000 bopd (gross) if required in the future. Exports via this route are not subject to the reconciliation losses or terminal crude handling and transport charges when exporting via the TFS. In 2018 it was not necessary for the Company to activate this alternative export route.

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

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

Gas business

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

Oben processing hub – Western Niger Delta

With overall operated gas processing capacity standing at the 525 MMscfd level, the Company is actively engaged with counterparties to increase contracted gas sales with the intention of taking gross production towards the 400 MMscfd level on a consistent basis. Of the 525 MMscfd total processing capacity, 465 MMscfd is located at Oben with the remaining 60 MMscfd located at Sapele. The 375 MMscfd expansion at Oben (Phases I and II) was completed by Seplat as a 100% investment project.

The gas processing capacity expansion is also designed to allow the Company to accept third party gas and receive a processing tariff. In 2018 the gas projects undertaken were focused on reducing gas flaring and maximising gas monetisation. Key projects completed in the year include the Oben non associated gas ("NAG") booster compression project whereby the installation of additional compressors at the Oben gas plant will boost the pressure of existing NAG wells and translate into higher achievable gas recovery at the Oben gas field.

The Company also successfully completed the hook-up of a 10 kbpd condensate stabiliser train at the Oben Gas plant to allow for handling of additional condensate production in the future that will accompany higher future gas production. Furthermore, having initiated supplies of commissioning gas to the Azura Edo independent power plant at the start of the year, full operations commenced in May 2018 at which point gross deliveries stepped up to the contracted 116 MMscfd level on a take-or-pay basis.

ANOH processing hub (future) – eastern Niger Delta

The ANOH gas development at OML 53 (and adjacent OML 21 with which the upstream project is unitised) is expected to underpin the next phase of growth for the gas business and Seplat's involvement positions it at the heart of one of the largest greenfield gas and condensate developments onshore the Niger Delta to date. Seplat is well positioned to leverage the experience gained at the Oben gas processing hub to incorporate operational and cost efficiencies. In August 2018 Seplat signed the Shareholder Agreement and Share Subscription Agreement with the Nigerian Gas Company ('NGC'), a wholly owned subsidiary of Nigerian National Petroleum Corporation ('NNPC') whereby NGC subscribed for 50% of the shares in ANOH Gas Processing Company Limited ('AGPC'),

Working interest reserves

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

1 Under the revised commercial terms in relation to OML 55 Seplat will no longer be a shareholder in BelemaOil but will instead have a financial interest until a discharge sum of US$330 million has been paid to Seplat through the monetisation of oil reserves at OML 55.

Full year average daily production

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

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

a company that was incorporated in 2017, for the purpose of processing future wet gas production from the upstream unitised gas fields at OML 53 and OML 21, which is operated by Shell. The signed Shareholder Agreement will govern Seplat's and NGC's respective interests in the AGPC incorporated joint venture. Other commercial agreements with NNPC and the Nigerian Gas Marketing Company ('NGMC') were also executed during a signing ceremony held at NNPC headquarters in Abuja. Subsequent to the period end, the Seplat Plc Board has taken the Final Investment Decision ('FID') to proceed with the ANOH project.

Rig based activity and other capital projects

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

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

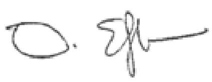
In November Seplat announced that the President and Honourable Minister of Petroleum Resources had given consent for the licence renewal of OMLs 4, 38 and 41 to a new expiry date of 21 October 2038. Seplat holds a 45% working interest in OMLs 4, 38 and 41 and in 2018 production from the licences accounted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

2019 guidance

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

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

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



Effiong Okon
Operations Director; Executive Director

Asset overview

Key

Terminal point
Gas processing facility
Future gas processing facility

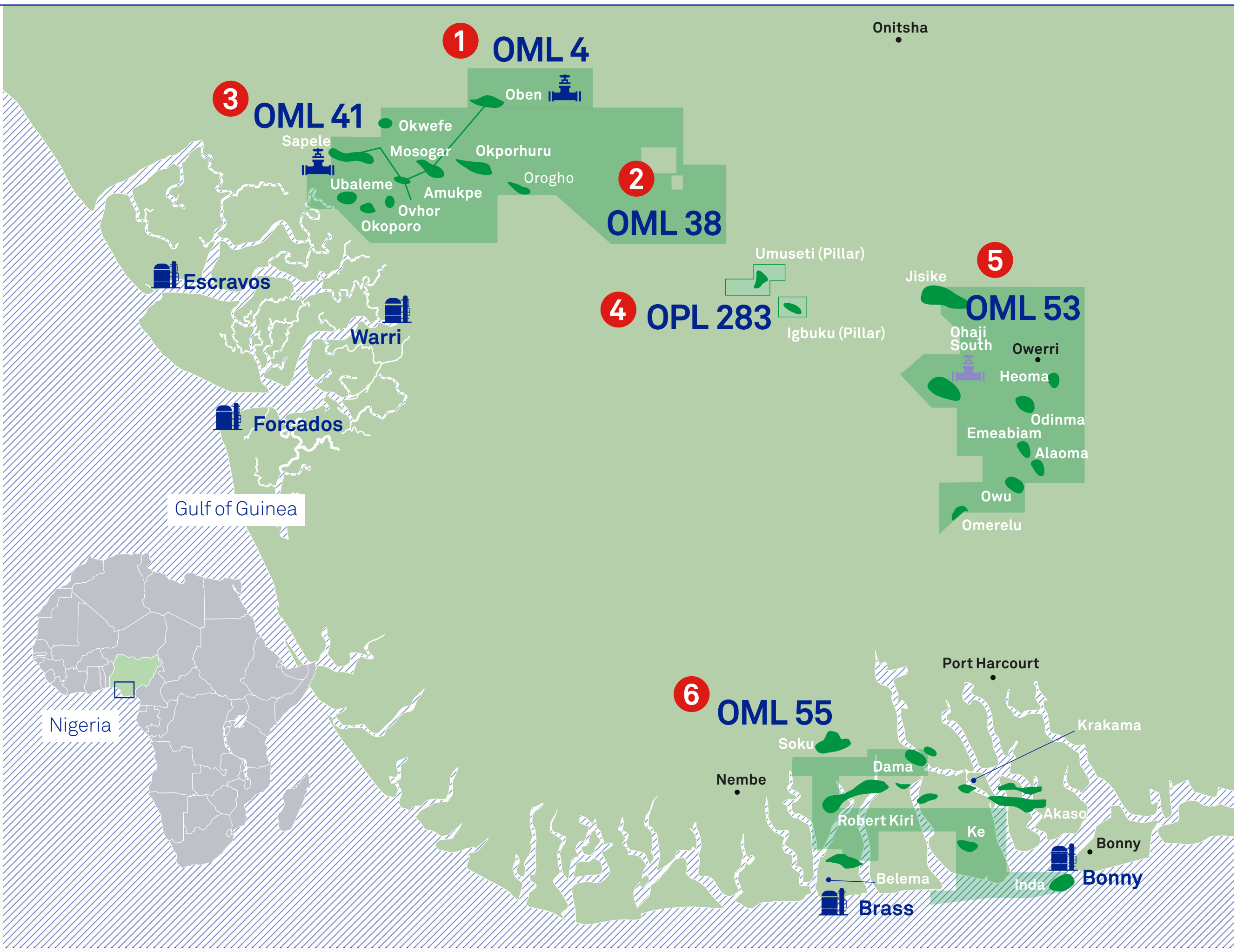
1 2 3 OMLs 4, 38, 41

2018 activities

- Production and development.

Highlights

- Completed the Oben NAG booster compression project whereby the installation of additional compressors at the Oben gas plant will boost the pressure of existing NAG wells and translate into higher achievable gas recovery at the Oben gas field.
- Completed the hook-up of a 10 kbpd condensate stabiliser train at the Oben Gas plant to allow for handling of additional condensate production in the future that will accompany higher future gas production.
- Drilled a new gas production well at Oben which is expected to come onstream in Q1 2019.
- Further to the earlier commissioning of the liquid treatment facility ('LTF') at the Amukpe field, the Company undertook a crude quality upgrade project aimed at achieving an export grade specification of 0.5 BS&W MAX.
- Completed upgrades to the 2 x 7,000 bbl storage tanks at Amukpe in Q4 2018.
- Focus on full development of the Sapele Shallow field.



4 OPL 283

2018 activities
- Production.

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

5 OML 53

2018 activities
- Production and development.

Highlights
- Rig-based re-entry and completion of two wells drilled by the previous operator at the Ohaji South oil field which are due to come onstream in 2019.
- Other projects carried out during the year were focused on sustaining production at the Jisike oil field, developing infrastructure and improving existing facilities.
- Seplat signed the Shareholder Agreement and Share Subscription Agreement with the Nigerian Gas Company ('NGC'), a wholly owned subsidiary of Nigerian National Petroleum Corporation ('NNPC').
- Subsequent to the period end, the Seplat Plc Board has taken the Final Investment Decision ('FID') to proceed with the ANOH project.

6 OML 55

2018 activities
- Recovery of discharge sum.

Highlights
- Seplat received total payments of US$48 million in the year.
- Asset continues to be jointly controlled by Seplat and BelemaOil through an Asset Management Team comprising equal representatives of both parties.

OMLs 4/38/41

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

Delivering on our strategic pillars:

Links to business model:

– Explore & appraise
– Develop
– Produce, process & sell

Background

OML 4 covers an area of 267km^2 and is located 78km north east of Warri, Delta State. The Oben field is located in OML 4 and is the main producing field on the block. Facilities on the block include a 60,000 bopd capacity flow station, a 465 MMscfd capacity non-associated gas processing plant and an associated gas compressor station with five 10 MMscfd associated gas ('AG') compressors. Oil exports from the Oben flow station are routed via the Oben – Amukpe pipeline to the Amukpe facilities and onwards to either the Forcados terminal or Warri refinery. Production operations and facilities are supported by the Oben Field Logistics Base. The Oben field in particular is central to the Company's future gas expansion plans and is strategically located as an important gas hub with access to Nigeria's main gas demand centres. The licence was renewed in 2018 for a further 20 years and is next due for renewal on 21 October 2038.

OML 38 covers an area of 2,094km^2 and is located 48km north of Warri, Delta State. There are currently four producing fields on the block, namely Amukpe, Okpohuru, Orogho and Ovhor (which straddles OML 38 and OML 41). There are two further discoveries in OML 38: the Mosogar and Jesse discoveries, which have not yet been brought into production. Facilities on the block include a 45,000 bpd capacity flow station, a Liquid Treatment Facility ('LTF') and two 50,000 bbls crude storage tanks, all located at Amukpe. The licence was renewed in 2018 for a further 20 years and is next due for renewal on 21 October 2038.

OML 41 covers an area of 291km^2 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 2018 for a further 20 years and is next due for renewal on 21 October 2038.

2018 activity

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

On OML 38, further to the earlier commissioning of the liquid treatment facility ('LTF') at the Amukpe field, the Company undertook a crude quality upgrade project aimed at achieving an export grade specification of 0.5 BS&W MAX. By doing this, Seplat has scope to eliminate in the future the cost component of crude handling charges that have historically been incurred for exporting wet crude to the Forcados terminal and also free up additional haulage on the export pipeline for dry crude. With the completion of the project, Seplat will also be able to deliver increased export quality dry crude shipments via the alternative routes. The Company also completed upgrades to the 2 x 7,000 bbl storage tanks at Amukpe in Q4 2018 that will further help ensure continuous evacuation of dry crude via the alternative routes during periods of outage on the Trans Forcados Pipeline.

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

OPL 283

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

Delivering on our strategic pillars:

Links to business model:

– Explore & appraise
– Develop
– Produce, process & sell

Background

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

2018 activity

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

OML 53

Operator:	Seplat
Working interest:	40.0%
Partner:	NNPC
Main fields:	Jisike (producing) and Ohaji South (discovery)
2018 working interest liquids production:	974 bopd
2018 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	42.7 MMbbls
Remaining working interest 2P gas reserves:	739.4 Bscf
2019 activities:	Production and development

Delivering on our strategic pillars:

Links to business model:

– Explore & appraise
– Develop
– Produce, process & sell

Background

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

2018 activity

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

OML 53, as part of the Assa North – Ohaji South ('ANOH') development, is at the core of Seplat's plans to significantly increase gas production and operated processing capacity in the near to medium term. In August 2018, Seplat signed the Shareholder Agreement and Share Subscription Agreement with the Nigerian Gas Company ('NGC'), a wholly owned subsidiary of Nigerian National Petroleum Corporation ('NNPC'). NGC will subscribe for 50% of the shares in ANOH Gas Processing Company Limited ('AGPC'), a company that was incorporated in 2017, for the purpose of processing future wet gas production from the upstream unitised gas fields at OML 53 and OML 21, which is operated by Shell. The signed Shareholder Agreement will govern Seplat's and NGC's respective interests in the AGPC incorporated joint venture. Other commercial agreements with NNPC and the Nigerian Gas Marketing Company ('NGMC') were also executed at the same time. Subsequent to the period end, the Seplat Plc Board has taken the Final Investment Decision ('FID') to proceed with the ANOH project. The upstream development, including the drilling of production wells, will be delivered by the upstream unit operator SPDC.

OML 55

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

Delivering on our strategic pillars:

Links to business model:

– Produce, process & sell

Background

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

2018 activity

In accordance with the revised commercial arrangement that was agreed in July 2016, which provides for a discharge sum of US$330 million to be paid to Seplat over a six-year period through allocation of crude oil volumes produced at OML 55, Seplat received payments amounting to US$48 million in 2018. Total payments received from inception to the end of 2018 stood at US$84 million and the outstanding discharge sum to be paid to Seplat is US$246 million. The 40.00% operated interest in OML 55 continues to be jointly controlled by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising representatives of both parties.

Strategic pillars

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

Disciplined financial management

The Group benefitted from higher year-on-year oil and gas production volumes and oil price tailwind, the combined effect of which was a sharp increase in both profitability and cash flow generation.

Roger Thompson Brown
Chief Financial Officer; Executive Director

Discretionary investments during the year were primarily directed towards the gas business, which is de-linked from oil prices, while a refinancing of the balance sheet reset the Group's capital structure and enables it now to optimally capture the numerous organic growth opportunities within the existing portfolio in addition to the potentially valuable inorganic acquisition opportunities that exist in the Nigerian oil and gas space.

Revenue

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

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

In 2018, the Group had in place dated Brent put options covering a volume of 6.60 MMbbls to year end at a combined weighted average strike price of US$44.5/bbl. The net cost of these instruments in the year was US$6.4 million. This hedging programme has been continued in 2019 where upfront premium put options at a strike price of US$50.0/bbl were entered into, protecting a volume of 4.0 MMbbls. The Board and management continue to closely monitor prevailing oil market dynamics, and will consider further measures to provide appropriate levels of cash flow assurance in times of oil price weakness and volatility.

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

Gross profit

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

Operating profit

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

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

Following a significant improvement in the financial position of the Group in 2017, the Group conducted an assessment of the assessable profit based on a five-year business plan in order to determine the possibility of future profit making prospects for 2018 to 2022. The Group reviewed previously unrecognised tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilised. As a result, deferred tax assets of $133 million (2017: US$224 million) were recognised for those losses. This resulted in a deferred tax charge of US$91 million being charged in the year (2017: US$ 224 million credit).

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

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

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

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

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

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

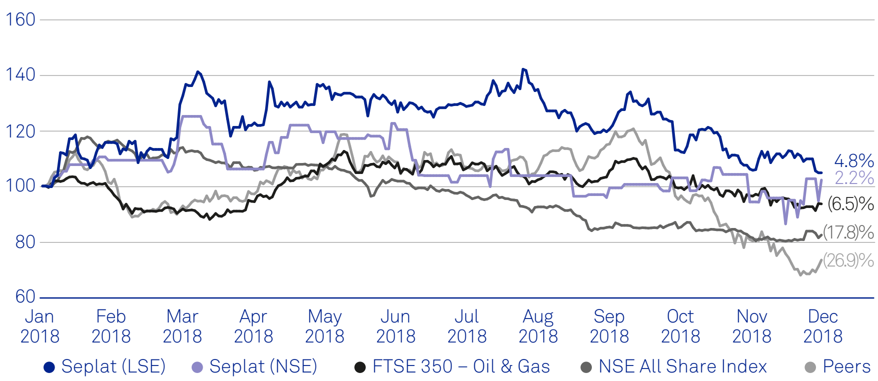
Having reached agreement in 2016 with partner BelemaOil on a revised commercial arrangement at OML 55, which provides for a discharge sum of US$330 million to be paid to Seplat over a six-year period through allocation of crude oil volumes, the Group received total proceeds of US$48 million in 2018 under this arrangement. Consequently, after adjusting for interest receipts of US$10 million, net cash outflow from investing activities for the full year was US$31 million compared to a net cash inflow in 2017 of US$7 million, reflecting the higher capex spend.

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

Our relative share price performance vs indices and peers

In 2018, both lines of Seplat's equity on the Nigeria Stock Exchange and the London Stock Exchange outperformed relevant indices and peer average.

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



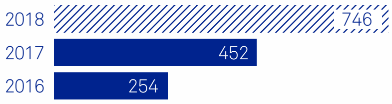
Source: Bloomberg.

Strategic report

2018 highlights

Revenue
(US$m)

+65%

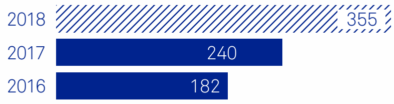


Net cash flow from operations
(US$m)

+12%

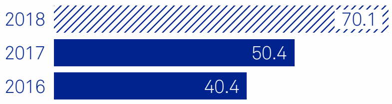
Cost of sales
(US$m)

+48%



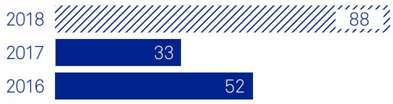
Realised oil price
(US$/bbl)

+39%



Capital expenditure
(US$m)

+167%



G&A
(US$m)

-13%

Gross profit
(US$m)

+84%

Cash position
(US$m)

+34%

Gearing (total debt/total assets)
(%)

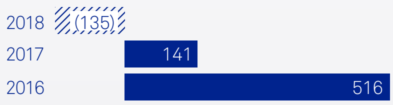
-18%

Net profit/(loss)
(US$m)

-45%

Net debt (cash)
(US$m)

-196%



EBITDAX
(US$m)

117%

Net Cash at 31 December 2018	US$ Million	Coupon	Maturity
Senior Notes	350	9.25%	June 2023
Three-year secured RCF[1]	100	L+6.00%	June 2022
Gross debt at parent	450		
Cash and cash equivalents	585		
Net cash	135		

1. Total commitment under the RCF is US$263 million.

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

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

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

Brexit

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

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

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

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

Outlook

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

Roger Brown
Chief Financial Officer

Ensuring healthy workforce, safe operations and environmental conservation

At Seplat, workplace health and safety is a collaborative effort that promotes safe work practices to ensure that our strong safety culture is maintained Company-wide and extends to our partners and service providers.

Jay Smulders
Technical Director

The health and safety of our personnel, the communities in which we operate and minimising our environmental impact are at the core of how we conduct our business. We have been working to deliver safe and reliable processes in our business since we began operations in 2010 and have taken a proactive approach to HSE management to ensure continuous improvement towards our clearly defined key performance indicators. In 2018, we have invested in new equipment to reduce emissions and continued to promote best in safe operations at every Seplat location.

Fatalities

Zero

Groundwater contamination

Zero

2018 Performance review

In 2018, we improved performance in keeping people safe. Fatalities remained zero, Loss Time Injury Frequency (LTIF) dropped from the 2017 level of 0.31 to 0.14, a trend we have kept for the past five years as we continually strive to reduce the risk of injury.

We track emissions released into the atmosphere from our operations and strive to reduce discharges from our facilities. Gas flaring has steadily reduced from inception. As part of Seplat's drive to achieve flares out in our operations, the off-gas rich in C3 / C4 component (LPG) shall be recovered and monetised by the installation of LPG Plants to harness the remaining gas. The plants will become operational in 2020.

We continue to make steady improvement on environmental impact from production via effective pipeline integrity management.

We are conscious of conservation and protection of groundwater and proactively take steps to ensure that in the course of our operations groundwater contamination is prevented. In 2018, the effects of our operations on groundwater contamination remained nil.

Although we have already achieved some goals with our HSE programme, we are constantly working to enhance the HSE performance of all our activities.

Jay Smulders
Technical Director

Health

- Provided comprehensive health service access to employees in all our locations.
- Provided 24-hour clinical coverage in all our areas of operation.
- Delivered periodic health awareness lectures and sensitisation of workforce on stealth killers thereby promoting healthy working practices.

HSE strategic principles

Our HSE Policy is implemented with consideration for guidelines stipulated in ISO 45001 and ISO 14001, which are further supplemented by the Company's own procedure policies to guarantee adherence to country regulations and standards. Management communicates our HSE philosophy to all employees, customers, contractors, and other third parties associated with our business.

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

- Healthy employees and safe workplaces
- Environmental safe-guarding and conservation
- Ensuring mutual respect with host communities and local stakeholders

Environment

- Monitoring and reporting on environmental impact in our operations to regulators
- Compliance with all regulatory requirements and benchmark of our performance with international standards.
- Execution of projects that promote continuous reduction of environmental impact in our operations.

Safe operations and prevention of major incidents

- Intrinsic safety incorporated in design of all new facilities.
- Clear focus on maintenance of safety critical systems.
- Empower every employee to stop an activity at any stage if it is considered unsafe to continue.
- Training and certification of all personnel occupying safety critical positions.
- Quarterly contractor HSE forum to share Company HSE performance and receive feedback.
- Senior management review of all high potential incidents.
- Senior Management Facilities Inspection (MFI) to demonstrate leadership commitment to safe operations
- Company-wide dissemination of lessons learnt from incident investigation and recommendations.
- Recognition programme for exemplary HSE performance by our personnel and contractors.
- Quarterly drivers education programmes with Federal Road Safety Commission, the agency of Federal Government of Nigeria responsible for managing road safety across the country.

2018 Performance review – Health and safety

	2014	2015	2016	2017	2018
Fatalities (employee and contractor)	0	0	0	0	0
Lost Time Injury Frequency ('LTIF')	0.4	0	0.33	0.31	0.14

2018 Performance review – Environment

	2014	2015	2016	2017	2018
Flaring – million standard cubic feet (MMscf)	9,465	7,642	4,757	8,418	6,487
Volume of oil spilled through own operations (thousand tonnes)	0.0004	0.1089	0.002	0.002	0.0032
Volume of oil spilled through sabotage (thousand tonnes)	0.0014	0.0021	0.002	Nil	0.00009
Groundwater contamination	Nil	Nil	Nil	Nil	Nil
Freshwater consumption (MMbbls)	1.18	1.5	0.28	0.24	0.19

Unlocking progress and development through community partnerships

We recognise the role that we play in our communities and have committed to deepening our relationships through partnerships that are mutually beneficial.

Lord Mark Malloch-Brown
CSR Committee Chairman

We are committed to deepening our relationships with the communities where we operate by working together with the community to understand the specific requirements needed for further development and growth.

As part of this, enduring partnerships with the community are of vital importance and delivering positive socio-economic impact continues to be at the heart of our business strategy.

Our social performance is measured against three key areas:

- Local community impact, engagement and relationship management
- Grievance management mechanism, conflict resolution and peace building
- Social investment

Lord Mark Malloch-Brown

As Nigeria's leading indigenous operator, we understand the critical role we must play to drive positive socio-economic impact among our communities. As part of this commitment, we are working to align our activities with those set out in the UN's Sustainable Development Goals to ensure our investments deliver tangible, inclusive growth for those communities where we operate. However, identifying those opportunities cannot be done independently but requires proactive collaboration and communication with our local stakeholders.

From listening to our communities, an outcome of this engagement has meant we have broadened our social investment programmes from health, education and infrastructure and into entrepreneurship. Although many decades away, oil and gas reserves are ultimately finite and so supporting our communities to diversify the local economies is a key priority. This will ensure robust, resilient communities long after the reserves have been extracted and prevent over-reliance on the oil and gas industry for economic growth. This programme is in its early stages but we are excited to help extend our impact within the Delta and to equip our communities with the skills to thrive alongside and independently of our operations.

We believe that businesses can have a transformational impact on the communities in which they operate, but only through effective communication can this be achieved to ensure companies remain part of the solution rather than being part of the problem. Following a successful year, we are excited for 2019 and look forward to working with our local stakeholders to deliver real impact where they need it most.

We have developed a five-pronged approach to managing our engagements with local communities, emphasising the importance of consistent dialogue and strengthening partnerships.

Communicating transparently with local communities

We held over:

298	Proactive meetings
128	Community project/ programmes related engagements
4	Town Hall meetings; participated in local events; and engaged with local government officers and traditional rulers to strengthen the support of the community for the work we do
19	Meetings with traditional rulers

Annual open forum

We held our annual open forum for communities in our Western Assets (OMLs 4, 38 and 41) and in the Eastern Assets (OML 53).

Our annual forum was attended by:

201	Stakeholders
64	Communities
80	Stakeholders including: government officials, JV partner, regulatory agencies, security agencies, and Seplat senior officials in the Western Assets

The event was attended by both local stakeholders and Seplat employees, and provided an opportunity to discuss upcoming company projects, address any key local concerns, obtain feedback on existing programmes and promote transparency across the Group.

We continue to have a consistent approach to managing interactions with local communities, which is inline with international best practice set out in the United Nation's Sustainable Development Goals and the General Memorandum of Understanding (GMOU), which we signed with our host communities in 2010, which was reviewed and enhanced in January 2016.

We have developed a five-pronged approach to managing our engagements with local communities, emphasising the importance of consistent dialogue and strengthening partnerships:

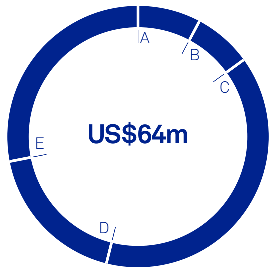
- Inform
- Consult
- Involve
- Collaborate
- Empower

By adhering to these key pillars we are able to strengthen the relationship between us and the local community, whilst creating room to discuss common interests and concerns. During the year, timely and transparent direct communication with local stakeholders helped us to manage expectations, discuss upcoming projects, prevent project disruption, obtain feedback on existing programmes and communicate employment opportunities.

We understand that maintaining this level of communication is vital to ensure enduring community relationships and acceptance of how we are working towards enhancing the community's general wellbeing and the local economy.

Social Investment Programmes

Investments in our communities (%)



A	Healthcare	8
B	Education	7
C	Economic empowerment and capacity building	39
D	Infrastructure development	18
E	Environmental stewardship	28

Building trust and alleviating grievances through consistent day-to-day dialogue

Activities and achievements:

21	Potential operation disruption dispute averted
12	Mediation/arbitration efforts
1	Training
15	Environmental scanning/ heads off/early warning
10*	Peaceful Community Awards

* Communities that maintained the peace during the year are given the Peaceful Community Awards. Ten oil and gas bearing, and facility host communities received the award in 2018. Awards are presented in a new year for the preceding year.

Our grievance management mechanism covers conflict mitigation measures, peace building, alternative dispute resolution (ADR) actions and continuous social risk assessment, allowing Seplat to better manage community grievances before they escalate.

Through this mechanism we aim to prevent issues from developing into disruptive activities such as operational disruptions, road blockages, kidnapping and violent protests. We proactively carry out engagements with our communities and other local stakeholders to decrease the likelihood of the conflict escalating to a point where resolution is difficult, if not impossible. For both high-level and low-level grievances, we follow the procedures outlined in the GMOU signed with local communities.

The majority of conflict resolution efforts are managed by the community relations team. However, supportive efforts made by third party NGOs, prominent community leaders and key influencers in both the People's Right Division in the State Ministry of Justice and the Ministry of Oil and Gas have supported our efforts in mediating certain issues.

For example, in 2018, most of the issues that were brought to community leaders were for mediation around issues ranging from inter-community disputes on sharing Seplat community benefits, land boundary disputes, a community leadership struggle, employment requests and contract patronage grievances.

Our social investment programme is focused on improving community infrastructure, capacity development, fostering economic stability and improving quality of life in the communities where we operate. It is at the heart of our business and our approach aligns directly with the United Nations Sustainable Development Goals. We endeavour to conduct our business both responsibly and efficiently, whilst encouraging self-sufficiency, the creation of jobs and with the wider aim of stimulating economic growth.

In addition, through the community engagement opportunities detailed on this page, we aim to ensure that social investment is channelled to areas that align with broader development objectives and community needs.

In 2018, we made strong progress on our strategic social investments plan, focusing on core areas such as community infrastructure, education, healthcare, employment, water supply, use of local goods and services and economic development alongside grievance management and peace building.

Community infrastructure programmes

Water supply

We constructed new water distribution lines to replace the old lines at Oben Community, ensuring continued access to clean water. In addition, we constructed a water line extension to new areas of the Ugbokodo Community (Aladja, Ekokota and Amanwanren), and developed a water supply and overhead tank for Police Area Command in Sapele Okpe Community. The rehabilitation of solar-powered water project at Okuoghara quarter in Ugborhen Community was carried out. We recognise that access to clean water is a fundamental right and these projects have helped to eradicate water borne diseases such as cholera.

Roads

We have completed the construction of the 5.5km Boboroku-Orogho road (Boboroku end) and we commenced the construction of the 5km Orogho-Boboroku road (Orogho end). In addition, we have started the construction of Oben-Iguelaba drainage and road expansion, construction of culvert/slope protection at Boboroku Community, and completed the Oben, Iguelaba and Okirighwre field roads. Improvements in infrastructure have given our local communities better access to the market, thereby reducing commuting time, increasing community links and decreasing wear and tear on vehicles.

Market stalls

During the year, we constructed market stalls for several communities where we operate. This included 40 market stalls for the Obozogbe Nugu community in Edo State; 40 market stalls for Orodje market – 20 at Sapele Okpe Community and 20 at the Ugberikoko water front. To further empower local communities and support the local economy, we also carried out maintenance of key market facilities at Oben Community, including the maintenance of market stalls, water taps and the Town Hall.

Education

During the year, funded scholarships were awarded to 90 undergraduate students from the Sapele Okpe Community. Scholarships were awarded to students choosing to study courses in fields where there is currently a short supply of skilled professionals. We also furnished several community buildings during the year, including a three-classroom building/office at Obozogbe Nugu Primary School and a classroom at Okunigho Secondary School, which we connected to the national electricity grid. In addition, we renovated four buildings designated for the National Open University of Nigeria in Sapele Okpe, to encourage greater access to education for the local community.

Electricity

During the year we undertook several electrical installations for local communities, including the installation of a 500KVA transformer at Okuovwori Village, Amukpe, and a 100KVA generator set at the National Open University of Nigeria.

Governance

70–
114

Shaping the future through corporate governance

In a world of uncertainty, effective corporate governance remains the bedrock of any successful business.

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

Dear shareholders,

It gives me great pleasure to present the corporate governance report for the year ended 31 December 2018.

Over the years, Seplat has remained steadfast in its commitment to embedding sound corporate governance culture within the organisation and across every aspect of our operations. As a company, we have put in place a strong corporate governance system which we review and update from time to time. As a dual listed company, Seplat is bound by several corporate governance regulations both in Nigeria and in the United Kingdom. These regulations include but are not limited to, the Companies and Allied Matters Act ('CAMA'), the Securities & Exchange Commission ('SEC') Code of Corporate Governance for Public Companies in Nigeria (the 'Nigerian Code'), the Nigerian Stock Exchange ('NSE') Rulebook, the UK Corporate Governance Code (the 'UK Code'), UK Listing Rules ('LRs') and the Market Abuse Regulations, 2016 ('MAR').

As a company, we recognise and are very alive to our responsibilities to our shareholders, customers, employees and suppliers as well as to the communities in which we operate. We have been able to meet these responsibilities through strong governance, operational dexterity and capacity developed over the years.

In 2018, the Board in conjunction with the management team worked tirelessly to ensure that the Company is governed in accordance with our enshrined Vision, Mission and strategic objectives; that identified risks are mitigated; and that the long-term sustainability goals are properly balanced against the short-term goals. During the year under review, our internal corporate governance embedding activities continued to thrive, as the Board, management and employees participated in the Company's annual corporate governance declarations. In discharging its oversight role, the Board undertook an independent evaluation of its performance, and the performance of the Chairman, Board Committees and individual Directors, which was facilitated by an external consultant, Mr. Scott Eversman. In addition, management and staff undertook the annual corporate governance re-certification exercise.

In continuation of the successes recorded by our Company in the corporate governance space in 2017, Seplat commenced the 2018 financial year on a vibrant note with the upscaling and migration of the Company from the Main Board to the Premium Board of the Nigerian Stock Exchange (NSE); thereby becoming the first oil and gas company to be migrated to the Premium Board of the NSE.

The Premium listing is in recognition of the outstanding performance of the Board in the corporate governance rating system's (CGRS) Fiduciary Awareness Certification Test (FACT) and Company's attainment of the capitalisation requirements of the NSE. Seplat exceeded these requirements, achieving an outstanding assessment score of 88% which was way beyond the minimum score of 70%. The Premium Board is the listing segment for the elite group of issuers that meet NSE's most stringent corporate governance and listing standards. Happily, the Company closed the 2018 financial year in December with an additional feather in its cap in corporate governance, as the NSE presented Seplat with its CEO Award for "*Issuer With The Highest Number of Disclosures*".

The successes recorded by Seplat in corporate governance for the year under review are testament to the sound corporate governance principles by which the Board, with the support of the management team and employees, has steered the wheel of the Company's operations.

I would like to thank the Board, management and the employees for their relentless contributions, which are very evident in the overall performance of Seplat for this financial year. Finally, I would like to use this opportunity to thank our shareholders for their unwavering and continued support over the years.

As we project into the future, we are assured that Seplat is well positioned to actualise its Vision of becoming a world class independent energy company delivering premium value to all stakeholders through continuous strengthening of our corporate governance.

A.B.C. Orjiako
Chairman

Board skills and experience as at 28 February 2018

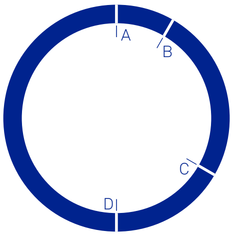
1. Executive and strategic leadership	12
2. Governance and Board	9
3. Work health, safety, environment and sustainability	7
4. Financial and risk management	10
5. Capital management	7
6. Oil & gas	8
7. Strategy	10

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

Board of Directors

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

Board composition as at 28 February 2018



A	Chairman	1
B	Executive Directors	3
C	Non-Executive Directors	2
D	Independent Non-Executive Directors	6

Board members

As at 31 December 2018, Seplat had a Board of 12 Directors:

Key
- Chairman
- Executive Directors
- Non-Executive Director

A.B.C. Orjiako
Non-Executive Chairman

Austin Avuru
Chief Executive Officer

Roger Brown
Chief Financial Officer

Effiong Okon
Operations Director

Michael Alexander
Senior Independent Non-Executive Director

Macaulay Agbada Ofurhie
Non-Executive Director

Michel Hochard[1]
Non-Executive Director

Basil Omiyi
Independent Non-Executive Director

Lord Mark Malloch-Brown
Independent Non-Executive Director

Charles Okeahalam
Independent Non-Executive Director

Ifueko M. Omoigui Okauru
Independent Non-Executive Director

Damian Dodo
Independent Non-Executive Director

1. Madame Nathalie Delapalme acts as alternate to Michel Hochard.

Board structure

Board of Directors

Chairman

Finance Committee

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

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

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Gas Committee

Basil Omiyi (Chair)
Michael Alexander
Macaulay Agbada Ofurhie

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

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Remuneration Committee

Michael Alexander (Chair)
Charles Okeahalam
Basil Omiyi
Damian Dodo

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

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Risk Management and HSSE Committee

Basil Omiyi (Chair)
Macaulay Agbada Ofurhie
Ifueko M. Omoigui Okauru

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

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Nomination and Establishment Committee

A.B.C. Orjiako (Chair)
Michael Alexander
Basil Omiyi
Damian Dodo

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

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Corporate Social Responsibility Committee

Lord Mark Malloch-Brown (Chair)
Macaulay Agbada Ofurhie
Ifueko M. Omoigui Okauru

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

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Experienced, proactive and effective leadership

Non-Executive Chairman

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

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

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

He has received numerous awards and recognitions for his service to humanity and his entrepreneurial achievements. Some of these notable awards include the Distinguished Alumnus Award and Doctor of Sciences (D.Sc. Honoris Causa) by the University of Calabar, Nigeria in 2001; Platinum Award of the West African College of Surgeons in 2006; National Honours as an Officer of the Federal Republic ('OFR'), conferred on him by the President of Nigeria in 2012; the coveted Zik (Nnamdi Azikiwe) Prize in the Professional Leadership category by the Public Policy Research and Analysis Centre ('PPRAC'); and African Business Executive of the Year 2014, by the Oil and Gas Council.

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

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

Board meetings attended
- 13/13

Committee membership
- Nomination and Establishment Committee (Chairman)

Independent
- Not applicable

Executive Directors

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

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

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

Experience
Mr. Avuru has over 38 years' experience, working in the Nigerian oil and gas sector in increasingly senior technical and management roles. He has spent the last 15 years in CEO roles at Platform Petroleum and Seplat Petroleum, and has built up a strong reputation as a reference resource professional on the Nigerian Oil and Gas Industry play.

Date of appointment
- 1 May 2010

Board meetings attended
- 13/13

Committee membership
- Not applicable

Independent
- Not applicable

Roger Thompson Brown
Chief Financial Officer, Executive Director

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

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

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

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

Board meetings attended
- 13/13

Committee membership
- Not applicable

Independent
- Not applicable

Non-Executive Directors

Effiong Okon
Operations Director; Executive Director

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

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

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

Date of appointment
- 23 February 2018

Board meetings attended
- 10/13

Committee membership
- Not applicable

Independent
- Not applicable

Michael Richard Alexander
Senior Independent Non-Executive Director

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

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

Date of appointment
- 1 June 2013

Board meetings attended
- 13/13

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

Independent
- Yes

Basil Omiyi
Independent Non-Executive Director

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

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

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

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

Date of appointment
- 1 March 2013

Board meetings attended
- 12/13

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

Independent
- Yes

Non-Executive Directors

Lord Mark Malloch-Brown
Independent Non-Executive Director

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

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

Date of appointment
- 1 February 2014

Board meetings attended
- 10/13

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

Independent
- Yes

Charles Okeahalam
Independent Non-Executive Director

Biography
Dr. Okeahalam is a co-founder of AGH Capital Group, a private equity and diversified investment holding company based in Johannesburg, with assets in several African countries. Prior to co-founding AGH Capital Group in 2002, he was a Professor of Financial Economics and Banking at the University of the Witwatersrand in Johannesburg. His other roles have included advising a number of African central banks and government ministries, the World Bank and the United Nations. He has held several board positions and is a former non-executive chairman of Heritage Bank Limited, Nigeria. Since March 2016 he has served as the non-executive chairman of the Nigeria Mortgage Refinance Company.

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

Date of appointment
- 1 March 2013

Board meetings attended
- 12/13

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

Independent
- Yes

Ifueko M. Omoigui Okauru
Independent Non-Executive Director

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

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

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

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

Date of appointment
- 1 March 2013

Board meetings attended
- 11/13

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

Independent
- Yes

Damian Dinshiya Dodo (SAN), OFR, FCIArb, FNIALS
Independent Non-Executive Director

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

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

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

Date of appointment
- 30 June 2014

Board meetings attended
- 13/13

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

Independent
- Yes

Macaulay Agbada Ofurhie
Non-Executive Director

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

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

Date of appointment
- 14 December 2009

Board meetings attended
- 9/13

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

Independent
- Not applicable

Michel Hochard
Non-Executive Director

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

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

Date of appointment
- 14 December 2009

Board meetings attended
- 13/13

Committee membership
- Audit Committee (Member)

Independent
- Not applicable

Alternate Director

Madame Nathalie Delapalme
Alternate Director to Michel Hochard

Biography
Madame Delapalme is an Independent Director on the Board of Directors of Maurel et Prom, and since 30 June 2014, acts as an alternate to Maurel et Prom's nominee, Michel Hochard. Madame Delapalme served the French Government as an Inspector of Finance at the Ministry of Economy and Finance, an adviser for the Finance and Budgetary Commission in the French Senate, and an adviser for Africa and Development in the offices of various Foreign Affairs Ministers. She remains deeply involved in governance and leadership in Africa.

The purpose of this report is to explain how the affairs of Seplat have been directed and controlled by the Board and to summarise the corporate governance activity that has taken place during the 2018 financial year.

In addition to its overall responsibility for corporate governance, the Board's duties include setting the Company's strategy and values and overseeing and supporting management in their day to day running of the Company's business. We are pleased to inform you that the Board demonstrates the appropriate behaviours and has an impressive blend of diversity, skills, independence and knowledge of the business to enable it to successfully discharge its duties.

Some of the key corporate governance provisions that apply to Seplat as a Nigerian company listed on both the Nigerian Stock Exchange (NSE) as well as the London Stock Exchange (LSE) for the year ended 31 December 2018, are contained in the Companies and Allied Matters Act ('CAMA'), the Nigerian Securities and Exchange Commissions' Rules and Regulations on Code of Corporate Governance for Public Companies (2011) ('SEC Code'), UK Corporate Governance Code as updated and published by the Financial Reporting Council (FRC) in July 2018 (UK Code), UK Listing Rules ('LRs') and the Market Abuse Regulations, 2016 ('MAR'). We are equally mindful of the requirements of the Nigerian Code of Corporate Governance which was released by the Financial Reporting Council of Nigeria (FRC) in June 2018 and was formally unveiled on 15 January 2019.

In line with the requirements of these regulations, the Board of Directors of Seplat strives to ensure that the Company meets high standards of safety, performance and governance. The Board has ultimate authority over, and maintains oversight of, the Company and regards corporate governance as a critical factor in the achievement of the Company's objectives. Consequently, the Board has adopted appropriate charters and policies.

Board processes

Scope and authority

In line with relevant code of corporate governance and regulations, the Board is responsible for ensuring compliance with all applicable laws, rules and regulations. In discharging this responsibility, the Board is supported by the Company Secretariat headed by the Company Secretary/ General Counsel. In addition, the Board is supported by the members of the management team as are required from time to time. To aid the Directors' effective participation and making of informed decisions at Board and Committee meetings, all Board and Board Committee papers are distributed to each Director in advance of their meetings using the Board pad software that is designed for that purpose. Formal minutes of Board and all Committee meetings are taken by the Company Secretariat team and are reviewed and discussed by the Board prior to their approval and adoption by the Board at the subsequent Board meeting. The Company Secretary also advises and gives guidance to the Board in the discharge of its obligations as stipulated in the applicable UK and Nigerian laws. Members of the Board are equally entitled to obtain independent professional advice at the Company's expense, where necessary.

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

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

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

The Board Charter in its current form is in alignment with the provisions of the Nigerian Code and the UK Code as well as international best practice.

The Board has established six Board Committees to facilitate an efficient and effective discharge of its responsibilities and has delegated specific aspects of its responsibilities to these Committees. The Committees of the Board are as follows:

1. Finance Committee (to comply with the UK Code's requirement for an Audit Committee).
2. Remuneration Committee.
3. Nomination and Establishment Committee.
4. Risk Management and HSSE Committee.
5. Corporate Social Responsibility ('CSR') Committee.
6. Gas Committee

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

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

Board meetings

During the 2018 financial year, highlights of the Board's activities included:

Date	Month	Activities
23rd	January	• review and approval of the Q4 2017 financial results; • review and approval of revised 2018 budget; • review and approval of the 2018 – 2022 five-year plan;
13th/23rd	February	• review and approval of the 2017 Annual Report and Accounts; • review of the domestic macroeconomic trends and the global events and their impact on the energy sector as well as the Company;
19th	April	• review and approve Q1 2018 results and approval to declare and distribute an interim dividend; • review and approval of refinancing options for the $300 million Revolving Credit Facility (RCF);
26/27th	April	• review and approval of the issuance of the $350 million 9.25% Senior Notes due 2023 on the Luxemburg exchange;
16th	May	• review and approval of the Gas Committee to have oversight of the Company's gas business; • review and approval of the Company's strategy for key asset acquisitions;
6th	June	• review and approval of the Company's strategy for resolving disputes in relation to critical matters;
11th	June	• review and approval of listing of the $350 million Senior Notes on the International Securities Market of the London Stock Exchange (LSE);
19th	July	• review of updates on current reserves positions and production trends; • review and approval of H1 2018 results; review of corporate risk framework, enterprise risk dashboard, high-level risks, and risk response actions; • review of 2017 financial year and quarterly corporate business performance;
20th	September	• securing an alternative crude evacuation route to keep up the performance and delivery of 2018 strategic goals; • review of the 2018 strategic focus centred on growth in production, reserves and cost discipline across all levels of the organisation; • review of the Company's five-year business plan (2018 – 2022) for major capital investments;
27th	September	• review of proposals for development of the gas business; • proposal and approval of the 2015 Company's Long Term Incentive Plan ('LTIP') vesting in 2018 and approval of the 2018 LTIP awards to be made to Executive Directors and qualifying employees;
19th	October	• review and adoption of reports received from Board Committees; • re-election of retiring Directors; • 2018 Board Review and Directors' evaluation; • review and approval of the 2019 Budget and Work Programme; and • review and approval of Q3 2018 results.

Board review and evaluation

To sustain the efficient performance of its oversight role, the Board undertook an independent review and evaluation of its performance, the Chairman, Board Committees and individual Directors, which was facilitated by an external consultant Mr Scott Eversman. A number of recommendations and suggested actions to achieve development, including potential competence development, were made.

The key components of the Board review included:

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

Board meetings

The Board meets at least once every quarter. Additional meetings are scheduled whenever matters arise that require the attention of the Board before convening the next quarterly Board meeting.

During the 2018 financial year, the Board held 13 meetings with the dates and attendance of each Director reflected below. During the year, the Non-Executive Directors held exclusive meetings, without the Executive Directors. In addition, the Chairman and the Senior INED each held different meetings with the Non-Executive Directors, in the absence of the Executive Directors. In compliance with the Nigerian Code and the UK Code, it is the policy and practice of Seplat that no Director is involved in any deliberation pertaining to his/her remuneration.

Director	Meetings attended
A.B.C. Orjiako	13/13
Austin Avuru	13/13
Michael Alexander (Senior INED)[1]	13/13
Roger Brown	13/13
Lord Mark Malloch-Brown[2]	10/13
Michel Hochard	13/13
Macaulay Agbada Ofurhie	9/13
Charles Okeahalam[2]	12/13
Basil Omiyi[2]	12/13
Ifueko M. Omoigui Okauru[2]	11/13
Damian Dodo[2]	13/13
Effiong Okon[3]	10/13

1. Senior Independent Non-Executive Director.
2. Independent Non-Executive Directors.
3. Joined the Board 23 February 2018.

Board policies and insurance cover

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

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

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

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

Appointment, development and evaluation of Directors

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

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

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

Rotation of Directors

Seplat stated at the time of the IPO that it would comply with the provisions of section 259 of CAMA, regarding the re-election of Directors at each AGM, which would not follow provision B.7.1 of the UK Code. The following two Independent Non-Executive Directors, who have stayed longest in office, retired during the last AGM and were duly re-elected: (1) Michael Richard Alexander; and (2) Lord Mark Malloch-Brown.

The Board also reappointed the current representatives: (a) Mrs. Ifueko M. Omoigui Okauru; (b) Mr. Michel Hochard; and (c) Mr. Macaulay Agbada Ofurhie, to serve on the Audit Committee, alongside the three shareholders' representatives who were elected at the last AGM: Chief Anthony Idigbe SAN, Dr. Faruk Umar; and Sir Sunday Nwosu.

Appointment of new Operations Director

The appointment of Mr. Effiong Okon as the Operations Director, effective from 23 February 2018 was ratified by the shareholders at the fifth Annual General Meeting. Mr. Okon replaced Mr. Stuart Connal, who retired as Chief Operating Officer on 30 March 2017.

Accountability

The Board is aware of its responsibility to prepare the Company's financial statements and accounts, and state that they consider the financial statements and accounts, taken as a whole, to be fair, balanced and understandable and to contain the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Details are contained on pages 119-269 of this report. Seplat's business model and strategy for delivering the objectives of the Company and the assumptions underlying the Directors' assessment of the business as a going concern are given on pages 18-21 and 30-31 of this report, respectively.

The Board has assessed the Company's risk management and internal controls systems, including financial, operational and compliance controls, and has carried out a review of their effectiveness, details of which are given on pages 44 to 51 of this report.

In compliance with the provisions of CAMA, the Company has established a statutory Audit Committee (mentioned earlier), and in compliance with the UK Code's requirement for an Audit Committee, the Board has established a Finance Committee comprising four Independent Non-Executive Directors. Details of the Finance and Audit Committees' membership and activities are given in their respective reports, on pages 82 and 94. The Board has also established the Risk Management and HSSE Committee, which is responsible for reviewing on behalf of the Board, operational risk, health and safety, and environment matters. Details of the Committee's membership and activities are given in its report on page 90.

Remuneration

In compliance with the Nigerian Code and UK Code, the Board has established a Remuneration Committee solely comprising Independent Non-Executive Directors, under the chairmanship of Michael M. Alexander (S.I.D.). Details of the Committee's membership and activities are given in its report on page 85. Details of how Seplat's remuneration policy links remuneration to the achievement of the Company's strategy and the level of remuneration paid to each of the Directors during the year are outlined on pages 98 and 102.

Seplat stated at the time of the IPO that remuneration for certain Non-Executive Directors may include performance-related elements and certain Executive Directors' service contracts may include an initial fixed term of more than one year; and recognize that this is not in compliance with provisions D.1.3 and D.1.5, respectively, of the UK Code. In compliance with both the Nigerian Code and the UK Code, no Executive Director is a member of the Remuneration Committee and no Director is involved in any deliberation of his/her remuneration. The Company's remuneration policy and practices are outlined on page 101 of this report.

Protection of shareholder rights

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

Communication with shareholders

Seplat understands the value, and actively strives to open multiple lines of communication with its shareholders regularly in the course of the year, via announcement of quarterly and full year results as well as other statutory announcements and filings required of the Company by the rules regulating the operations of the Company. This is in addition to the full year accounts which are published and issued to shareholders preparatory to Annual General Meeting. The Company ensures that shareholders have unfettered and continuous access to these reports by posting them on the Company's website with replays of webcasts.

Annual General Meeting

The Annual General Meeting of the Company is the principal opportunity for the Board to meet investors and give a progress report on the company's activities during the year and provide clarifications on issues raised by shareholders.

The Notice of Annual General Meeting together with explanatory notes (where a special business is to be proposed), is sent to all shareholders at least 21 days before the AGM is held. In compliance with CAMA, Seplat proposes separate resolutions on each substantially separate issue, including a resolution relating to the Report and Accounts. This is with the exception to matters where CAMA allows more than one item to be decided by a single resolution. The notice of the 2018 AGM has been sent to shareholders with this Annual Report and Accounts and the Company's intention is to follow the best practice as detailed in the Nigerian Code and the UK Code. The Chairman of the Board as well as the Chairmen of the respective Board Committees will be available at the meeting to formally engage investors in the course of the meeting. The Board and senior management team of the Company are also available to discuss with shareholders before the Annual General Meeting.

Seplat's fifth AGM was held on 6 June 2018 in Lagos, Nigeria, and was attended by 430 shareholders in person while 168 shareholders were represented by proxies. The business transacted at the meeting were in compliance with CAMA requirements and, as such, diverged in some respects from that common to UK companies. The sixth AGM of Seplat for the 2018 financial year will be held on Thursday the 16th May 2019 at the Civic Center, Victoria Island, Lagos at 11:00am.

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

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

The Company, through the Investors Relations function, continuously engages existing and potential shareholders on key issues regarding business strategy and performance.

The Company conducts an active investor relations programme with institutional investors and analysts. This includes participation at conferences, both within and outside Nigeria, where a number of one-on-one meetings and group presentations are made, and the undertaking of investor roadshows in key financial centres. In 2018, the Company held over 350 meetings with institutional investors and expanded its analyst coverage. Regular analysis of Seplat's shareholder register and major movements, together with market feedback, trading analysis and peer performance, are communicated to the Board via the Chief Financial Officer and the Head of Investor Relations.

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

Statutory Disclosures

As a company listed on both the Premium Board of the NSE and on the Main Board of the LSE, Seplat strives to comply with the highest standards of disclosure. As a matter of practice, the Company simultaneously releases announcements through the relevant regulatory channels both in Nigeria and the UK. It also ensures that all announcements, financial reports, results and other relevant information are available on the Company's website.

The Executive Directors are ultimately responsible for the approval of Company announcements and ensuring that such documents comply with relevant legal and regulatory requirements. The Company has controls and processes in place for the management of inside information

Corporate governance framework and compliance initiatives

The Board recognises the importance of good corporate governance in the success of the Company and the integrity of its operations. The Board has overall responsibility for developing and embedding the corporate governance framework of the Company and does so with "tone from the top" compliance. The Board regularly subjects itself to evaluations of its level of corporate governance compliance and takes remedial action to resolve any areas of potential or perceived non-compliance.

In the course of the year, the Board continued to improve on its existing relationship with its regulatory stakeholders via constant engagement and prompt response to regulatory enquiries. The Company also engaged the SEC to discuss and explain how the Company has applied relevant provisions of the applicable SEC Code of Corporate Governance and the UK Corporate Governance Code.

To foster an effective day to day implementation of our well established corporate governance ethos, a dedicated Corporate Governance Unit has been put in place within the Legal Department and the Business Integrity Unit. These two functions in collaboration with external consultants liaise with the Company's regulators (NSE, SEC, FRCN, CAC, LSE and FCA) as at and when necessary to ensure the sustenance of a robust corporate governance framework in the Company. Members of the Corporate Governance Unit and the Company Secretariat Unit frequently attend engagement sessions with regulators, particularly the NSE. One such corporate governance engagements session for the reporting period is the Mandatory Compliance Training organised by the NSE in October 2018.

As part of the ongoing embedding of an effective corporate governance, a great deal of focus was placed on strengthening the Company's compliance practice; which involved the establishment of a compliance framework with the Board setting the tone from the top and delegating its powers to the senior management to monitor implementation and day to day compliance.

The five main pillars of the Company's compliance framework are – *identification of obligations, assessment of compliance risk, managing compliance risks, compliance monitoring and compliance reporting*. Further, the Company has categorised its compliance focus areas under four major headings – *governance; safety, health and environment ('SHE'); operations; and commercial*. These major compliance headings consists of 12 subsets viz –*governance, health and safety, environment, listing compliance, social performance, financial, human resources, oil and gas regulatory, Nigerian Content Development (NCD), data and technology*. The Company has also identified compliance focal points to champion compliance within the various business units. The Company recognises that the embedding of an effective compliance practice is a journey and we intend to leverage on the progress made thus far in the succeeding years. The journey of strengthening our compliance practice within the Company forms an integral part of the Seplat Business Improvement Programme ('SBIP') with the acronym "RISE" (Rapid Improvement through Sustained Excellence). RISE has ten work streams that cuts across all facets of our operations and are focused on *Leadership; Asset Integrity & Safety; Integrated Work Process; Collaboration; Disciplined Execution; Embedding Behaviours; Learning Organisation; Communication & Engagement; Supply Chain Management Optimisation; and Cost Optimisation*. We recognize that compliance is not merely a box ticking exercise, but a commitment to value creation underpinned by a clear long-term vision and robust strategy driven by highly motivated and responsible workforce.

We are equally mindful that the goal of strengthening our compliance practice and corporate governance ethos can only be achieved by creating an enabling environment and a culture that fosters openness, integrity and zero tolerance for wrongdoing. It is against this backdrop that a Company-wide workshop on whistleblowing was carried out in the year under review.

In the workshop, which was facilitated by our Business Integrity Unit in conjunction with KPMG sensitised and encouraged employees to report concerns and wrong doings openly without fear of any form of victimisation and/or reprisals. Employees are assured that all reports will be treated with utmost confidentiality and are reminded that they may elect to make a report anonymously through the Seplat/KPMG Ethics Line which includes a dedicated whistleblowing hotline – 0800 444 1234 (Toll Free) or KPMG's MTN toll free number: 0703-000-0026. Employees could also report their concerns by sending on email to speakup@seplatpetroleum.com or kpmgethicsline@ng.kpmg.com. To further encourage anonymity, the Business Integrity Unit recently introduced 'Whistleblowing Drop Boxes' which are stationed at the entrances of our various office locations.

As part of our continuous corporate governance awareness campaign in 2018, the Company rolled out a corporate governance online recertification programme which is compulsory for all staff.

As of the date of this Annual Report and Accounts, the Board has adopted the following internal corporate governance policies and practices; most of which can be found on the Corporate Governance page in the Investor Relations section of the Seplat's website.

1) Board Charter.
2) Code of Conduct.
3) Anti-Bribery and Corruption Policy.
4) Conflicts of Interest for Employees Policy.
5) Conflicts of Interest for Directors Policy.
6) Related Party Transactions Policy and Guidelines.
7) Share Dealing Policy.
8) Inside Information Policy.
9) Risk Management Policy.
10) Electronic Information & Communication Systems Policy.
11) Corporate Communications Policy.
12) Political and Charitable Contributions Policy.
13) Community Relations Policy.
14) Whistleblowing Policy.
15) Complaint Management Policy.

1) Board Charter

The Board Charter was adopted by the Board on 22 March 2013 but was updated on 29 January 2016 to align its provisions with international best practice. The Board Charter sets out the responsibilities of the Board; the establishment of the Board Committees with clear delegated responsibilities; the matters reserved for the exclusive approval of the Board; and the conduct of Board proceedings.

2) Code of Conduct

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

3) Anti-Bribery and Corruption Policy

The Anti-Bribery and Corruption Policy was adopted by the Board on 13 December 2012 but was updated on 29 January 2016. The Policy demonstrates Seplat's zero tolerance and commitment to the eradication of bribery and corruption. It prohibits payment or receipt of facilitation payments, misappropriation, 'kickbacks' and blackmail/extortion. It also sets the parameters under which Directors and employees may give or receive gifts and hospitality, deal with public officials, and make political and charitable donations. The Policy includes reporting, documentation and whistleblowing provisions as well as provisions regarding Company's zero tolerance and disciplinary action for any violation.

Due diligence process

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

4) Conflicts of Interest for Employees Policy

Following a mandate from the Board, the initial version of the Policy that conjunctively addressed Conflicts of Interest and Related Party Transactions was revised and separated into distinct policy documents. The Conflicts of Interest Policy for Employees was adopted by the Board on 24 March 2015 and updated on 29 January 2016. It applies to both employees and contract staff. The Policy outlines Seplat's commitment to avoiding and managing conflicts of interest in order to preserve the integrity of its business decisions and operations. It also sets a clear disclosure, approval, documentation and monitoring process for conflicts of interest within the Company, beginning with a mandatory annual conflict of interest declaration to the Company. Declared conflicts are presented to the constituted review panel for their consideration. The review panel is saddled with the responsibility of recommending control measures for approval by the CEO. During the year, employees participated in the annual declaration of conflicts of interest.

5) Conflicts of Interest for Directors Policy

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

6) Related Party Transactions Policy and Guidelines

The Company has put in place a Related Party Transactions Policy which sets out the policy statement, stringent disclosure requirements as well as the review and decision making process for such transactions. The Policy also sets out the special requirements on Interested Person Transactions as well as transfer pricing guidelines. The Related Party Transactions Policy and Guidelines is a live document that is revised from time to time to reflect changes in both the Nigerian and the UK laws and regulations. The Policy was updated by the Board on 29 January 2016.

The list of Seplat's related party transactions is outlined in note 37 to the financial statements of the Annual Report and Accounts. Seplat is committed to conducting all related party transactions in accordance with the arm's length principles and good corporate governance practices.

Directors' interest in contracts

The Chairman and the CEO have disclosable indirect interest in contracts with which the Company was involved as at 31 December 2018 for the purpose of section 277 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria. These are contained in under related party disclosures in note 37.

7) Share Dealing Policy

The Share Dealing Policy was adopted by the Board on 22 March 2013 and was subsequently updated on 29 January 2016. The Policy demonstrates Seplat's commitment to trading securities in compliance with the requirements of the NSE Amended Listing Rules ('ALR'), the Nigerian Code, the UK Listing Rules and European Union Market Abuse Regulations ('MAR'). The Share Dealing Policy reflects the Company's dual participation in the Nigerian and UK Stock Exchanges, and highlights the Company's respective obligations under both Nigerian and UK listing regulations. The Share Dealing Policy sets the parameters under which Directors and employees of Seplat and its subsidiaries, and their connected persons, must deal with the Company's shares, securities and inside information. This Policy has been further reviewed by the Board in line with MAR provisions which took effect from 3 July 2016.

Declaration of Compliance

In compliance with Section 14.4(b) of the NSE ALR, following specific enquiry, all Directors acted in compliance with the NSE ALR and Seplat's Share Dealing Policy in respect of their securities transactions during the financial year ending 31 December 2018.

8) Inside Information Policy

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

9) Risk Management Policy

The Risk Management Policy was adopted by the Board on 29 August 2013 and updated on 29 January 2016. It demonstrates Seplat's commitment to the enterprise risk management and reporting system that ensures efficient identification of operational, financial, health, safety and environmental risks, and risk eradication and management.

10) Electronic Information & Communication Systems Policy

The Electronic Information & Communication Systems Policy was adopted by the Board on 22 March 2013 and updated on 29 January 2016. The Policy demonstrates Seplat's commitment to responsible, secure and efficient use of communication systems, such as the internet, electronic mail, social media, intellectual property, etc.

11) Corporate Communications Policy

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

12) Political and Charitable Contributions Policy

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

13) Community Relations Policy

The Community Relations Policy was adopted by the Board on 13 December 2012 and updated on 29 January 2016. The Policy demonstrates Seplat's value for the communities in which it operates, and the Company's commitment to developing the communities through capacity building, business opportunities, employment, academic scholarships, charitable donations, awareness creation, etc.
The details of Seplat's CSR activities are contained in the CSR section of this report.

14) Whistleblowing Policy

The Whistleblowing Policy was adopted on 22 March 2013 and updated on 29 January 2016. In addition to this Policy, whistleblowing provisions are entrenched in all Seplat corporate governance policies. The Company has a dedicated whistleblowing hotline for employees and other stakeholders to confidentially report unlawful and unethical conduct involving the Company, its Directors or employees. The Company's whistleblowing system comprises an internal and an external channel, which are operated concurrently. The internal whistleblowing channel is managed by the Company's Business Integrity Unit, reporting directly to the CEO, while the external whistleblowing channel is managed by KPMG. The Business Integrity Unit and KPMG ensure that all reports are kept confidential and appropriately investigated and resolved.

15) Complaint Management Policy

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

Directors' declarations

None of the Directors have:

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

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

In Compliance with Section 12.4 of the Rules of the Nigerian Stock Exchange on Listing on the Premium Board, we wish to state that the SEC Code of Corporate Governance for Public Companies in Nigeria and the UK Corporate Governance Code governs the operations of Seplat Petroleum Development Company Plc.

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

A.B.C. Orjiako
Chairman

Dr. Mirian Kene Kachikwu
General Counsel/Company Secretary

Finance Committee report

Finance Committee meetings in 2018

5

2018 Members	23 Jan	23 Feb	18 Apr	17 Jul	24 Oct	
Charles Okeahalam[1], Chairman	●	●	●	●	●	5/5
Michael Alexander[1], Member	●	●	●	●	●	5/5
Lord Mark Malloch-Brown[1], Member	–	●	●	●	●	4/5
Ifueko M. Omoigui Okauru[1], Member	●	●	●	●	●	5/5

1. Independent Non-Executive Director.

Charles Okeahalam and Ifueko Omoigui Okauru have recent and relevant financial experience, as highlighted in the profile of Directors on page 74.

In the financial year ended 31 December 2018, the Committee held five meetings, dates and attendance records for which can be seen in the table above.

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

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

I shall be available at the AGM of the Company to be held on 16 May 2019 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

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

1. Independent Non-Executive Director.

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

The Finance Committee assists the Board in:

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

The Committee's activities during 2018

The Committee met five times during 2018. In compliance with the Committee's terms of reference, it considered the following:

- Financial statements: the Committee reviewed the report from the external auditors and management on the interim and annual financial statements and the accompanying public releases. In doing so, it considered the following:
  - the oil and gas reserve estimates;
  - revenue recognition;
  - recoverability of the receivables from the joint venture partners;
  - impact of the new accounting standards on financial reporting;
  - impact of the fair value adjustments on oil hedges;
  - accounting treatment of the proceeds from OML 55;
  - areas that required significant estimation, judgement or uncertainty;
  - compliance with financial reporting and governance standards;
  - the basis for the going concern assessment; and
  - related party transactions as well as fraud and management override.
- Strengthening the balance sheet: the Committee worked closely with Management to explore the immediate and long-term strategies for improving the Company's balance sheet. Management successfully refinanced the Company's entire debt facilities with a US$350 million five-year bond facility; and a US$300 million RCF due in 2022, that was initially drawn to US$200 million but reduced in November 2018 and ultimately reduced to zero in February 2019. The Company's position of established financial strength ensures the Company is now positioned to fund growth opportunities.
- Debt recovery: the Committee reviewed various strategies to recover debts and supported Management's success in the significant debt recovery achieved in 2018.
- Cash flow analyses: the Committee worked closely with Management and ensured the disciplined approach to capital allocation was achieved following a substantial leverage of the balance sheet.
- Alternative export routes: Management has continued to achieve considerable progress to ensure completion of the Amukpe-Escravos Pipeline Project. The Trans- Forcados pipeline uptime in the period was significantly higher than prior years at over 80%. The Amukpe Escravos Pipeline is expected to be commissioned in 2019.
- Cost management: the Committee reviewed the continuous efforts by Management to efficiently manage costs. General and administrative costs were maintained at relatively flat levels during the year.
- Oil hedging: the Committee reviewed the implementation of the existing oil hedging strategy and ensured that appropriate levels of revenue protection were considered at the same time as ensuring that the risk and costs of hedging were manageable.
- Budgets: the Committee reviewed the annual budget in detail to ensure the assumptions were consistent with the business environment and appropriate growth targets. Oil price sensitivities, alternative export routes, cost reductions, impact of major acquisitions and impact of Naira devaluation were considered as a part of the process.
- Deferred tax: the Committee reviewed the appropriateness of deferred tax charges in the year.
- Major acquisitions: the Committee reviewed the proposals by Management on new potential acquisitions as part of the strategic growth of the Company and provided advice and recommendation.
- Internal and external audit: the Committee reviewed and made recommendations on the internal and external audit plans and the underlying activities, and monitored the extent and timing of remediation by Management.
- Internal controls and risk management: the Committee reviewed the business risks including the management and mitigation of financial risks and the timeline for remediation.
- Corporate governance compliance: the Committee reviewed the corporate governance framework to determine and make recommendations on its alignment with current Nigerian and UK regulations as well as the levels of compliance in the Company. The Committee also reviewed the effectiveness of the Business Integrity Unit, the whistleblowing policy, as well as reports made through the whistleblowing system and efforts to resolve them.
- Interim and final dividend: the Committee considered the impact of declaring an interim and final dividend.

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

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

Internal audit

During 2018, the Finance Committee on behalf of the Board reviewed the audit plan and received quarterly reports on the internal audit activities. PwC continues to support the Internal Audit team under a manpower call-off to provide resources as required in delivering the Internal Audit plan.

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

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

In 2018, the Company underwent an external quality assessment of its internal audit function and activities. This was conducted by an independent qualified assessor in line with the standards of the Institute of Internal Auditors (IIA), regulatory requirements and global best practices. The Committee has reviewed the report of the assessor and an approved implementation roadmap with ongoing remediation action. The internal audit strategy in 2018 provided greater focus on operational areas of capital spend to provide assurance about the effectiveness of operational controls, project management efficiency and delivery and achievement of strategic objectives underpinning the capital deployment. Internal audit focused on risk areas in the selection of key projects for audits, detailed testing of revenue accounting and process controls, regulatory compliance and reporting of corporate governance, review of insurance management and community relations activities.

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

External audit

The objectiveness and independence of the external auditor are taken seriously by the Company and this is reviewed each year prior to commencement of the audit process. The Committee has a policy of ensuring that the external auditors' independence is maintained by minimising the provision of non-audit services. This is monitored closely throughout the year and the non-audit services are generally limited to services related to the audit such as review of the quarterly financial statements which the Company is required to publish. This practice was followed in 2018.

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

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

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

Remuneration Committee report

Remuneration Committee meetings in 2018

5

2018 Members	23 Jan	23 Feb	7 Mar	18 Apr	24 Oct	
Michael Alexander ('S.I.D.')[1], Chairman	●	●	●	●	●	5/5
Charles Okeahalam[2], Member	●	●	–	●	●	4/5
Basil Omiyi[2], Member	●	●	●	●	●	5/5
Damian Dodo[2], Member	●	●	●	●	●	5/5

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

In the financial year ended 31 December 2018, the Committee held five meetings, dates and attendance records for which can be seen in the table above.

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

The Remuneration Committee is established to ensure that remuneration arrangements for Seplat's Chairman, Executive Directors, Non-Executive Directors and senior management support the strategic aims of the business and enable the recruitment, motivation and retention of relevant skilled personnel while satisfying the expectations of shareholders. Details of the Company's remuneration policy are outlined on pages 98 to 108 of this Annual Report and Accounts. In the interest of transparency, no Director by reason of being a member of the Committee is involved in any decisions relating to his/her own remuneration.

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

MR Alexander

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

1. Senior Independent Non-Executive Director.

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

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

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

The Remuneration Committee assists the Board in:

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

- Overseeing any major changes in employee benefits structures throughout Seplat.
- Designing the policy for authorising claims for expenses from Executive and Non-Executive Directors.
- Regularly reviewing the ongoing appropriateness and relevance of the Company's remuneration policy.

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

- Monitoring the implementation of the Company's remuneration policy and practice.
- Ensuring the appropriate cascade of the remuneration policy to the senior management grades.
- Setting the forthcoming year annual bonus performance targets for the CEO; CFO; Operations Director; Technical Director; Board executives; and senior management. These targets are cascaded throughout the Company to ensure alignment.
- Review Executive Management performance over the past year to determine the appropriate levels of annual bonus, the consequence of this review cascades throughout the Company.
- Determining the 2019 fee and salary levels for the Chairman, Executive Directors and senior management.
- Granting awards under the Company's LTIP as well as monitoring performance progress of outstanding awards and determining the vesting of the 2015 LTIP awards in current financial year.
- Approving the Remuneration and Governance aspects of the Directors' and the Board Chairman appointment contracts.
- Drafting the Company's Directors' Remuneration Report.
- Reviewing the impact of the new UK Financial Reporting Council (FRC) 2018 Corporate Governance Code and the new reporting regulations around executive remuneration in terms of structure, disclosure and the processes of the Remuneration Committee

Nomination and Establishment Committee report

Nomination and Establishment Committee meetings in 2018

3

2018 Members	18 Apr	17 Jul	24 Oct	
A.B.C. Orjiako, Chairman	●	●	●	3/3
Michael Alexander ('S.I.D.')[1], Member	●	●	●	3/3
Basil Omiyi[2], Member	●	●	●	3/3
Damian Dodo[2], Member	●	●	●	3/3

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

In the financial year ended 31 December 2018, the Committee held three meetings, dates and attendance records for which can be seen in the table above.

The Nomination and Establishment Committee was active during the year. The Committee assessed the notable improvements in the Company's Performance Management System which included: (i) the cross-organisational introduction of a refined scorecard template for all staff assessment; (ii) the introduction of the 360 degrees feedback system which targets the assessments from everyone that worked with the employee on his/her performance; and (iii) the responsibility for calibration which was now mostly internal and conducted by reviewers with relevant context on appraisee performance.

A further review of the corporate organisational structure was carried out within Q1 2018 on the best way of delivering excellent value to the Company through appropriate placing of roles. However, another review will be carried out in 2019 to check the efficacy and efficiency of the alignment of the roles. The Committee during the year formally appointed members of the Board Gas Committee with the mandate to oversee the development and implementation of the Seplat Gas Strategy, amongst other responsibilities. There was also a restructuring of the composition of all the Board Committees with new members appointed to support the existing structures.

Also within the year, an executive recruiting firm, Pedersen & Partners, was engaged to carry out the 2018 Board Review and Directors' Evaluation. The findings from the review were presented to the Board for its adoption and implementation. In line with best practice and corporate standard, certain policies such as the Diversity, Inclusiveness and Equity Policy, Non-Executive Succession Planning Policy, etc. were put in place.

Other 2018 activities of the Committee are outlined on this page. For further clarification, I shall be available at the AGM of the Company to be held on 16 May 2019 in Lagos, Nigeria to speak with shareholders. If you are not able to meet me at this year's AGM, I can be contacted via the Company Secretary.

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

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

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

- reviewing and making recommendations on the size, composition and balance of the Board and its Committees;
- evaluating the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment and ascertaining that nominees are fit and proper to carry out the duties of a Director;
- reviewing the criteria for Board and Board Committee memberships, reviewing candidates' qualifications and any potential conflict of interest, assessing the contribution of current Directors in connection with their re-nomination and making recommendations to the Board;
- ensuring that a succession policy and plan exist for the positions of Chairman, CEO, Executive Directors and managing directors of the subsidiary companies;
- reviewing the performance and effectiveness of the subsidiary company boards on an annual basis where applicable;
- keeping up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates;
- preparing a job specification for the Chairman's position, including an assessment of time commitment required of the candidate;
- identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise;

- recommending to the Board any proposed appointments or removals of Directors to be made in accordance with Seplat's Memorandum and Articles of Association; and evaluating the performance of Directors and making recommendations on the addition or replacement of Executive and Non-Executive Directors and the Chairman of the Board;
- overseeing management's implementation of the Company's human capital development policies and procedures;
- recruiting, promoting, developing, succession planning or disciplinary measures affecting Executive Directors and senior management; and
- overseeing the implementation of Seplat's Code of Conduct as it relates to the functions undertaken or overseen by the Committee and reporting any lapses and recommending remedial action to the Board.

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

- close out on the 2018 Board Review and Directors' Evaluation by an external consultant;
- strategic recruitment to fill key senior management roles;
- appointment of the Operations Director;
- training for all members of the Board;
- review of the results from the Seplat Voice 2018 ("SPV") survey carried out across the Company;
- continuous review of key issues captured on the HR Dashboard with the mitigating factors;
- developed a Non-Executive Succession Planning Policy aimed at setting parameters for developing and implementing a succession planning programme for the Non-Executive Directors of the Company;
- reviewed the board structure of all the subsidiary companies;
- revisited and closed out on the Chairman's Consultancy Contract (deliberations were made in the absence of the Chairman);
- reviewed and assessed the new improvements in the Company's Performance Management System;
- considered the restructuring of staff between GL 9 to 15 and their progression plan;
- also reviewed the promotion gateways and criteria for staff between GL 3+ to 8 and above;
- considered and approved senior management promotions;
- developed a Diversity, Inclusiveness and Equity Policy aimed at fostering, cultivating and preserving a culture of diversity, inclusiveness and equity in an environment that enables individuals to fully participate and contribute regardless of their gender, socio-economic status, age, physical abilities, religious beliefs or race.

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

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

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

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

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

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

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

Gas Committee report

Inaugurated by the Board of Directors on 19 April 2018

Gas Committee meetings in 2018

2

2018 Members	17 Jul	25 Oct	
Basil Omiyi[1], Chairman	●	●	2/2
Michael Alexander[2], Member	●	●	2/2
Macaulay Agbada Ofurhie, Member	●	●	2/2

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

In the financial year ended 31 December 2018, the Committee held two meetings, dates and attendance records for which can be seen in the table above.

I am pleased to make this first report to the Seplat shareholders on the activities of the newly inaugurated Gas Committee.

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

I shall be available at the AGM of the Company to be held on 16 May 2019 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

Basil Omiyi[1]
Chairman of the Gas Committee

1. Independent Non-Executive Director.

The Gas Committee consists of three members who have strong leadership experience in the Nigerian and international gas industry. In line with its Board approved terms of reference, the Committee is slated to meet at least four times a year. Having been inaugurated in the second half of 2018, the Committee held two meetings which were attended by appropriate senior management of the Company, including the Operations Director and the General Manager of Gas.

The Gas Committee assists the Board in:

1. developing and overseeing the deployment of Seplat's long-term strategic Gas Master Plan;
2. overseeing the Company's successful transition from the upstream gas business into midstream value chain and beyond, including the gas prospects, commercial activities and legislative implications;
3. overseeing the midstream investments of the Company, such as the Assa-North Ohaji-South ('ANOH') project;
4. reviewing the investment portfolio and opportunities of Seplat's gas subsidiary company, Seplat Gas Company Limited; and
5. overseeing other activities which are related to the gas business of Seplat as the Board may approve from time to time.

The Committee's activities during 2018

In 2018, the Committee conducted the following business:

- **Diversification of customer portfolio and markets:** During the year, the Committee worked with the Company to diversify its customer portfolio and markets. The Company signed two new bankable Gas Sale Agreements ('GSAs') with customers utilising gas outside of the domestic power industry. One of the GSAs is with a customer who is delivering gas to customers in the West African region. This GSA gives the Company the opportunity to earn USD from its gas sales and improve its currency mix from the gas business. The Company also successfully registered as a shipper on the West African Gas Pipeline giving it the opportunity to directly supply gas to customers in the West African Region. Some opportunities in the regional gas market are currently being pursued.
- **Extraction of further value from gas stream:** The Committee provided oversight over new projects to extract more value from the Company's gas production. The Company is currently developing two new Liquefied Petroleum Gas ('LPG') projects which upon completion will support cleaner domestic energy initiatives in the country in addition to the additional value created for the Company.
- **Continued reduction in overdue receivables:** Working with the Committee, the Company continued to make significant progress in managing gas receivables and in this regard, in 2018, attained a new milestone in cash generated from the gas business.
- **Risk management:** The Committee brought increased focus on gas business risk management and in so doing reduced the overall risk exposure of the business and reviewed strategies for dealing with expected changes in the gas business environment.
- **ANOH project:** the Committee worked with management to successfully steer the Company through the formation of an incorporated joint venture, ANOH Gas Processing Company Limited ('AGPC') with the Nigerian Gas Company Limited ('NGC'), a wholly-owned subsidiary of the Nigerian National Petroleum Corporation ('NNPC'). The project agreements were executed on 13 August 2018 by Seplat, NNPC, NGC and AGPC. It was an important milestone in the development of the 300 MMscfd ANOH gas project that will substantially increase the Company's gas production.

Risk Management and HSSE Committee report

Risk Management and HSSE Committee meetings in 2018

4

2018 Members

	16 Jan	10 Apr	10 July	16 Oct	
Basil Omiyi[1], Chairman	●	●	●	●	4/4
Macaulay Agbada Ofurhie, Member	●	●	●	●	4/4
Ifueko M. Omoigui Okauru[1], Member	●	●	●	●	4/4

1. Independent Non-Executive Director.

In the financial year ended 31 December 2018, the Committee held four meetings, dates and attendance records for which can be seen in the table above.

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

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

The activities of the Risk Management and HSSE Committee are summarised on this page with highlights on certain key activities carried out in 2018.

I shall be available at the AGM of the Company to be held on 16 May 2019 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

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

1. Independent Non-Executive Director.

The Risk Management and HSSE Committee consists of three members – two Independent Non-Executive Directors (one of whom is the Committee Chairman), and one Non-Executive Director. The Risk Management and HSSE Committee meets at least four times a year, and when required, the meetings are attended by appropriate Senior Management of the Company, such as the Chief Executive Officer, Chief Financial Officer, Operations Director, Technical Director, Company Secretary/General Counsel, General Manager Operations Support, General Managers Eastern/Western Assets and Head of Internal Controls and Risk Management. Specialists with appropriate technical expertise are invited to attend and present to meetings of the Committee.

The Risk Management and HSSE Committee assists the Board to:

- review and recommend for approval by the Board, the risk management policies and framework, as well as assist the Board in its oversight of risk management strategy;
- review the adequacy and effectiveness of risk management and controls in the Company;
- receive reports from, review with, and provide feedback to, senior management on the categories of risk that Seplat faces, including credit, market and operational risk, the exposures in each category, significant concentrations within those risk categories, the metrics used to monitor the exposures and management's views on the acceptable and appropriate levels of those risk exposures;
- review Seplat's credit, market, liquidity and operational risk management frameworks, including significant policies, processes and systems that senior management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing;
- evaluate the adequacy of the Risk Management function;
- oversight of senior management's processes for the identification of significant risk across Seplat and adequacy of prevention, detection and reporting mechanisms;
- review Seplat's level of compliance with applicable laws and regulatory requirements including those that may impact Seplat's risk profile;

- periodically review relevant changes in the economic and business environment, including emerging trends, management procedures, controls for risk associated with new business and other factors relevant to Seplat's risk profile and those trends which may threaten Seplat's business model, key strategies, future performance, solvency and liquidity and make recommendations to the Boards as appropriate;
- procedures and controls for any new businesses acquired or developed by Seplat;
- receive information from the CFO, Operations Director, Technical Director, General Managers Assets, Internal Controls and Risk Management Unit, the General Counsel/Company Secretary, others from senior management, Seplat's independent auditors, regulators and outside experts as appropriate regarding matters related to risk management;
- in consultation with the Audit Committee, review and discuss with senior management, at least annually: (a) the key guidelines and policies governing Seplat's significant processes for risk assessment and risk management; and (b) Seplat's major financial risk exposures and the steps senior management has taken to monitor and control such exposures;
- exercise oversight over the process for the identification and assessment of risks across the Company and the adequacy of prevention, detection and reporting mechanisms;
- review the adequacy and frequency of risk reporting to the Board;
- perform other activities related to these terms of reference as requested by the Board;
- review the Company's policies and procedures for detecting fraud and prevention of bribery including review of the Company's whistleblowing policy and procedures;
- evaluate the effectiveness of Seplat's policies and systems for identifying and managing environmental, health and safety risks within its operations;
- assess the policies and systems within Seplat for ensuring compliance with environmental, health and safety regulatory requirements, etc.

In the financial year ended 31 December 2018, the Risk Management and HSSE Committee held four meetings, the dates of which are listed above in this report.

Highlights of business carried out by the Committee during the year were as follows:

- embarked on a field visit to the Sapele facilities and inspected the Sapele West Gas Plant, Flowstation & New FLB, Amukpe Flowstation, LTF, Buffer Tanks & Compression Station, Oben Flowstation & Oben Gas Plant.
- quarterly review of the high risks on the Enterprise Risk Dashboard and associated risk mitigations put in place;
- quarterly review of the Enterprise Risk Register;
- highlights of high-level technical, operational and financial business activities including ongoing capital projects;
- quarterly review of report on HSSE Performance activities which includes: Online Fire Safety training and certification for Company personnel, On-screen HSE awareness campaign established in addition to periodic publication of Lessons From Incidents; etc.;
- quarterly update on Community Relations operations;
- quarterly review of risk notes on the ANOH Gas Project;
- quarterly update on Government receivables;
- review of key issues on the Risk Management Watch List which includes: 2019 Elections; Acquisitions; etc.
- review of 2018 Corporate HSSE Business Plan;
- quarterly review of report on risk framework and policy deployment in the Company;
- quarterly review of report on security within the Niger Delta region;
- quarterly review of updates on the alternative export routes;
- quarterly review of the Legal Risk Dashboard and Litigation Matrix which highlights the key legal risks and high-profile litigations within the Company; and
- review of risk papers on the operations of the business and certain assets of the Company such as Sand Management/Sand Control Strategy, D&C Inventory Management, Water Handling Strategy, Asset Integrity Management with the Heat Map of Gap Analysis, SCM Improvement Process for Procurement of Quality Materials, etc.

CSR Committee report

CSR Committee meetings in 2018

3

2018 Members	18 Apr	17 Jul	24 Oct	
Lord Mark Malloch-Brown[1], Chairman	●	●	●	3/3
Macaulay Agbada Ofurhie, Member	●	●	●	3/3
Ifueko M. Omoigui Okauru[1], Member	●	●	●	3/3

1. Independent Non-Executive Director.

In the financial year ended 31 December 2018, the Committee held three meetings, dates and attendance records for which can be seen in the table above.

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

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

Although the Company's CSR activities began when the Company commenced operations in 2010, the CSR Committee was constituted in 2014 to strengthen the Company's CSR commitment and initiatives. You will see details on this page of the activities carried out during the year. Further details of the Company's CSR activities during 2018 are also contained on pages 62 to 67 of this report.

I shall be available at the AGM of the Company to be held on 16 May 2019 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

Mark Malloch Brown

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

1. Independent Non-Executive Director.

The CSR Committee comprises three Non-Executive Directors, two of whom are Independent. The Committee meets at least three times a year, and when required, the meetings are attended regularly by the Seplat Chairman as well as appropriate senior management of the Company (such as the Chief Executive Officer, General Manager Operations Support, and the General Manager External Affairs & Communication), and external advisers only upon invitation. The Committee is also strongly supported by the consultancy services provided by Madame Nathalie Delapalme who is the Alternate Director for Maurel et Prom.

The CSR Committee assists the Board to:

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

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

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

- focused on the Company's CSR strategy for 2018 which was centred on health, Education and Economic Empowerment with a signature programme tagged "Facilitating Economic Empowerment and Development" ('FEED'); aimed at empowering women and youths in the communities by providing them with opportunities to generate income and be self-sustaining;
- successfully developed and submitted the 2017 Sustainability Report to the Exchange in compliance with the NSE Directive to all listed companies to submit and publish their sustainability reports before March of every year with effect from 2018;
- reviewed and approved the 2018 Work Programme which focused on Community Development and Capacity Development/ Economic Empowerment;
- focused on the Sapele Okpe Community Endowment Fund which was a community-based programme aimed at creating an endowment fund to float a tertiary scholarship scheme to encourage youths within the communities to higher academic opportunities;
- reviewed the Gifts and Hospitality Policy to ensure proper alignment with the UK Anti-Bribery Act;
- successfully concluded the mid-year review of the GMOU with the communities which was aimed at assessing the effectiveness and proper implementation of the terms within the GMOU;
- successfully carried out a benchmark assessment of the Company's CSR activities to ensure its compliance with Good International Industry Practices ('GIIP') on Corporate Sustainability & Responsibility ('CS&R') and the National CS&R best practices;
- successfully carried out a CSR Workshop which focused on: (i) review of Seplat's past performance and learnings from CSR and CR; (ii) examination of what constitutes GIIP for CSR; (iii) review of the benchmark survey of IOCs and LOCs; (iv) developing a new CSR strategy for Seplat; and (v) establish bold ambition/goals for what constitutes world class CSR/CR for Seplat;
- reviewed the new Global Reporting Initiative ('GRI') which highlighted the insights into the newly launched GRI Standards to enhance corporate transparency worldwide;
- deployed two key programmes in the Eastern Asset (Assa in Ohaji): (i) Seplat Eye Can See Programme; and (ii) Safe Motherhood Programme.

Audit Committee report

Audit Committee meetings in 2018

4

2018 Members	22 Feb	18 Apr	16 Jul	24 Oct	
Chief Anthony Idigbe SAN, Chairman and Shareholder member	●	●	●	●	4/4
Dr. Faruk Umar, Shareholder member	●	●	●	●	4/4
Sir Sunday N. Nwosu, KSS Shareholder member	●	●	●	●	4/4
Macaulay Agbada Ofurhie, Director member	●	●	●	●	4/4
Ifueko M. Omoigui Okauru[1], Director member	–	●	●	●	3/4
Michel Hochard, Director member	●	●	●	–	3/4

1. Independent Non-Executive Director.

In the financial year ended 31 December 2018, the Committee held four meetings, dates and attendance records for which can be seen in the table above.

In compliance with Section 359(6) of the Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria 2004 ('CAMA'), we the members of the Audit Committee have reviewed the financial statements of the Company for the year ended 31 December 2018 and reports thereon, and confirm as follows:

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

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

- review of the implementation of the Company's corporate governance framework;
- review of the 2018 external audit plan and the 2019 internal audit plan, including an assessment of the external auditors' independence; and
- review of the proposed 2019 budget and work programme.

Chief Anthony Idigbe, SAN
Chairman of the Audit Committee

FRC/2015/NBA/00000010414

Remuneration Committee Chairman's Annual Statement

2018 was a strong year for Seplat in which we continued to deliver on our production targets which, combined with a strengthening oil price, resulted in a year of strong financial performance and improved profitability.

Michael Richard Alexander
Senior Independent Non-Executive Director

Dear shareholder,

As the Chairman of the Remuneration Committee (the 'Committee'), I am pleased to present the report of the Board covering our remuneration policy and its implementation for the year ended 31 December 2018.

Company highlights for the 2018 financial year

2018 was a strong year for Seplat in which we continued to deliver on our production targets which, combined with a strengthening oil price, resulted in a year of strong financial performance and improved profitability. Our key areas of focus for 2018 were optimising and growing production, to 8.4mmbbl, whilst developing and growing our gas business, which has resulted in the Company generating significant net cash flow from operating activities of US$502m. Improved cash flow and careful management to ensure the business' capital requirements were met have enabled us to continue to strengthen our balance sheet and allowed the reinstatement of dividend payments of $0.05 per share in June and December 2018. A final dividend of $0.05 per share is proposed for 2018, payable in 2019. The key areas of FY18 performance and FY17 comparative performance are set out below:

Metric	2018	2017
Profit before tax (US$ million)	263	44
Oil production volume (MMbbls)	8.4	6.9
Gas production (MMscfd)	145	114
2P Reserves (MMboe)	481	477
Lost time incident frequency rate ('LTIF rate')	0.14	0.31

We continue to seek opportunities to consolidate and grow our onshore reserve position as well as considering entry in the offshore areas with a focus on near term production and cash flow. These objectives are embedded in our remuneration structure. In order to achieve these objectives we have taken steps to strengthen our executive team with Effiong Okon joining the Board as Executive Operations Director on 23 February 2018.

Remuneration outcomes for the 2018 financial year

Our remuneration policy is closely aligned to our strategy, the market and shareholder interests. Our annual bonus is linked to production, sales, profitability, corporate responsibility and strategic progress, whilst the long-term incentive plan measures our success in maintaining and expanding quality reserves, and delivering long-term shareholder value. In line with this approach, the performance levels set out below have increased 2018 pay outcomes compared to 2017. The annual bonus pay-out levels were slightly above target, which the Committee felt fairly reflected our wider corporate performance over 2018.

The main remuneration outcomes are set out below:

- In light of the improved financial and operational performance in 2018 and in recognition that base salaries and fees were frozen for three consecutive years, an increase of 3% was awarded to the Executive and Non-Executive Directors for 2019. These increases were aligned to the salary review for senior management and the wider employee population in UK. Senior

How the Committee determines remuneration outcomes:

1. Assess performance against targets
2. Review outcomes with management and other committees to ensure holistic reflection of performance
3. Consider outcomes in the context of the wider workforce and environment
4. Use judgement to reflect whether discretion is required, considering the market and shareholder interests

Nigeria-based employees, below Board level, were awarded salary increases of up to 8%, whilst Nigeria-based employees at the lower to middle grades were awarded increases of up to 15% to reflect higher inflation rates in the Nigerian economy.

- The Committee reviewed the Company's performance against the bonus scorecard and established that the Company has continued to deliver solid results. In particular, above target oil and gas production volume led to profit before tax and cash flow results which exceeded maximum performance levels. The resulting 2018 annual bonus outcomes were 68.4% of maximum for the CEO, 71.2% for the CFO and 64.3% for the Operations Director. The bonus levels represent an increase from 2017 reflecting the improved corporate performance. The determination of the corporate scorecard is cascaded through the organisation, affecting not only the Executive Directors, but also the bonuses of senior and middle management. The Committee is cognisant of the impact on the wider workforce when determining outcomes using the process laid out above. The Committee considered the levels of scorecard achievement reflective of the Company's underlying performance and therefore no discretion was exercised in relation to the annual bonus outcome.
- The 2016 LTIP awards, for which the performance period ended on 31 December 2018, will vest in March 2019. I am delighted to announce that the Company was placed significantly above the upper quartile of the TSR comparator group. The level of reserves growth delivered between FY15 and FY18 was at 0.1% which resulted in overall LTIP vesting of 75.3%. 60% of these awards will be released immediately, with the remaining 40% being released in equal instalments after a one and two-year holding period. Seplat's TSR growth of 94% over the three-year period and placing in first position amongst the comparator group was considered a strong outcome given the adverse external conditions. The Committee felt that this achievement, combined with the adjustment resulting from the application of the reserves growth underpin, warranted the 75.3% vesting and therefore no discretion was exercised in relation to the LTIP.

Operation of the remuneration policy going forward

Seplat intends to follow the relevant corporate governance standards in both the UK and Nigeria which were both revised in 2018. We recognise the overall sentiment and the increased scrutiny around executive pay and the role of remuneration committees. Therefore, in 2018 the Committee reviewed the operation of the current remuneration policy to align it to these governance standards and made the following conclusions:

1. The current policy operates in line with many of the new UK Corporate Governance Code provisions. For example, Executive Director pension contributions are in line with those provided to the wider employee population, and the Committee has discretion to override formulaic outcomes of the incentive plans.
2. The operation of our current policy ensures linkage of pay to Company performance and shareholder experience as well as transparent and fair pay at all levels, in line with our remuneration philosophy. However, the Committee concluded that given the Company's strategic progress since IPO and the revised Corporate Governance codes, the LTIP performance measures should be refreshed and the changes are set out below.
3. A number of changes were proposed to the operation of the policy in 2019 as shown below to ensure compliance.
4. These changes will be implemented in 2019 and the Committee will engage with shareholders to communicate the details of these changes during 2019. Further changes will be considered by the Committee in 2019 to review the Remuneration Committee remit and terms of reference, to review share awards' malus and clawback provisions to allow post-hoc adjustments to vesting outcomes, to assess the workforce policies and the effectiveness of existing workforce engagement mechanisms and the alignment of our reward structures with culture and values (in cooperation with the Board).

In the meantime, the Committee regularly reviews and monitors governance developments and market context in both the UK and Nigeria in order to ensure the appropriateness of the policy and may introduce more changes in 2019.

LTIP measures	LTIP awards will continue to be primarily driven by the Company's relative TSR performance against other E&P companies but will be moderated by an underpin linked to the achievement of an acceptable level of performance against the annual operational and technical bonus scorecard metrics over the 3 year LTIP performance period.
LTIP discretion	The Committee developed a framework whereby it will actively consider exercising its discretion to scale back or defer LTIP payments that are over 2.5 times the value at grant.
LTIP vesting	The current LTIP release schedule whereby 60% of vested shares were released on vesting (three years) with a further 20% being release after four and five years, will be replaced by a two-year holding period applying to 100% of the vested LTIP awards, such that all awards are released after five years. This change will only apply to the Executive Directors for awards granted in 2019 onwards.
Shareholding requirement	The current shareholding requirement will continue to apply for one year post cessation of employment for the Executive Directors and at 50% of the requirement between one and two years post-cessation.
Annual bonus payout	The level of annual bonus payout corresponding to the achievement of on-target performance will be reduced from 60% to 50% of maximum in response to the latest guidelines published by UK shareholder bodies encouraging companies to limit the level of bonus payout at target.

Engagement with the shareholders
During 2018, the Committee agreed a plan for regular shareholder engagement beyond General Meetings with our major investors and we intend to consult in a two-way open dialogue. We will be reaching out to these investors during 2019 and in addition, we monitor shareholder reaction and commentary regarding our remuneration practices. However, if you would like to discuss any further aspect of our remuneration strategy I would welcome your views. The details of the shareholder voting outcomes in respect of the remuneration policy and Remuneration Report are presented on page 101.

Main Remuneration Committee actions and decisions in 2018
- The Committee approved the 2018 Annual Bonus targets for the Executive Directors and senior management. These targets are cascaded throughout the Company to ensure alignment.
- The Committee also approved the grant of LTIP awards to the Executive Directors, senior management and selected junior management and reviewed performance progress of outstanding awards.
- The Committee considered annual bonus and LTIP performance and concluded that the formulaic outcomes were representative of the underlying Company performance. Therefore no discretion was exercised. Approved outcomes were cascaded throughout the Company.
- The Committee determined Executive and Non-Executive Directors' base salary and fee levels for 2019, ensuring the appropriate cascade of the remuneration policy to the senior management grades.
- Additionally in 2018 the Committee approved the remuneration and governance aspects of the Directors' and the Board Chairman's appointment contracts.
- The Committee approved changes in policy implementation in 2019 in light of changes to the Nigerian and UK corporate governance codes and considered relevant disclosure in the Directors' Remuneration Report. Further changes will be considered by the Committee to ensure full compliance with both codes.

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

Michael Alexander ('S.I.D.')[2]
Chairman of the Remuneration Committee

1. Effiong Okon (Operations Director) Joined the Company on 1 February 2018 and the Board on 23 February 2018 and in line with our remuneration policy he received a pro-rated annual bonus payment for 2018.
2. Independent Non-Executive Director.

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

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

The report consists of three sections:

- the Annual Statement by the Remuneration Committee Chairman (pages 95to 97);
- the At a Glance section (pages 98 to 102); and
- the Annual Report on Remuneration which sets out payments made to the Directors and details the link between Company performance and remuneration for the 2018 financial year (pages 103 to 108).

The Company's full remuneration policy report which sets out the Company's remuneration policy for Directors and the key factors that were taken into account in setting the policy can be found in our 2018 Annual Report and Accounts on our website (http://ar2018.seplatpetroleum.com/#downloads).

At a glance

Introduction

In this section, we highlight the performance and remuneration outcomes for the 2018 financial year and the wider employee context.

2018 single total figure of remuneration

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the 2018 financial year.

Executive Directors	Period US$'000	Salary[1] US$'000	Taxable benefits US$'000	Bonus US$'000	LTIP[2] US$'000	Pension US$'000	Other US$'000	Total US$'000
Austin Avuru (CEO)	2018	1,097	512	1,125	1,985	187	0	4,906
	2017	1,097	470	813	2,420	187	0	4,987
Roger Brown (CFO)	2018	653	78	465	1,207	98	0	2,501
	2017	631	76	312	1,472	95	0	2,584
Effiong Okon (Operations Director)[3]	2018	597	338	384	0	102	0	1,421
	2017	–	–	–	–	–	–	–

1. For the CEO, the July 2014 USD: GBP exchange rate has been used to calculate 2017 and 2018 remuneration. For the CFO and the Operations Director, the average 2018 USD: GBP exchange rate of 1.34 has been used where applicable.
2. The value of the 2016 LTIP awards vesting in March 2019 is shown in 2018 as the performance period ended on 31 December 2018. The estimated value of these awards uses a 2018 Q4 average share price of $1.63; the actual value will be updated in the 2019 Directors' Remuneration Report when the awards vest on 24 March 2019. $264,045 of the CEO's 2016 LTIP value at vesting of $160,539 is attributable to share price growth over the vesting period. The value of the 2015 LTIP awards that vested in April 2018 is shown in 2017. The value has been restated based on the actual share price on 21 April 2018 ($1.99) and includes dividend equivalents. On the basis that the Company's share price fell over the vesting period, this reduced by $168,075 the value of the CEO's 2015 LTIP vesting of $2,420,280.
3. Effiong Okon (Operations Director) joined the Board of Seplat Plc on 23 February 2018 and his 2018 remuneration reflects this.

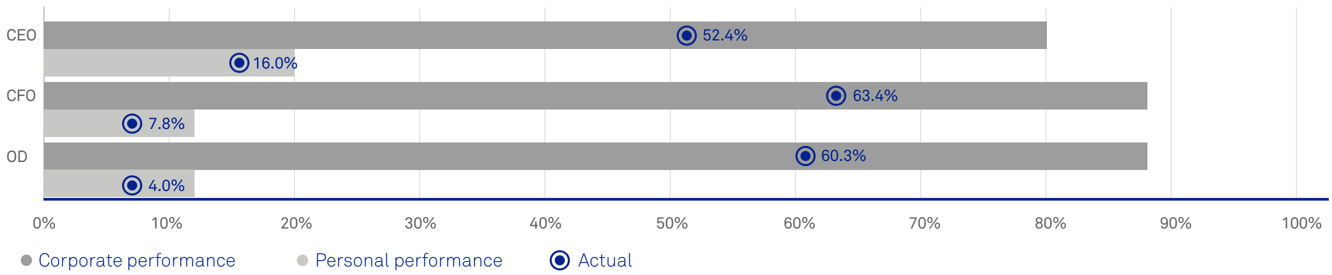
Further detail regarding the disclosures in the table above is presented in the Annual Report on Remuneration on page 103.

Variable pay outcomes for 2018

The Remuneration Committee determined both the 2018 annual bonus outcome and the vesting level of the 2016 LTIP awards (where the performance ended on 31 December 2018). We set out below a summary of the 2018 annual bonus performance outcomes, together with details of the determination of the 2016 LTIP vesting level. Further detail is set out in the Annual Report on Remuneration on page 103.

2018 annual bonus performance assessment

The chart below summarises the 2018 annual bonus performance assessment against the corporate and personal targets for the Executive Directors:



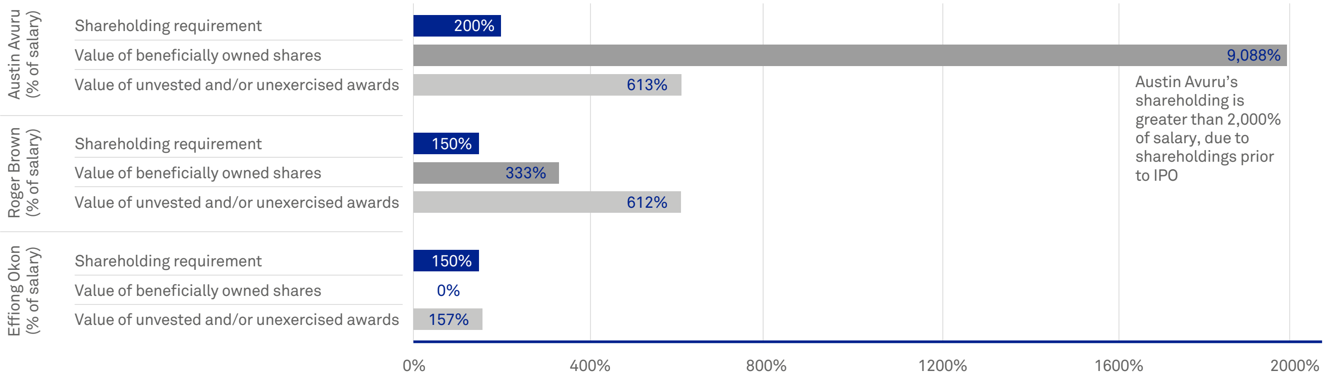
For the Operations Director, the annual bonus disclosed in the single total figure of remuneration table has been pro-rata based on service from the date of joining the Board (23 February 2018).

2016 LTIP awards vesting and Executive Director shareholdings

The 2016 LTIP awards vest on 24 March 2019. However, the performance period for these awards ended on 31 December 2018 and their value is included in the single figure table above. 75.3% of the awards vested after testing the relative TSR and reserves growth performance conditions as set out below:

TSR performance vs comparator group				2P Reserves growth underpin			
Seplat TSR growth	Median TSR growth (25% vesting)	Upper quartile TSR growth (100% vesting)	Vesting under TSR condition	Seplat reserves growth between FY15 and FY18	Reserves growth required to fully satisfy underpin	Reduction in vesting based on the underpin	Final vesting level
81.6%	-36.5%	8.7%	100%	0.1%	10%	24.7%	75.3%

We also set out below how our executive's shareholdings compare to the requirements of our policy using the 31 December 2018 share price of $1.45. In addition we provide the pre-tax value of the Executive Directors' unvested or unexercised equity awards.



Remuneration alignment to performance

The following analysis compares executives' pay and movement in wealth through their Seplat shareholding against their remuneration opportunity and Company performance:

Actual pay versus opportunity

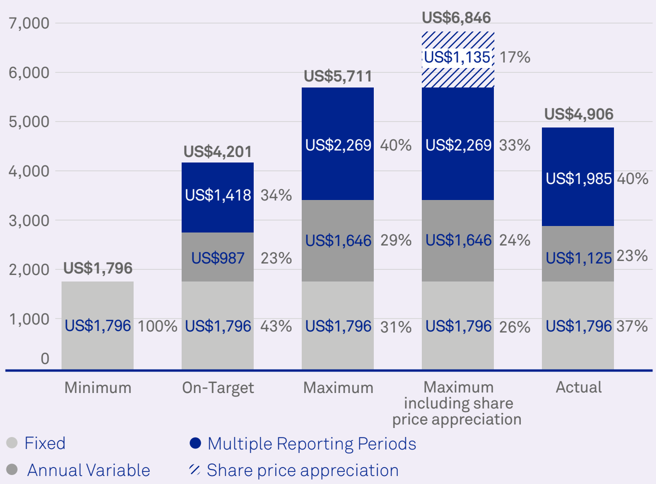
The chart below illustrates how the 2018 total single figure of remuneration for the CEO compares to minimum, on-target and maximum opportunity in accordance with the remuneration policy that applied in the year. 2018 remuneration is between the on-target and maximum opportunity due to the slightly above on-target bonus outcome and 75% vesting of the 2016 LTIP.

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

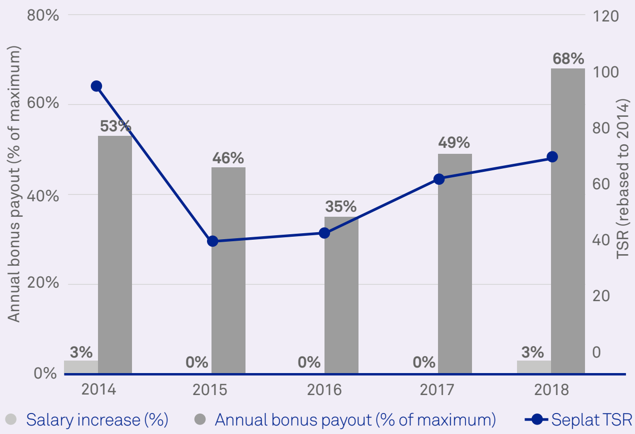
The Company feels it is critical that CEO pay reflects the returns delivered to shareholders, where TSR is the core performance measure chosen to reflect shareholder experience.

Given the improved financial and operational performance, the Committee took the decision to award base salary and fee increases for the first time in four years to Executive and Non-Executive Directors' Annual bonus has recovered to above target levels as a result of this improved performance in 2018 and Seplat remains the sector stock of choice by continuing to performance significantly above the upper quartile TSR. This is illustrated in the chart below.

CEO (US$'000)



CEO pay vs. TSR performance



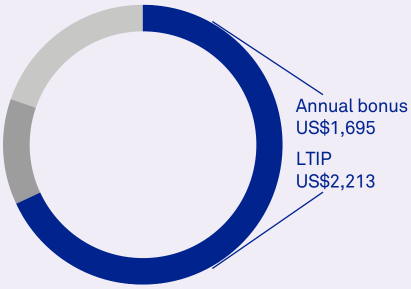
Pay at risk

The charts below set out the elements of remuneration provided under the policy which remain 'at risk'. For example:

- Payment is subject to continuing employment for a period (deferred shares and LTIP awards);
- Performance conditions must still be satisfied (LTIP awards); or
- Elements are subject to clawback or malus for a period, over which the Company can recover sums paid or withhold vesting.

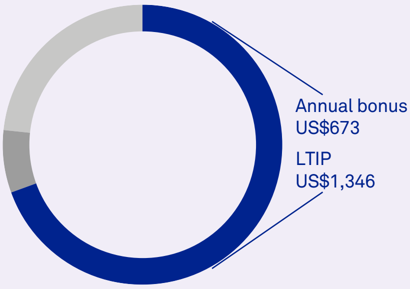
Numbers have been calculated based on maximum performance (fixed elements plus maximum annual bonus and the maximum LTIP). The charts have been based on the same assumptions as set out above for the illustrations of the application of the remuneration policy, updated for 2019 base salary, and demonstrate that 70% of Executive Directors' pay is at risk.

CEO (Austin Avuru)



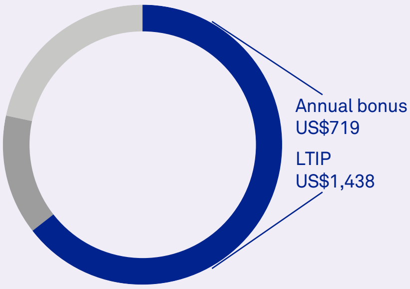
● At risk	US$3,908
● Benefits and pensions	US$704
● Salary	US$1,130

CFO (Roger Brown)



● At risk	US$2,019
● Benefits and pensions	US$209
● Salary	US$673

Operations Director (Effiong Okon)



● At risk	US$2,157
● Benefits and pensions	US$461
● Salary	US$719

The Committee considered disclosing CEO pay ratios and the Company's gender pay gap in 2018. However, given the Company's main operations are based in Nigeria whilst the UK workforce consists of significantly fewer than 250 employees, the results would not be representative of our business, statistically significant and provide little or no insight to investors. We will reassess this disclosure if the Company expands its UK operations in future years.

Implementation of the remuneration policy for 2019

Our Directors' remuneration policy applies for three years starting from 11 May 2018, when it was approved by shareholders and can be found in full in the 2017 Annual Report and Accounts on our website (http://ar2017.seplatpetroleum.com/#downloads).

We set out below a summary of the Directors' remuneration policy and its implementation for 2019.

Element	2019 Operation
Base salary	There will be a 3% salary increase for Executive Directors, in line with the UK wider workforce, for the financial year ending 31 December 2019 and which is consistent with our current shareholder approved remuneration policy. The base salaries (US$000s) from 1 January 2019 will be: • CEO: US$1,130 • CFO[1]: US$673 • Operations Director: $719 1. Actual amount paid in 2019 will depend on the USD: GBP exchange rate in the year.
Benefits	No change from 2018 on the basis that benefits are dependent on their working location and are either in the form of a cash allowance as the actual benefit itself.
Pensions	No change from 2018. Pensions contributions as % of base salary will remain as: • CEO: 17% • CFO: 15% • Operations Director: 17% Levels of pension contributions for the Executive Directors are in line with those paid to the wider workforce.
Annual bonus	No change to the maximum opportunity as % of base salary from 2018 and remains as: • CEO: 150% • CFO: 100% • Operations Director: 100% There is no change proposed to the structure of the bonus payment between cash and deferred shares and malus and clawback triggers. From 2019 the percentage of bonus maximum earned for levels of performance is as follows: • Threshold – 30% • Target – 50% (reduced from 60%) • Maximum – 100% The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial, operational and strategic targets used for the annual bonus, disclosing precise targets for the bonus plan in advance would not be in the best interests of shareholders. The performance measures, achievement against targets and the value of awards made will be published at the end of the performance periods, so shareholders can assess the basis for any pay-outs under the annual bonus.
Long Term Incentive Plan	No change to the LTIP opportunity as % of base salary from 2018 and remains as: • CEO: 250% • CFO: 200% • Operations Director: 200% All awards will vest subject to performance measures (and the Executive Director's continued employment) at the date of vesting after three years and are then subject to a new flat two-year holding period from the staggered approach applied to the awards made in 2018. Malus and clawback will continue to apply to LTIP awards. The 2019 LTIP awards will be subject to the following performance measures: Relative TSR performance against other E&P companies will continue to be the primary measure of performance moderated by an underpin linked to the achievement of an acceptable level of performance against the annual operational and technical bonus scorecard metrics over the 3 year LTIP performance period. In addition, to ensure that remuneration outcomes are not unreasonable and are truly reflective of underlying corporate and individual performance, the Committee will scale back the formulaic outcome from the 2019 and future LTIP where the value of the shares vesting is in excess of 2.5 times their value at grant, i.e. by scaling back the awards (unless the Committee feels that this would be unreasonable). Full targets for the 2019 LTIP will be disclosed at the time of making the awards and in the 2019 Directors' Remuneration Report.
Non-Executive Director Fees	There will be a 3% fee increase for Non-Executive Directors, in line with the Executive Directors and the wider UK workforce, for the financial year ending 31 December 2019. The fees (US$000s) from 1 January 2019 will be: • Chairman: US$960 • Board: US$138 • Senior Independent Director: US$200 • Committee Chairmanship: US$40 • Finance Committee Chairmanship[1]: US$53 • Committee membership: US$27 • Finance Committee membership[1]: US$33 1. Only applicable to those Directors who have additional responsibilities. 2. Actual amount paid in 2019 will depend on the USD: GBP exchange rate in the year.
Shareholding requirement	Executives Director are given five years from the date of the policy implementation, or date of appointment if later, to satisfy the following shareholding requirement: • CEO: 200% of base salary • Other Executive Directors: 150% of base salary For 2019 and beyond, the Committee determined that the shareholding requirement would continue to apply for one year post cessation of employment for the Executive Directors and at 50% of the requirement between one and two years post-cessation.

It is the Committee's intention that commitments made in line with its current remuneration policy and policies prior to Admission will be honoured.

Employee context

The Remuneration Committee oversees compensation of the Chairman, Executive Directors and senior management, having regard to remuneration trends across the Company. The Remuneration Committee and management are committed to fair pay practices across the organisation. The Company holds annual meetings of the Employee Forum chaired by the General Manager, HR. Additionally, an online survey platform exists to gather views of the workforce on a wide range of matters.

When setting remuneration policy and making decisions on remuneration, the Committee references a number of factors including the general workforce pay structure, workforce policies, talent development needs and wider stakeholder impact, as illustrated below.

Competitive tool rewards

Our policy is to provide industry competitive benefits and various incentive schemes to retain and attract high performing employees, carrying out market benchmarking annually to ensure this.

Talent development

We support our employee development with individually tailored training programmes. We provide educational assistance and subscriptions to various professional bodies.

Considering the broader context

Employee engagement

Seplat hold annual meetings of the Employee Forum and conducts an annual online survey to gather employee views on a range of matters.

Workforce policies

Seplat operates a number of policies which apply to both our Directors and employees including diversity, conflict of interests and share dealing.

Reward structure cascade

The table below illustrates the cascade of our reward structure from Executive Directors to the wider employee population. As shown below, senior management and key employees participate in the LTIP and annual bonus schemes. Additionally, pension contribution levels are consistent for all employee levels.

		Employee level – % of salary			
Number of participants	Element of pay	CEO	Board	Senior management (grades 1-4)	Other key employees
Executive Directors, senior management, other key employees	**LTIP**	250%	200%	50-150%	25-35%
Executive Directors	**Annual bonus – Deferred shares**	37.5%	25%	n/a	n/a
All employees	**Annual bonus – Cash**	112.5%	75%	40-75%	Up to 30%
All employees	**Pension**	17%	15-17%	Up to 17%	Up to 17%
All employees	**Benefits**				All employees
All employees	**Salary**				All employees

Annual report on remuneration

Single total figure of remuneration

Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the 2018 financial year, on a receivable basis in accordance with the policy as approved by shareholders. Comparative figures for the 2017 financial year have also been provided.

Executive Directors	Period US$'000	Salary[1] US$'000	Taxable benefits[2] US$'000	Bonus[3] US$'000	LTIP[4] US$'000	Pension[5] US$'000	Other US$'000	Total US$'000
Austin Avuru (CEO)[7]	2018	1,097	512	1,125	1,985	187	0	4,906
	2017	1,097	470	813	2,420	187	0	4,987
Roger Brown (CFO)	2018	653	78	465	1,207	98	0	2,501
	2017	631	76	312	1,472	95	0	2,584
Effiong Okon (Operations Director)[6,7]	2018	597	338	384	0	102	0	1,421
	2017	–	–	–	–	–	–	–

1. Salaries for Executive Directors are set in GBP – 2018 and 2017 salaries were £643,750 for the CEO and £489,250 for the CFO whilst for the Operations Director 2018 salary was set at $698,000. For the CEO, the July 2014 USD: GBP exchange rate has been used to calculate 2018 and 2017 remuneration. For the CFO and the Operations Director the average 2018 USD: GBP exchange rate of 1.34 has been used where applicable.
2. The taxable benefits for each Executive Director comprise those which are quantifiable.
3. Bonus payments planned for 2019 relate to 2018 performance.
4. The value of the 2016 LTIP awards vesting in March 2019 is shown in 2018 as the performance period ended on 31 December 2018. The estimated value of these awards uses a 2018 Q4 average share price of $1.63; the actual value will be updated in the 2019 Directors' Remuneration Report when the awards vest on 24 March 2019. The value of the 2015 LTIP awards that vested in April 2018 is shown in 2017. The value has been restated based on the actual share price on 21 April 2018 ($1.99) and includes dividend equivalents.
5. Pension contributions are provided as a cash supplement/contribution into a personal pension fund and equal 17% of salary for the CEO, 15% for the CFO and 17% for the Operations Director.
6. For the CEO (who is located in Nigeria), income tax credits of 20% have been partly paid by the Company as a carry-over of historical practice. This practice is in the process of being phased out by 2019, so that in 2018 only 25% of income tax was paid by the Company. It is intended that in 2019 no tax credits will be paid. This is not included in the salary, taxable benefits, bonus or pension figures above.
7. Effiong Okon (Operations Director) joined the Board on 23 February 2018 and therefore received a pro-rated remuneration package for the proportion of the year he was in office.

We set out below, in relation to the value of the LTIP awards disclosed in the single figure table above, the proportion of the value attributable to share price growth / reduction over the vesting period. We note that as the Operations Director joined the Board in 2018, he was not granted 2015 or 2016 LTIP awards.

	2016 LTIP		2015 LTIP	
	Value of the 2016 LTIP award	Value attributable to share price growth / (reduction)	Value of the 2015 LTIP award	Value attributable to share price growth / (reduction)
CEO	$1,984,772	$264,045	-$168,075	-$168,075
CFO	$1,206,741	$160,539	-$102,190	-$102,190

Non-Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director for 2018 on a receivable basis in accordance with the policy as approved by shareholders.

Name	2018 Fees[1] (US$'000)	2017 Fees[1] (US$'000)	Role
A.B.C. Orjiako[2]	1,011	1,011	Non-Executive Chairman and Nomination and Establishment Committee Chairman
Michael Alexander	465	423	Senior Independent Director, Remuneration Committee Chairman, Finance, Nomination and Establishment Committee and Gas Committee member
Michel Hochard	138	133	Audit Committee member
Macaulay Agbada Ofurhie	218	184	Risk Management and HSSE, CSR, Audit Committee and Gas Committee member
Basil Omiyi	271	223	Risk Management and HSSE Committee and Gas Committee Chairman, Remuneration and Nomination and Establishment Committee member
Ifueko M. Omoigui Okauru	224	217	Finance, Audit, CSR and Risk Management and HSSE Committee member
Charles Okeahalam	218	210	Finance Committee Chairman and Remuneration Committee member
Lord Mark Malloch-Brown	204	197	CSR Committee Chairman and Finance Committee member
Damian Dodo	191	184	Remuneration and Nomination and Establishment Committee member

1. Fees shown are those receivable in GBP, converted at the average exchange rate for the relevant year. This is with the exception of the Chairman, whose fees are converted at the July 2014 USD: GBP exchange rate. Although the NED base fee remained unchanged for 2018, many of the NED fees expressed in USD have slightly increased from 2017, reflecting the fluctuations in the average USD: GBP exchange rate for 2018 compared to 2017.
2. For the Chairman (who is located in Nigeria), income tax credits of 20% have been partly paid by the Company as a carry-over of historical practice. This practice is in the process of being phased out by 2019, so that in 2018 only 25% of income tax was paid by the Company. The tax credits are not included in the table above.
3. The Company has settled, on behalf of each Non-Executive Director, the local Nigerian withholding tax on Directors' fees and this not included above.

Annual fees

Position	2018 Annual Fee[1] (US$'000)	2017 Annual Fee[1] (US$'000)
Chairman	960	960
Board	138	133
Senior Independent Director	200	193
Committee Chairmanship	40	39
Finance Committee Chairmanship[2]	53	52
Committee membership	27	26
Finance Committee membership[2]	33	32

Notes:
1. Fees shown are those receivable in GBP, converted at the average exchange rate for the relevant year. This is with the exception of the Chairman, whose fees are converted at the July 2014 USD: GBP exchange rate. Although the NED base fee remained unchanged for 2018, many of the NED fees expressed in USD have slightly increased from 2017, reflecting the fluctuations in the average USD: GBP exchange rate for 2018 compared to 2017.
2. Only applicable to those Directors who have additional responsibilities.

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

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

In respect of the 2018 financial year, the bonus awards payable to Executive Directors were approved by the Committee having reviewed the Company's underlying performance. On this basis, the Committee was comfortable not to exercise discretion in relation to the formulaic outcomes set out below. Details of the achievement of the measures used to determine bonuses in respect of the 2018 financial year and the extent to which they were satisfied are shown in the table below. These resulting bonus figures are included in the single figure table.

Achievement of corporate performance conditions
The Executive Directors' bonus scorecard is weighted in favour of corporate measures, as shown below. Additionally, individual strategic goals are set for each Executive Director annually based on the Company's strategic priorities for the respective year. These measures would typically fall under one of the following categories: development of strategic focus, team development and succession planning, technical and operational excellence. It is the Committee's view that the specific individual performance conditions are commercially sensitive and therefore details cannot be fully disclosed.

Overall, the annual bonus reward level for Executive Directors was above on-target as set out below:

		Performance achieved against targets				
Performance measure	Specific	Below Threshold	Threshold to Target	Target to Maximum	Maximum	Resulting level of award for element (% of maximum opportunity)
Production and operational efficiency	Oil production volume			✓		81%
	Gas production		✓			50%
	Reserve replacement ratio		✓			41%
Financial	Profit before tax				✓	100%
	Net cash flow				✓	100%
Health and safety	LTIF rate				✓	100%
Strategy	Strategic objectives (set for each Director individually)		✓			43% – 56%

Annual bonus pay-out

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

	CEO		CFO		Operations Director	
Performance measures	Achieved (% of max)	Bonus earned (US$'000)	Achieved (% of max)	Bonus earned (US$'000)	Achieved (% of max)	Bonus earned (US$'000)
Corporate measures	52.4% out of 80%	$862	63.4% out of 88%	$414	60.3% out of 88%	$360
Individual performance	16.0% out of 20%	$263	7.8% out of 12%	$51	4.0% out of 12%	$24
Total	68.4% out of 100%	$1,125	71.2% out of 100%	$465	64.3% out of 100%	$384

In line with policy, 25% of the Executive Directors' bonus will be deferred into shares and will be released at the end of year 3 subject to continued employment.

Long-term incentives vesting in 2018

The 2016 LTIP awards were made to the CEO and CFO on 24 March 2016 (conditional on approval by the Nigerian Stock Exchange, which was subsequently received). The awards vest on 24 March 2019; however the performance period for these awards ended on 31 December 2018. The performance conditions for these awards are set out in the implementation of the remuneration policy in 2019 table on page 101. 75.3% of the awards vested after testing the relative TSR and reserves growth performance conditions as set out below:

TSR performance vs comparator group				2P Reserves growth underpin			
Seplat TSR growth	Median TSR growth (25% vesting)	Upper quartile TSR growth (100% vesting)	Vesting under TSR condition	Seplat reserves growth between FY15 and FY18	Reserves growth required to fully satisfy underpin	Reduction in vesting based on the underpin	Final vesting level
81.6%	-39.5%	8.7%	100%	0.1%	10%	24.7%	75.3%

The following table presents the number of 2016 LTIP awards that will vest in March 2019 based on the assessment of the performance conditions and the resulting value of awards on vesting for each Executive Director.

Role	Number of 2016 LTIP awards granted	Number of 2016 LTIP awards vesting in March 2019	Value of vested awards[1]
CEO	1,621,536	1,220,374	$1,984,772
CFO	985,894	741,987	$1,206,741

1. Based on Q4 2018 average share price and excludes dividend equivalents.

Long-term incentives awarded in 2018

The table below sets out the details of the long-term incentive awards made in the 2018 financial year where vesting will be determined according to the achievement of performance conditions that will be tested in future reporting periods.

Name	Basis on which award made	Face value of award (US$'000)	Percentage of award vesting at threshold performance	Maximum percentage of face value that could vest	Performance conditions
Austin Avuru	Annual	2,413	25%	100%	100% Relative TSR and reserves growth underpin.
Roger Brown	Annual	1,467	25%	100%	
Effiong Okon	Annual	1,504	25%	100%	

The share price used to calculate the face value of awards was that at the date of award, being 2 May 2018 (conditional on approval by the Nigerian Stock Exchange) of US$1.93.

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

- Africa Oil
- Cairn Energy
- Enquest
- Erin Energy
- Faroe Petroleum
- Genel Energy
- Gran Tierra Energy
- Kosmos Energy
- Murphy Oil
- Nostrum Oil & Gas
- Ophir Energy
- Parex Resources
- Phoenix Global Resources
- Premier Oil
- Sound Energy
- Tullow Oil

Payments to past Directors

As disclosed in the 2017 Directors' Remuneration Report, when Stuart Connal stepped down from his role as Chief Operating Officer on 30 March 2017, in line with Seplat's policy for loss of office and the rules of the LTIP, the Committee determined he was a good leaver. In 2018, Stuart's 2015 deferred bonus and 2015 LTIP awards vested during the year. However these awards were already disclosed in the 2017 single total figure of remuneration and therefore no further detail is provided.

Payments for loss of office

There were no payments in the financial year.

Fees retained for external non-executive directorships

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

Statement of Directors' shareholdings

The table below sets out the number of shares of the Company in which current Directors had a beneficial interest and details of long-term incentive interests as at 31 December 2018.

						Shareholding
Director	Shares required to be held % of salary	Beneficially owned[1]	Shareholding requirement met (only required to be met in April 2019 or 5 years after joining if later)	Interests subject to performance conditions[2]	Interests not subject to performance conditions	Total interests held as at 31/12/2018
Austin Avuru	200%	70,823,189	Yes	2,859,452	1,518,594	75,201,235
Roger Brown	150%	1,327,207	Yes	1,738,546	856,692	3,922,445
Effiong Okon[3]	150%	0	No	779,061	0	779,061

1. Beneficial interests include shares held directly or indirectly by connected persons and include shares held by Stanbic IBTC Trustee Limited/Seplat LTIP.
2. Includes 2016 LTIP awards which vest in March 2019.
3. Effiong Okon joined the Board on 23 February 2018.

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

Director	Shares held as at 31/12/2018[1]
A.B.C. Orjiako	45,951,325
Michael Alexander	115,238
Michel Hochard	95,238
Macaulay Agbada Ofurhie	4,001,611
Basil Omiyi	495,238
Ifueko M. Omoigui Okauru	95,238
Charles Okeahalam	495,238
Lord Mark Malloch-Brown	31,746
Damian Dodo	0

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

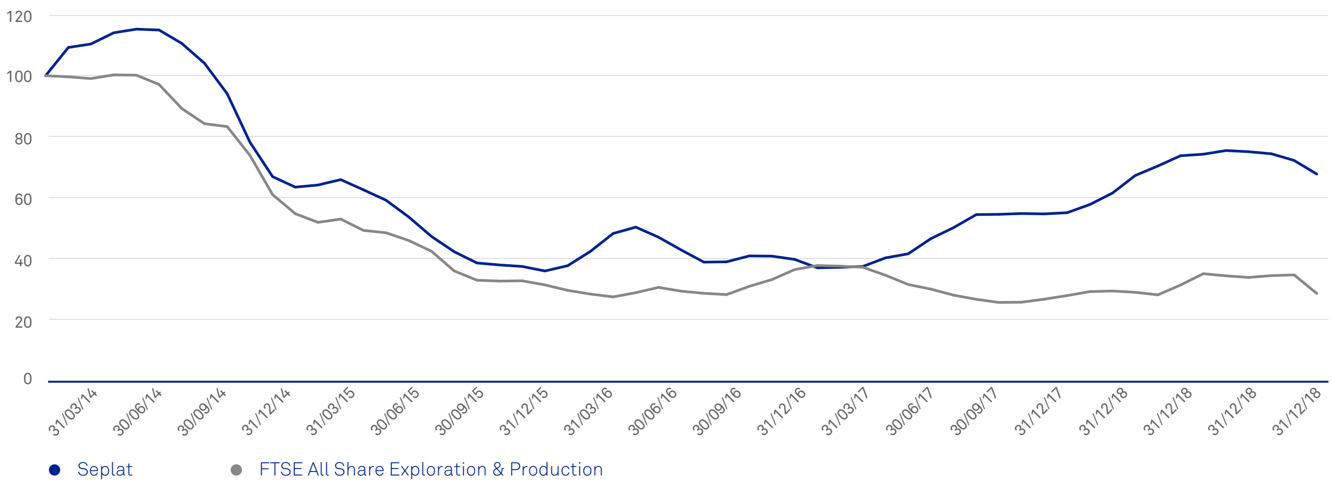
There have been no changes in the shareholdings of the Executive Directors and Non-Executive Directors between 31 December 2018 and the disclosure in the Full Year 2018 Financial Results announcement as at 28 February 2019.

Comparison of overall performance and pay

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

The Committee considers that the FTSE All Share Exploration & Production is an appropriate comparator group as it contains the UK companies that are constituents of Seplat's TSR comparator group. This graph has been calculated in accordance with the Regulations. It should be noted that the Company began trading conditionally on the London Stock Exchange on 9 April 2014 and therefore only has a listed share price for the period of 9 April 2014 to 31 December 2018.

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



Source: Thomson Reuters Datastream

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

CEO historical remuneration

The table below sets out the total remuneration delivered to the CEO between 2014 and 2018 valued using the methodology applied to the single total figure of remuneration. The Committee does not believe that the remuneration payable in its earlier years as a private company bears any comparative value to that paid in its later years and therefore the Remuneration Committee has chosen to disclose remuneration only from 2014:

CEO (Austin Avuru)	2018	2017	2016	2015	2014
Total single figure (US$'000)1	4,906	4,987	3,143	3,004	2,866
Annual bonus payment level achieved (% of maximum opportunity)	68%	49%	35%	46%	53%
LTIP vesting level achieved (% of maximum opportunity)	75%	100%	97%	N/A[2]	N/A[2]

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

Change in the CEO's remuneration compared with employees

Year-on-year change	Chief Executive Officer[1] (%) (US$)	Average employee pay in comparator group[2] (%) (Naira)
Base salary	0%	11%
Taxable benefits	9%	6%
Annual bonus	38%	28%

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

Relative importance of the spend on pay

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

Significant contributions	2018 ($m)	2017 ($m)	% change
Overall spend on pay[1]	72.4	56.9	27%
Distributions to shareholders (dividends)[2]	58.9	Nil	N/A

1. Calculated by converting 2018 and 2017 figures (from Naira) at the relevant year's average NGN: USD exchange rate and excludes LTIP.
2. For 2018 this includes a special dividend paid in June 2018 and an interim dividend paid in December 2018.

Service agreements and letters of appointment

Executive Directors

Name	Date of service contract	Nature of contract	Notice period from Company	Notice period from Director	Compensation provisions for early termination
Austin Avuru	27 March 2014	Rolling	12 months	12 months	Payment in lieu of notice equal to 12 months' salary and benefits, including any payments accrued at the date of termination.
Roger Brown	20 May 2013	Rolling	12 months	12 months	
Effiong Okon	1 February 2018	Rolling	12 months	12 months	

Non-Executive Directors

Name	Date of appointment/ re-appointment	Nature of letter of appointment	Notice period from Company	Notice period from Director	Compensation provisions for early termination
A.B.C. Orjiako	1 June 2017	Fixed term to 31 May 2020	12 months	12 months	None.
Michael Alexander	6 June 2018	Fixed term to 2021 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Michel Hochard	14 December 2009	Rolling	6 months	6 months	None.
Macaulay Agbada Ofurhie	14 December 2009	Rolling	6 months	6 months	None.
Basil Omiyi	1 June 2017	Fixed term to 2020 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Ifueko M. Omoigui Okauru	30 June 2014	Fixed term to 2019 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Charles Okeahalam	1 June 2017	Fixed term to 2020 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Lord Mark Malloch-Brown	6 June 2018	Fixed term to 2021 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Damian Dodo	30 June 2014	Fixed term to 2019 AGM	6 months	6 months	6 months' fees if not re-elected or retired.

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

The Non-Executive Directors of the Company do not have service contracts. The Non-Executive Directors are appointed by letters of appointment, which are kept at Seplat's registered office along with Executive Director service contracts.

As required by Nigerian law, the Company follows the provisions set out in its Memorandum and Articles of Association and annually places one-third of its Independent Non-Executive Directors for re-election.

Composition and terms of reference of the Remuneration Committee

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

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

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

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

Advisers to the Remuneration Committee

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

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

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

Shareholder voting at general meeting

At the previous AGM held on 6 June 2018, the Company received a vote of 99.7% in favour of its remuneration policy and the Remuneration Report through the acceptance of the 2017 Directors' Remuneration Report.

MR Alexander

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

1. Independent Non-Executive Director.

The Directors are pleased to present to the shareholders of the Company their report with the audited financial statements for the year ended 31 December 2018.

Principal activity

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

Corporate structure and business

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

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

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

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

Seplat Petroleum Development Company Plc was successfully listed on the Nigerian Stock Exchange and the main market of the London Stock Exchange on 14 April 2014. However, on 4 April 2018, Seplat was migrated to the Premium Board of the Nigerian Stock Exchange.

In 2013, Newton Energy Limited ("Newton Energy"), an entity previously beneficially owned by the same shareholders as Seplat, became a subsidiary of the Company. On 1 June 2013, Newton Energy acquired from Pillar Oil Limited ("Pillar Oil") a 40% 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.

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

The Company together with its subsidiary, Newton Energy, and other wholly owned subsidiaries, namely, Seplat Petroleum Development Company UK Limited ("Seplat UK"), which was incorporated on 21 August 2013; Seplat East Onshore Limited ("Seplat East"), which was incorporated on 12 December 2013; Seplat East Swamp Company Limited ("Seplat Swamp"), which was incorporated on 12 December 2014; Seplat Gas Company Limited ("Seplat Gas"), which was incorporated on 12 December 2013; Seplat West Limited ("Seplat West") which was incorporated on 16 January 2018; and ANOH Gas Processing Company Limited which was incorporated on 18 January 2017 are referred to as the Group.

Dividend

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

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

Operating results

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

Further to this, the Board of Seplat is recommending a final dividend of US$0.05 per share. Subject to approval of shareholders, at the AGM which will be held on 16 May 2019 in Lagos, Nigeria; the final dividend will be paid electronically to shareholders (on or around 23 May 2019) whose names appear on the register of members as at 20 March 2019.

Unclaimed dividend

The total amount outstanding as at 31 December 2018 is US$2,713.50 and ₦88,777,086.54. A list of shareholders and corresponding unclaimed dividends is available on the Company's website: www.seplatpetroleum.com.

Changes in property, plant and equipment

Movements in property, plant and equipment and significant additions thereto are shown in note 17 to the financial statements.

Rotation of Directors

In accordance with the provisions of Section 259 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria ('LFN') 2004, one third of the Directors of the Company shall retire from office. The Directors to retire every year shall be those who have been longest in office since their last election. However, in accordance with Article 131 of the Company's Articles of Association, apart from the Executive Directors and Founding Directors (who are referred to as the Non-Executive Directors), all other Directors are appointed for a fixed term. Upon expiration of the terms, they become eligible for re-appointment. The Directors who are eligible for re-appointment this year are Mrs. Ifueko M. Omoigui Okauru and Mr. Damian Dodo, SAN.

Board changes

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

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

Corporate governance

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

The Board is aware of the Code of Corporate Governance issued by the Securities and Exchange Commission, the Nigerian Code of Corporate Governance, 2018 issued by the Financial Reporting Council of Nigeria and the UK Corporate Governance Code, 2018 issued by the Financial Reporting Council in the administration of the Company and is ensuring that the Company complies with them. The Board is responsible for keeping proper accounting records with reasonable accuracy. It is also responsible for safe guarding the assets of the Company through prevention and detection of fraud and other irregularities.

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

Finance Committee	
Charles Okeahalam	Committee Chairman
Michael Alexander	Member
Ifueko M. Omoigui Okauru	Member
Lord Mark Malloch-Brown	Member
Nomination and Establishment Committee	
A.B.C. Orjiako	Committee Chairman
Basil Omiyi	Member
Michael Alexander	Member
Damian Dinshiya Dodo, SAN	Member
Remuneration Committee	
Michael Alexander	Committee Chairman
Basil Omiyi	Member
Charles Okeahalam	Member
Damian Dinshiya Dodo, SAN	Member
Risk Management and HSSE Committee	
Basil Omiyi	Committee Chairman
Macaulay Agbada Ofurhie	Member
Ifueko M. Omoigui Okauru	Member
Corporate Social Responsibility Committee	
Lord Mark Malloch-Brown	Committee Chairman
Macaulay Agbada Ofurhie	Member
Ifueko M. Omoigui Okauru	Member
Gas Committee	
Basil Omiyi	Committee Chairman
Macaulay Agbada Ofurhie	Member
Michael Alexander	Member

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

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

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

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

Record of attendance of Board and Committee meetings

The Board met 13 times during the year and at least once every quarter in line with Section 12.1 of the SEC Code. Board meetings were well attended with attendance of all Directors exceeding two-thirds as required by Section 12.2 of the SEC Code. The record of attendance of Directors at Board meetings and that of its Committees in the year under review is published herewith:

Board of Directors

S/N	Name		No. of meetings in the year	No. of times in attendance
1.	A.B.C. Orjiako	Chairman	13	13
2.	Austin Avuru	Chief Executive Officer	13	13
3.	Roger Brown	Chief Financial Officer	13	13
4.	Michel Hochard*	Non-Executive Director	13	13
5.	Macaulay Agbada Ofurhie	Non-Executive Director	13	9
6.	Michael Alexander	Senior Independent Non-Executive Director	13	13
7.	Charles Okeahalam	Independent Non-Executive Director	13	12
8.	Basil Omiyi	Independent Non-Executive Director	13	12
9.	Ifueko M. Omoigui-Okauru	Independent Non-Executive Director	13	11
10.	Lord Mark Malloch-Brown	Independent Non-Executive Director	13	10
11.	Damian Dodo, SAN	Independent Non-Executive Director	13	13
12.	Effiong Okon	Operations Director	10	10

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

Finance Committee

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

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

Nomination and Establishment Committee

1.	A.B.C. Orjiako	Chairman	3	3
2.	Basil Omiyi		3	3
3.	Michael Alexander		3	3
4.	Damian Dodo		3	3

Meeting dates: 18 April, 17 July, 24 October

Remuneration Committee

1.	Michael Alexander	Chairman	5	5
2.	Basil Omiyi		5	5
3.	Charles Okeahalam		5	4
4.	Damian Dodo		5	5

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

Risk Management and HSSE Committee

1.	Basil Omiyi	Chairman	4	4
2.	Macaulay Agbada Ofurhie		4	4
3.	Ifueko M. Omoigui-Okauru		4	4

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

Corporate Social Responsibility Committee

1.	Lord Mark Malloch-Brown	Chairman	3	3
2.	Macaulay Agbada Ofurhie		3	3
3.	Ifueko M. Omoigui-Okauru		3	3

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

Gas Committee

1.	Basil Omiyi	Chairman	2	2
2.	Macaulay Agbada Ofurhie		2	2
3.	Michael Alexander		2	2

Meeting dates:17 July, 25 October.

Statutory Audit Committee

1.	Chief Anthony Idigbe, SAN	Chairman	4	4
2.	Dr. Faruk Umar	Shareholder Member	4	4
3.	Sir Sunday Nnamdi Nwosu	Shareholder Member	4	4
4.	Michel Hochard	Director Member	4	3
5.	Ifueko M. Omoigui Okauru	Director Member	4	3
6.	Macaulay Agbada Ofurhie	Director Member	4	4

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

Directors' interest in shares

In accordance with Section 275 of the Companies and Allied Matters Act, CAP C20 LFN 2004, the interests of the Directors (and of persons connected with them) in the share capital of the Company (all of which are beneficial unless otherwise stated) are as follows:

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

Notes:
1 16,151,325 ordinary shares are held directly by A.B.C. Orjiako and Shebah Petroleum Development Company Limited; 16,300,000 ordinary shares are held by Vitol Energy Limited for the benefit of Shebah Petroleum Development Company Limited, which is an entity controlled by A.B.C. Orjiako and members of his family; 900,000 ordinary shares are held by Pursley Resources Limited, a company owned by A.B.C's wife; and 12,600,000 ordinary shares are held directly by A.B.C. Orjiako's siblings.
2 Total direct holdings were nil and indirect ordinary shares were 70,823,189. During the year, 928,296 LTIP awards vested, 112,378 shares were sold, and 2,065,648 shares were transferred from direct holdings to indirect holdings of Austin Avuru. Professional Support Limited (an entity controlled by Austin Avuru) now holds 30,163,494 shares after transfers from Abtrust Integrated Services Limited and LTIP share awards. Platform Petroleum Limited "PPL" (an entity in which Austin Avuru has a 23% equity interest) ordinary shareholding has reduced to 40,659,695 ordinary shares, after an aggregate of 4,539,469 shares have been transferred directly to certain shareholders of Platform and are therefore not considered to be connected persons.

Directors' interest in contracts

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

Substantial interest in shares

According to the register of members at 31 December 2018 and also the date of this report, the following shareholders held more than 5.0% of the issued share capital of the Company:

Shareholder	Number of holdings	%
CIS PLC – MAIN[1]	414,415,996	70.43
Platform Petroleum Limited	40,659,695	6.91

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

Free float

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

Acquisition of own shares

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

Shareholding analysis

The shareholding pattern as at 31 December 2018 is as stated below:

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

Share capital history

Year	Authorised increase	Cumulative	Issued increase	Cumulative	Consideration
Jun-09	–	100,000,000	100,000,000	100,000,000	cash
Mar-13	100,000,000	200,000,000	100,000,000	200,000,000	stock split from N1.00 to 50k
Jul-13	200,000,000	400,000,000	200,000,000	400,000,000	bonus (1 for 2)
Aug-13	600,000,000	1,000,000,000	153,310,313	553,310,313	cash
Dec-14	–	1,000,000,000	–	553,310,313	No change
Dec-15	–	1,000,000,000	10,134,248	563,444,561	staff share scheme
Dec-16	–	1,000,000,000	–	563,444,561	No change
Dec-17	–	1,000,000,000	–	563,444,561	No change
Feb-18	–	1,000,000,000	25,000,000	588,444,561	staff share scheme

Donations

The following donations were made by the Group during the year (2017: N105,361,000; US$344,535).

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

Employment and employees

a) Employee involvement and training: The Company continues to observe industrial relations practices such as the joint Consultative Committee and briefing employees on the developments in the Company during the year under review. Various incentive schemes for staff were maintained during the year while regular training courses were carried out for the employees. Educational assistance is provided to members of staff. Different cadres of staff were also assisted with payment of subscriptions to various professional bodies during the year. The Company provides appropriate HSSE training to all staff, and Personal Protective Equipment ('PPE') to the appropriate staff.

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

c) Employment of disabled or physically challenged persons: The Company has a policy of fair consideration of job applications by disabled persons having regard to their abilities and aptitude. The Company's policy prohibits discrimination of disabled persons in the recruitment, training and career development of its employees. As at the end of the reporting period, the Group has no disabled persons in employment.

Auditor

The 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 authorisation to the Board of Directors to fix auditor's remuneration.

By Order of the Board

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

6 March 2019

Statement of Directors' responsibilities
For the year ended 31 December 2018

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

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

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

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

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

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

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

Signed on behalf of the Directors by:

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

6 March 2019

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

6 March 2019

Financial statements

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

Opinion

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

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

In our opinion:

- the consolidated and separate financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of the Group's financial performance and cash flows for the year then ended;
- the consolidated and separate financial statements of the Group have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); and
- the consolidated and separate financial statements of the Group have been prepared in accordance with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011.

Basis for opinion

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

Key audit matters

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

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

Key audit matter	How the matter was addressed in the audit
Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation (DD&A), decommissioning provisions and the going concern assessment As at 31 December 2018, Seplat reported 480.6 MMboe (2017: 477.2 MMboe) of proved plus probable reserves. The estimation and measurement of oil and gas reserves impacts a number of material elements of the consolidated and separate financial statements including DD&A, decommissioning provisions and impairments. This is a significant area of judgement due to the technical uncertainty in assessing reserve quantities and hence has been considered as a key audit matter.	We focused on management's estimation process, including whether bias exists in the determination of reserves and resources. We carried out the following procedures: • As a result of the technicality and uncertainty in assessing reserve quantities, we have assessed management's estimation process including whether bias exists in the determination of reserves and resources • We performed analytical review procedures on reserve revisions based on the CPR report which management obtained from Ryder Scott Company (RSC). As at December 2018, the Group proved plus probable reserves were estimated at 480.6 million barrels (2017: 477.2 mmboe) with an increase in asset life from 2034 to 2037. • We have assessed RSC as experts and considered their objectivity, independence and competence which we found to be okay. • We reviewed disclosures in the Group financial statements to ensure consistency with the reserves data that we have reviewed.

Other Information

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

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

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Bernard Carrena, FCA
FRC/2013/ICAN/00000000670
Partner
For: Ernst & Young
Lagos, Nigeria.

6 March 2019

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

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

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

Notes 1 to 41 on pages 123 to 192 are an integral part of the financial statements.

Consolidated statement of financial position

As at 31 December 2018

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

Notes 1 to 41 on pages 123 to 192 are an integral part of the financial statements.

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

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

Austin Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
6 March 2019

Roger Brown
FRC/2014/ANAN/00000017939
Chief Financial Officer
6 March 2019

Consolidated statement of changes in equity

For the year ended 31 December 2018

₦ million

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

US$ '000

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

Notes 1 to 41 on pages 123 to 192 are an integral part of the financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2018

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

Notes 1 to 41 on pages 123 to 192 are an integral part of the financial statements.

Notes to the consolidated financial statements

1 Corporate structure and business

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

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

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

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was ₦50.4 billion ($340 million) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of ₦4.8 billion ($33 million) payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds ₦11,850 ($80) per barrel. ₦53.1 billion ($358.6 million) was allocated to the producing assets including ₦2.8 billion ($18.6 million) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of ₦5.1 billion ($33 million) was paid on 22 October 2012.

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

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

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

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

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

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

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

2 Significant changes in the current accounting period

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

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

3 Summary of significant accounting policies

3.1 Introduction to summary of significant accounting policies

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

3.2 Basis of preparation

i) Compliance with IFRS

The consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee (IFRS IC). The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). Additional information required by National regulations is included where appropriate.

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

ii) Historical cost convention

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

iii) Going concern

Nothing has come to the attention of the Directors to indicate that the Group will not remain a going concern for at least 12 months from the date of these financial statements.

iv) New and amended standards adopted by the Group

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

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

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

v) New standards, amendments and interpretations not yet adopted

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

a) IFRS 16 Leases

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

b) Amendments to IAS 19 Employee benefits

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

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

c) IFRIC 23 Uncertainty over income tax treatment

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

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

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

d) Conceptual framework for financial reporting – Revised

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

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

e) Amendments to IAS 23 Borrowing costs

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

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

f) Amendments to IAS 12 Income taxes

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

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

g) Amendments to IFRS 11 Joint arrangement

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

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

3.3 Basis of consolidation

i) Subsidiaries

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

The consolidated financial information comprises the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- 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.

3 Summary of significant accounting policies continued

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

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

ii) Change in the ownership interest of subsidiary

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

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

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

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

iii) Disposal of subsidiary

If the Group loses control over a subsidiary, it:

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

iv) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. As at the reporting date, the Group has joint operations and not joint ventures.

v) Joint operations

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

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

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

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

3.4 Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate ('the functional currency'), which is the US dollar except the UK subsidiary which is the Pound Sterling. The consolidated financial statements are presented in Nigerian Naira and the US dollar.

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

i) Transactions and balances

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

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

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

ii) Group companies

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

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

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

3.5 Oil and gas accounting

i) Pre-licence costs

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

ii) Exploration licence cost

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

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

iii) Acquisition of producing assets

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

iv) Exploration and evaluation expenditures

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

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

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

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

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

3 Summary of significant accounting policies continued

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined on the previous page 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 expenditure

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

3.6 Revenue recognition

3.6.1 Revenue recognition (policy from 1 January 2018)

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

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

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

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

The surplus or deficit of the product sold during the period over the Group's share of production in line with entitlement method is termed as an overlift or underlift. With regard to underlifts, if the over-lifter does not meet the definition of a customer or the settlement of the transaction is non-monetary, a receivable and other income is recognised. Conversely, when an overlift occurs, cost of sale is debited and a corresponding liability is accrued. Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase. Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the profit or loss as other income/expenses – net.

Definition of a customer

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

Contract enforceability and termination clauses

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

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

Identification of performance obligation

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

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

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

Transaction price

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

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

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

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

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

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

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

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

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

Breakage

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

Contract modification and contract combination

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

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

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

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

3 Summary of significant accounting policies continued

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

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

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

3.6.2 Revenue recognition (policy prior to 1 January 2018)
Revenue arises from the sale of crude oil and gas. Revenue comprises the realised value of crude oil lifted by customers. Revenue is recognised when crude products are lifted by a third party (buyer) Free on Board ('FOB') at the Group's designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognised when gas passes through the custody transfer point.

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

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

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

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

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

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

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

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

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

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

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

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

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

3.9 Finance income and costs

Finance income

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

Finance cost

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

3.10 Impairment of non-financial assets

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

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

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

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

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

Impairment – exploration and evaluation assets

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

Impairment – proved oil and gas production properties

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

3.11 Cash and bank balances

Cash and bank balances in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Please see note 3.15.1(b) for accounting policies on impairment of cash and bank balances.

3.12 Inventories

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

3.13 Other asset

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

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

3 Summary of significant accounting policies continued

3.14 Segment reporting

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

The Board of Directors has appointed a steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as the chief operating decision maker, consists of the Chief Financial Officer, the General Manager (Finance), the General Manager (Gas) and the Financial Reporting Manager. See further details in note 6.

3.15 Financial instruments

3.15.1 Financial instruments (policy from 1 January 2018)

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

a) Classification and measurement

Financial assets

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

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

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

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

Financial liabilities

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

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

b) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

Financial liabilities
The Group derecognises a financial liability when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised immediately in the statement of profit or loss.

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

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

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

g) **Derivatives**
The Group uses derivative financial instruments such as forward exchange contracts to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. Any gains or losses arising from changes in the fair value of derivatives are recognised within operating profit in profit or loss for the period. An analysis of the fair value of derivatives is provided in note 5, financial risk management.

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

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

h) **Fair value of financial instruments**
The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

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

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

3 Summary of significant accounting policies continued

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

3.15.2 Financial instruments (policy prior to 1 January 2018)

a) Financial assets

i) Financial assets initial recognition and measurement

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

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

ii) Subsequent measurement

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

Trade and other receivables

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

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

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

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

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

iii) Impairment of financial assets

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

iv) Derecognition of financial assets

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

b) Financial liabilities

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

i) Financial liabilities initial recognition and measurement

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

The Group's financial liabilities include trade and other payables, and interest bearing loans and borrowings.

ii) Subsequent measurement

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

Trade payables

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

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

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

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

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

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

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 5 financial risk management.

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

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

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

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

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

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

3.16 Share capital
On issue of ordinary shares, any consideration received net of any directly attributable transaction costs is included in equity. Shares held by the Group are disclosed as treasury shares and deducted from equity. Issued share capital has been translated at the exchange rate prevailing at the date of the transaction and is not retranslated subsequent to initial recognition.

3 Summary of significant accounting policies continued

3.17 Earnings and dividends per share

Basic EPS

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

Diluted EPS

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

Dividends

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

3.18 Post-employment benefits

Defined contribution scheme

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

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

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

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

Defined benefit scheme

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

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

Remeasurement gains and losses, arising from changes in financial and demographic assumptions and experience adjustments, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

Net interest is calculated by applying the discount rate to the net defined benefit obligation and the fair value of the plan assets.

The Group recognises the following changes in the net defined benefit obligation under employee benefit expenses in general and administrative expenses:

- Service costs comprise current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest cost.

3.19 Provisions

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

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted (where the effects of the time value of money is considered to be material) using a pre-tax rate that is reflective of current market assessments of the time value of money and the risk specific to the liability;
- when discounting is used, the increase of the provision over time is recognised as interest expense;
- future events, such as changes in law and technology, are taken into account where there is subjective audit evidence that they will occur; and
- gains from expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

Decommissioning

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

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

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

3.20 Contingencies

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

3.21.1 Contingent consideration

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

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

3.21 Income taxation

i) Current income tax

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

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

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.

3 Summary of significant accounting policies continued

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

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

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

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

iii) New tax regime
During the year 2013, applications were made by Seplat for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Under these incentives, the Company's profits were subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years if certain conditions included in the Nigerian Investment Promotion Commission (NIPC) pioneer status award document were met. After the expiration of the initial three years, the Company considered the extension and concluded that it would be of no benefit to the Company.

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

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

3.22 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.

3.23 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 (share based payment reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

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

4 Significant accounting judgements, estimates and assumptions

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

4.1 Judgements

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

i) OMLs 4, 38 and 41

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

ii) New tax regime

Effective 1 January 2013, the Company was granted the inter tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company was exempted from paying petroleum profits tax on crude oil profits (at 85%), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. After the expiration of the initial three years, the Company considered the extension and concluded that it would be of no benefit to the business.

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

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

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

iii) Deferred tax asset

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

iv) Foreign currency translation reserve

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

V) Revenue recognition

Definition of contracts

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

Performance obligations

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

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

4 Significant accounting judgements, estimates and assumptions continued

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

(a) The difference, if any, between the amount of promised consideration and cash selling price; and

(b) The combined effect of both the following:

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

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

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

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

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

The Board of Directors has appointed a steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the Chief Financial Officer, the General Manager (Finance), the General Manager (Gas) and the Financial Reporting Manager. See further details in note 6.

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

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

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

iii) Defined benefit plans (pension benefits)
The cost of the defined benefit retirement plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and changes in inflation rates.

Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bonds in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

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

v) Share based payment reserve

Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share award or appreciation right, volatility and dividend yield and making assumptions about them. The Group measures the fair value of equity-settled transactions with employees at the grant date. The assumptions and models used for estimating fair value for share based payment transactions are disclosed in note 27.

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.

vi) Provision for decommissioning obligations

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

vii) Property, plant and equipment

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

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

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

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

viii) Useful life of other property, plant and equipment

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

ix) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events. See note 39 for further details.

x) Income taxes

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

xi) Impairment of financial assets

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

5 Financial risk management

5.1 Financial risk factors

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

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

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

5.1.1 Market risk

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

i) Commodity price risk

The Group is exposed to the risk of fluctuations on crude oil prices. The uncertainty around the rate at which oil prices increase or decline led to the Group's decision to enter into an option contract to insure the Group's revenue against adverse oil price movements.

On 17 December 2018, the Group entered economic crude oil hedge contracts with a strike price of ₦15,350 ($50/bbl) to ₦16,885 ($55/bbl) for 4 million barrels at an average premium price of ₦399 ($1.3/bbl) on 19 December 2018. These contracts, which will commence in 1 January 2019, are expected to reduce the volatility attributable to price fluctuations of oil. The Group has pre-paid a premium of ₦1.6 billion, 2017: nil ($5.2 million; 2017: nil) and has recognised an unrealised fair value gain of ₦2.7 billion, 2017: nil ($8.8 million; 2017: nil) for these hedges. The termination date is 31 December 2019. Hedging the price volatility of forecast oil sales is in accordance with the risk management strategy of the Group. The Group has not made a formal designation to apply hedge accounting principles in accounting for the economic hedge.

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

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

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

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

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

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

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

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

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

Increase/decrease in commodity price	Effect on profit/(loss) before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit/(loss) before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+10%	15,564	–	12,397	–
-10%	(15,564)	–	(12,397)	–

ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to interest bearing loans and borrowings. The Group has both variable and fixed interest rate borrowings and deposits. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. Fixed rate borrowings and deposits only give rise to interest rate risk if measured at fair value. The Group's borrowings are not measured at fair value and are denominated in US Dollars.

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

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

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

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

Increase/decrease in crude oil prices	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+1%	(963)	–	(5,701)	–
-1%	963	–	5,701	–

5 Financial risk management 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 bank balances in US Dollar. However, the Group maintains deposits in Naira in order to fund ongoing general and administrative activities and other expenditure incurred in this currency. Other monetary assets and liabilities which give rise to foreign exchange risk include trade and other receivables, and trade and other payables.

The following table demonstrates the carrying value of monetary assets and liabilities exposed to foreign exchange risks at the reporting date:

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

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

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

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

5.1.2 Credit risk

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

i) Risk management

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

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

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

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

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

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

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

ii) Estimation uncertainty in measuring impairment loss

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

a) Expected cash flow recoverable

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

Increase/decrease in estimated cash flows	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+20%	24	–	79	–
-20%	(24)	–	(79)	–

b) Significant unobservable inputs

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

Increase/decrease in loss given default	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+10%	(222)	–	(725)	–
-10%	222	–	725	–

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

Increase/decrease in forward-looking macroeconomic indicators	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+10%	16	–	52	–
-10%	(15)	–	(52)	–

5.1.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Group uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Group's debt financing plans and covenant compliance.

Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

i) Financing arrangements

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

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

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

5 Financial risk management continued

ii) Maturities of financial liabilities

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

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

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

31 December 2017	Effective interest rate %	Less than 1 year US$ '000	1 – 2 years US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	Total US$ '000
Non-derivatives						
Variable interest rate borrowings (bank loans):						
Allan Gray	8.5% + LIBOR	1,696	1,564	1,124	538	4,922
Zenith Bank Plc	8.5% + LIBOR	23,243	21,439	15,404	7,371	67,457
First Bank of Nigeria Limited	8.5% + LIBOR	12,830	11,835	8,503	4,069	37,237
United Bank for Africa Plc	8.5% + LIBOR	14,527	13,400	9,628	4,607	42,162
Stanbic IBTC Bank Plc	8.5% + LIBOR	2,177	2,008	1,443	690	6,318
The Standard Bank of South Africa Limited	8.5% + LIBOR	2,177	2,008	1,443	690	6,318
Standard Chartered Bank	6.0% + LIBOR	5,747	–	–	–	5,747
Natixis	6.0% + LIBOR	5,747	–	–	–	5,747
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	4,470	–	–	–	4,470
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	–	–	–	–	–
Nomura Bank Plc[1]	6.0% + LIBOR	3,831	–	–	–	3,831
NedBank Ltd, London Branch	6.0% + LIBOR	3,831	–	–	–	3,831
The Mauritius Commercial Bank Plc[1]	6.0% + LIBOR	3,831	–	–	–	3,831
Stanbic IBTC Bank Plc	6.0% + LIBOR	2,874	–	–	–	2,874
The Standard Bank of South Africa Ltd	6.0% + LIBOR	4,152	–	–	–	4,152
		90,812	52,254	37,545	17,965	198,576
Other non-derivatives						
Trade and other payables[2]	–	38,876	–	–	–	38,876
		130,009	**52,254**	**37,545**	**17,965**	**237,773**

1 Nomura and The Mauritius Commercial Bank replace JP Morgan and Bank of America.

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

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

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

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

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

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

5 Financial risk management continued

5.2 Fair value measurements

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

	Carrying amount		Fair value	
	2018 ₦ million	2017 ₦ million	2018 ₦ million	2017 ₦ million
Financial assets at amortised cost				
Trade and other receivables[1]	29,466	91,613	29,466	91,613
Contract assets	4,327	–	4,327	–
Cash and bank balances	179,509	133,699	179,509	133,699
	213,302	225,312	213,302	225,312
Financial assets at fair value				
Derivative financial instruments	2,693	–	2,693	–
	2,693	–	2,693	–
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	136,830	174,329	143,158	174,329
Contingent consideration	5,676	4,251	18,489	13,900
Trade and other payables	48,152	38,876	48,152	38,876
	190,658	**217,456**	**209,799**	227,105

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

	Carrying amount		Fair value	
	2018 US$ '000	2017 US$ '000	2018 US$ '000	2017 US$ '000
Financial assets at amortised cost				
Trade and other receivables[1]	95,982	310,345	95,982	310,345
Contract assets	14,096	–	14,096	–
Cash and bank balances	694,801	437,212	584,723	437,212
	804,879	747,557	694,801	747,557
Financial assets at fair value				
Derivative financial instruments	8,772	–	8,772	–
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	445,699	570,077	466,314	570,077
Contingent consideration	18,489	13,900	18,489	13,900
Trade and other payables	156,847	127,128	156,847	127,128
	621,035	**711,105**	**641,650**	711,105

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

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

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

5.2.1 Fair value hierarchy

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

						Financial assets
31 Dec 2018	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Financial assets:						
Derivative financial instruments	2,693	–	–	8,772	–	–
	2,693	–	–	8,772	–	–

						Financial liabilities
31 Dec 2018	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Financial liabilities:						
Interest bearing loans and borrowings	–	143,158	–	–	466,314	–
Contingent consideration	–	–	5,676	–	–	18,489
	–	**143,158**	**5,676**	**–**	**466,314**	**18,489**
31 Dec 2017						
Financial liabilities:						
Interest bearing loans and borrowings	–	174,329	–	–	570,077	–
Contingent consideration	–	–	4,251	–	–	13,900
	–	**174,329**	**4,251**	**–**	**570,077**	**13,900**

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

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

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

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

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

The valuation process

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

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

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

5.2.2 Reconciliation of fair value measurements of level 3 financial instruments

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

5 Financial risk management continued

5.2.3 Sensitivity of level 3 significant unobservable inputs

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

Increase/decrease in discount rate	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+1%	181	–	56	–
-1%	(185)	–	(57)	–

Increase/decrease in discount rate	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+10%	2,209	–	676	–
-10%	(2,888)	–	(883)	–

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

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

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

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

5.3 Capital management

5.3.1 Risk management

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

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

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

5.3.2 Loan covenant

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

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

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

6 Segment reporting

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

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

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

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

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

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

6.1 Segment profit disclosure

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

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

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

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

6 Segment reporting continued

6.1.1 Disaggregation of revenue from contracts with customers

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

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

The Group's transactions with its major customer, Mercuria, constitutes more than 10% (₦169 billion, $554 million) of the total revenue from the oil segment and the Group as a whole. Also, the Group's transactions with NGMC (₦48 billion, $156 million) accounted for more than 10% of the total revenue from the gas segment and the Group as a whole.

6.1.2 Impairment/(reversal of) losses by reportable segments

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

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

6.2 Segment assets

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

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

6.3 Segment liabilities

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

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

6.4 Contingent consideration

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

7 Revenue from contracts with customers

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

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

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

8 Cost of sales

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

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

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

9 Other income – net

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

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

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

10 General and administrative expenses

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

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

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

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

10a Salaries and employee related costs include the following:

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

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

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

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

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

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

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

12 Fair value loss – net

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

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

13 Finance income/(cost)

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

Finance income represents interest on fixed deposits.

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

14 Taxation

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

14.1 Income tax (expense)/credit

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

14.2 Reconciliation of effective tax rate

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

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

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

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

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

14.3 Current tax liabilities

The movement in the current tax liabilities is as follows:

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

15 Deferred tax

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

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

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

15.1 Deferred tax assets

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

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

					US$ '000
	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
Tax losses	40,523	–	(40,523)	–	**–**
Other cumulative timing differences:					
Unutilised capital allowance	416,935	–	(37,343)	–	**379,592**
Provision for decommissioning obligation	334	–	2,339	–	**2,673**
Defined benefit plan	4,087	–	1,209	(261)	**5,035**
Share based payment reserve	15,138	–	(4,360)	–	**10,778**
Unrealised foreign exchange (gain)/loss on trade and other receivables	13,765	–	(9,642)	–	**4,123**
Other income	21,219	–	(4,060)	–	**17,159**
Impairment provision on trade and other receivables	5,923	6,577	(5,730)	–	**6,770**
	517,924	6,577	(98,109)	(261)	**426,131**

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15 Deferred tax continued

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

15.2 Deferred tax liabilities

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

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

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

15.3 Unrecognised deferred tax liabilities

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

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

	As at 30 Dec 2018 US$ '000		As at 30 Dec 2017 US$ '000	
	Gross amount	Tax effect	Gross amount	Tax effect
Other cumulative timing differences	58,288	36,502	48,995	25,730
Tax losses	33,303	19,580	47,673	29,132
	91,591	**56,082**	**96,668**	**54,862**

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

15.4. Unrecognised deferred tax liabilities

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

16 Computation of cash generated from operations

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

17 Property, plant and equipment

17a Oil and gas properties

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

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other property, plant and equipment not yet ready for their intended use. Some of which are qualifying assets that take a substantial period to get ready for its intended use. A capitalisation rate of 13.1% (2017: 9.41%) has been determined and applied to the Group's general borrowing to determine the borrowing cost capitalised as part of the qualifying assets. Borrowing costs capitalised during the year amounted to ₦4.9 billion, 2017: ₦1.98 billion ($16.1 million, 2017: $6.48 million). There was no oil and gas property pledged as security during the reporting period.

17b Other property, plant and equipment

Cost	Plant & machinery ₦ million	Motor vehicles ₦ million	Office furniture & IT equipment ₦ million	Leasehold improvements ₦ million	Total ₦ million
At 1 January 2017	1,465	2,232	4,349	870	8,916
Additions	125	170	141	23	459
Disposals	–	(141)	–	–	(141)
Exchange differences	4	5	(34)	2	(23)
At 31 December 2017	1,594	2,266	4,456	895	9,211
Depreciation					
At 1 January 2017	778	1,451	3,653	604	6,486
Disposals	–	(82)	–	–	(82)
Charge for the year	269	374	518	122	1,283
Exchange differences	2	4	(36)	1	(29)
At 31 December 2017	1,049	1,747	4,135	727	7,658
NBV					
At 31 December 2017	**545**	**519**	**321**	**168**	**1,553**

Cost	Plant & machinery ₦ million	Motor vehicles ₦ million	Office furniture & IT equipment ₦ million	Leasehold improvements ₦ million	Total ₦ million
At 1 January 2018	1,594	2,266	4,456	895	9,211
Addition	–	469	206	30	705
Disposals	(102)	(82)	–	–	(184)
Exchange differences	6	10	18	3	37
At 31 December 2018	**1,498**	**2,663**	**4,680**	**928**	**9,769**
Depreciation					
At 1 January 2018	1,049	1,747	4,135	727	7,658
Disposal	(31)	(82)	–	–	(113)
Charge for the year	224	331	272	64	891
Exchange differences	5	7	17	4	33
At 31 December 2018	**1,247**	**2,003**	**4,424**	**795**	**8,469**
NBV					
At 31 December 2018	**251**	**660**	**256**	**133**	**1,300**

17 Property, plant and equipment continued

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

Cost					
At 1 January 2018	5,212	7,411	14,572	2,928	30,123
Addition	–	1,532	672	98	2,302
Disposals	(332)	(268)	–	–	(600)
At 31 December 2018	**4,880**	**8,675**	**15,244**	**3,026**	**31,825**
Depreciation					
At 1 January 2018	3,432	5,714	13,521	2,378	25,045
Disposals	(101)	(268)	–	–	(369)
Charge for the year	731	1,081	890	210	2,912
At 31 December 2018	**4,062**	**6,527**	**14,411**	**2,588**	**27,588**
NBV					
At 31 December 2018	**818**	**2,148**	**833**	**438**	**4,237**

17c Depletion, depreciation and amortisation

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

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

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

18 Other assets

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

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

19 Tax paid in advance

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

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

20 Prepayments

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

20a Rent
In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies, with two in Lagos state and one in Delta state. The non-cancellable leases which relate to buildings in Lagos expire in 2018 and 2019 respectively. The rent on the expired lease agreement was not renewed. The rent on the building in Delta state has been renewed and now expires in 2021. The Group has prepaid these rents. The long-term portion as at 31 December 2018 is ₦0.28 billion, 2017: ₦0.29 billion ($0.89 million, 2017: $0.94 million).

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

20b Advances to suppliers
Advances to suppliers relate to a milestone payment made to Fenog to finance the construction of the Amukpe Escravos Pipeline Project and other related facilities. At the end of the reporting period, the total prepaid amount is ₦7.7 billion, 2017: nil ($25 million, 2017: nil).

20c Other prepayments
Included in other prepayments are pre-paid service charge expenses for office buildings, health insurance, software licence maintenance, motor insurance premium and crude oil handling fees.

20d Crude oil hedge
In 2018, the Group commenced a crude oil hedge of ₦15,350 ($50/bbl) for 4 million barrels at a cost of ₦1.6 billion ($5.2 million). The contract commenced on 1 January 2019. A premium of ₦1.6 billion ($5.2 million) has been pre-paid and has been recognised as a prepayment as at 31 December 2018.

21 Interest in other entities

i) Material subsidiaries

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

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

22 Inventories

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Tubular, casing and wellheads	31,485	30,683	102,554	100,336

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

23 Trade and other receivables

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

23a Trade receivables

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

23b NPDC receivables

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

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

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

23c NAPIMS receivables

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

23d Other receivables

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

23.1 Reconciliation of trade receivables

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

24 Contract assets

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

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

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

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

24.1 Reconciliation of contract assets

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

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

25 Derivative financial instruments

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

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

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

26 Cash and bank balances

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

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

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

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

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

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

27 Share capital

27a Authorised and issued share capital

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

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

27b Movement in share related reserves

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

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

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

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

27c Share premium

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Share premium	82,080	82,080	497,457	497,457

Section 120.2 of the 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.

27d Employee share based payment scheme

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

The Group has made a number of share based awards under incentive plans since its IPO in 2014: IPO-related grants to Executive and Non-Executive Directors, 2014/2015/2016 deferred bonus awards and 2014/2015/2016/2017/2018 Long-term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015, 2016, 2017 and 2018 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Group.

27 Share capital continued

i) Description of the awards valued

Seplat Deferred Bonus Award

25% of each Executive Director's 2014, 2015, 2016 and 2017 bonus (paid in 2015, 2016, 2017 and 2018) has been deferred into shares and released on 1 June 2017, 1 June 2018, 20 April 2019 and 31 December 2019 respectively subject to continued employment over the vesting period. No performance criteria are attached to this award. As a result the fair value of these awards is the share price at the actual date of grant.

Long Term Incentive Plan (LTIP) awards

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

- 25% award vesting where the reserves growth was more than a 10% decrease.
- Straight-line basis between 25% and 100% where reserves growth was between a 10% decrease and a 10% increase.
- 100% award vesting where the reserves growth is equal to or greater than a 10% increase.
- If the Group outperforms the median TSR performance level with the LTIP exploration and production comparator group.

The LTIP awards have been approved by the NSE.

ii) Share based payment expenses

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

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

There were no cancellations to the awards in 2018 or 2017. The share awards granted to Executive Directors and confirmed employees are summarised below:

Scheme	Deemed grant date	Start of service period	End of service period	Number of awards
Global Bonus Offer	4 November 2015	9 April 2014	9 April 2015	6,472,138
Non- Executive Shares	4 November 2015	9 April 2014	9 April 2015	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	212,701
2014 Long Term Incentive Plan	14 December 2015	14 December 2015	09 April 2017	2,173,259
2015 Long Term Incentive Plan	31 December 2015	14 December 2015	21 April 2018	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	247,610
2016 Long Term Incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
2016 Deferred Bonus	24 November 2017	24 November 2017	20 April 2019	278,191
2017 Long Term Incentive Plan	24 November 2017	24 November 2017	20 April 2020	7,938,589
2017 Deferred Bonus	29 December 2017	29 December 2017	31 December 2019	193,830
2018 Long Term Incentive Plan	2 May 2018	2 May 2018	1 May 2021	6,519,022
				40,410,644

iii) Determination of diluted EPS

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

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

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

iv) Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in Deferred Bonus Scheme and Long Term Incentive Plan during the year for each available scheme.

Deferred Bonus Scheme	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	738,502	412.05	427,370	399.55
Granted during the year	193,830	589.04	311,132	428.69
Exercised during the year	(247,610)		–	–
Outstanding at 31 December	684,722	614.00	738,502	412.05
Exercisable at 31 December	–	–	–	–

Deferred Bonus Scheme	2018 Number	2018 WAEP US$	2017 Number	2017 WAEP US$
Outstanding at 1 January	738,502	1.35	427,370	1.31
Granted during the year	193,830	1.92	311,132	1.40
Exercised during the year	(247,610)		–	–
Outstanding at 31 December	684,722	2.00	738,502	1.35
Exercisable at 31 December	–	–	–	–

In 2017, the Group increased the number of shares attributable to the 2015 Deferred Bonus Scheme by 32,914 shares following a revaluation of the total number of share awards applicable to the scheme. The fair value per share of the additional shares at the date of the modification was determined to be ₦ 457.43 ($1.49). There were no incremental changes in the fair value per share and the vesting period did not change as the additional shares were assumed to have been issued in the same period and with the same terms as the original shares granted.

The fair value of the modified options was determined using the same models and principles as described in the table below on the inputs to the models used for the scheme.

Long Term Incentive Plan ('LTIP')	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	22,825,042	292.30	14,886,453	253.2
Granted during the year	6,519,022	593.27	7,938,589	367.45
Exercised during the year	(4,804,854)		–	–
Outstanding at 31 December	24,539,210	414.45	22,825,042	292.25
Exercisable at 31 December	–	–	–	–

Long Term Incentive Plan ('LTIP')	2018 Number	2018 WAEP US$	2017 Number	2017 WAEP US$
Outstanding at 1 January	22,825,042	0.96	14,886,453	0.83
Granted during the year	6,519,022	1.93	7,938,589	1.20
Exercised during the year	(4,804,854)		–	–
Outstanding at 31 December	24,539,210	1.35	22,825,042	0.96
Exercisable at 31 December	–	–	–	–

The shares are granted to the employees at no cost. The weighted average remaining contractual life for the share awards outstanding as at 31 December 2018 range from 0.3 to 1.3 years (2017: 0.3 to 2.3 years).

The weighted average fair value of awards granted during the year range from ₦590.77 to ₦540.32, 2017: ₦366.9 to ₦428.1 ($1.50 to $1.93, 2017: $1.20 to $1.40). There were no exercise prices for options outstanding at the end of the year (2017: ₦293.5 to ₦412.8, $0.96 to $1.35).

The fair value at grant date is independently determined using the Monte Carlo model which takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of peer group companies.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

27 Share capital continued

v) Inputs to the models

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2018:

	2017 Deferred Bonus	2017 LTIP	2018 LTIP
Weighted average fair values at the measurement date			
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	n/a	43%	41%
Risk-free interest rate (%)	n/a	0.44%	0.83%
Expected life of share options	1.66	2.40	3.00
Weighted average share price ($)	1.93	1.4	1.93
Weighted average share price (₦)	589.90	428.12	589.90
Model used	Black Scholes	Monte Carlo	Monte Carlo

28 Capital contribution

This represents M&P additional cash contribution to the Group. In accordance with the Shareholders' Agreement, the amount used by the Group for working capital was as required at the commencement of operations.

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Capital contribution	5,932	5,932	40,000	40,000

29 Foreign currency translation reserve

Cumulative foreign exchange differences arising from translation of the Group's results and financial position into the presentation currency and from the translation of foreign subsidiary are recognised in foreign currency translation reserve.

30 Interest bearing loans and borrowings

30a Net debt reconciliation

Below is the net debt reconciliation on interest bearing loans and borrowings:

	Borrowings due within 1 year ₦ million	Borrowings due above 1 year ₦ million	Total ₦ million	Borrowings due within 1 year US$'000	Borrowings due above 1 year US$'000	Total US$'000
Balance as at 1 January 2018	81,159	93,170	174,329	265,400	304,677	570,077
Principal repayment	(81,237)	(126,295)	(207,532)	(265,400)	(412,600)	(678,000)
Interest repayment	(13,343)	–	(13,343)	(43,465)	–	(43,465)
Interest accrued	18,135	239	18,374	59,247	782	60,029
Effect of loan restructuring	–	2,425	2,425	–	7,923	7,923
Other financing charges	(1,809)	–	(1,809)	(5,910)	–	(5,910)
Proceeds from loan financing	–	163,775	163,775	–	535,045	535,045
Exchange differences	126	485	611	–	–	–
Carrying amount as at 31 December 2018	**3,031**	**133,799**	**136,830**	**9,872**	**435,827**	**445,699**

Interest bearing loans and borrowings include a revolving loan facility and senior notes. In the reporting period, the Group repaid the outstanding principal amount of ₦140 billion ($458 million) on its ₦215 billion ($700 million) seven-year term loan and ₦37 billion ($120 million) on its ₦92 billion ($300 million) four-year revolving loan facility. The amount recognised as effect of loan restructuring represents the transaction costs related to these facilities.

In the reporting period, the Group also issued ₦107 billion ($350 million) senior notes at a contractual interest rate of 9.25% with interest payable on 1 April and 1 October, and principal repayable at maturity. The notes are expected to mature in April 2023. The interest accrued at the reporting date is ₦8 billion ($27 million) using an effective interest rate of 10.4%. Transaction costs of ₦2.1 billion, 2017: nil ($7 million, 2017: nil) have been included in the amortised cost balance at the end of the reporting period.

An agreement for another four-year revolving loan facility was entered into by the Group to refinance its old four-year revolving loan facility with interest payable semi-annually and principal repayable on 31 December of each year. The new revolving loan has an initial contractual interest rate of 6% +LIBOR (7.7%) and a settlement date of June 2022.

The interest rate of the facility is variable. The Group made a drawdown of ₦61 billion ($200 million) in March 2018. The interest accrued at the reporting period is ₦8 billion ($25 million) using an effective interest rate of 9.77%. The interest paid was determined using three-month LIBOR rate + 6 % on the last business day of the reporting period. The amortised cost for the senior notes and the borrowings at the reporting period is ₦107 billion ($349 million) and ₦30 billion ($96 million) respectively.

In October 2018, the Group made principal repayments on the four-year revolving facility for a lump sum of ₦30.7 billion ($100 million). The repayment was accounted for as a prepayment of the outstanding loan facility. The gross carrying amount of the facility was recalculated as the present value of the estimated future contractual cash flows that are discounted using the effective interest rate at the last reporting period. Gain or loss on modifications are recognised immediately as part of interest accrued on the facility. Transaction costs of ₦1.4 billion, 2017: nil ($4.5 million, 2017: nil) have been included in the amortised cost balance at the end of the reporting period.

The proceeds from the notes issue and new revolving loan facility were used to repay and cancel existing indebtedness, and for general corporate purposes.

30b Outstanding principal exposures

The following is the analysis of the principal outstanding showing the lenders of the facility as at the year end:

31 December 2018	Interest	Current ₦ million	Non-current ₦ million	Total ₦ million	Current US$'000	Non-current US$'000	Total US$'000
Senior notes	9.25%	–	107,450	107,450	–	350,000	350,000
Corporate loan:							
Stanbic IBTC Bank Plc	6.0% +LIBOR	–	3,684	3,684	–	12,000	12,000
The Standard Bank of South Africa	6.0% +LIBOR	–	2,456	2,456	–	8,000	8,000
Nedbank Limited, London Branch	6.0% +LIBOR	–	5,117	5,117	–	16,666	16,666
Standard Chartered Bank	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
Natixis	6.0% +LIBOR	–	3,582	3,582	–	11,667	11,667
FirstRand Bank Limited Acting	6.0% +LIBOR	–	3,582	3,582	–	11,667	11,667
Citibank N.A. London	6.0% +LIBOR	–	3,070	3,070	–	10,000	10,000
The Mauritius Commercial Bank Plc	6.0% +LIBOR	–	3,070	3,070	–	10,000	10,000
Nomura International Plc	6.0% +LIBOR	–	1,535	1,535	–	5,000	5,000
		–	30,701	30,701	–	100,000	100,000
		–	138,151	138,151	**–**	**450,000**	**450,000**

31 December 2017	Interest	Current ₦ million	Non-current ₦ million	Total ₦ million	Current US$'000	Non-current US$'000	Total US$'000
Term loan:							
SBSA	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
Stanbic	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
FBN	8.5% + LIBOR	10,070	21,651	31,721	32,931	70,800	103,731
UBA	8.5% + LIBOR	11,402	24,513	35,915	37,285	80,160	117,445
Zenith Bank	8.5% + LIBOR	18,243	39,221	57,464	59,656	128,256	187,912
Allan Gray	8.5% + LIBOR	1,331	2,862	4,193	4,353	9,359	13,712
		44,464	95,593	140,057	145,401	312,599	458,000
Corporate loan:							
Citibank Nigeria Limited	6% + LIBOR	4,280	–	4,280	14,000	–	14,000
FirstRand Bank Limited Acting	6% + LIBOR	3,668	–	3,668	12,000	–	12,000
JPMorgan Chase Bank N A London	6% + LIBOR	3,668	–	3,668	12,000	–	12,000
Nedbank Limited, London Branch	6% + LIBOR	3,668	–	3,668	12,000	–	12,000
The Mauritius Commercial Bank Plc	6% + LIBOR	3,668	–	3,668	12,000	–	12,000
Standard Chartered Bank	6% + LIBOR	5,503	–	5,503	18,000	–	18,000
Natixis	6% + LIBOR	5,503	–	5,503	18,000	–	18,000
Stanbic IBTC Bank Plc	6% + LIBOR	2,751	–	2,751	9,000	–	9,000
The Standard Bank of South Africa	6% + LIBOR	3,974	–	3,974	13,000	–	13,000
		36,683	–	36,683	120,000	–	120,000
		81,147	**95,593**	**176,740**	**265,401**	**312,599**	**578,000**

31 Contingent consideration

	₦ million	US$ '000
At 1 January 2017	3,672	12,040
Fair value loss	568	1,860
Exchange differences	11	–
At 31 December 2017	**4,251**	**13,900**
At 1 January 2018	4,251	13,900
Fair value loss	1,405	4,589
Exchange differences	20	–
At 31 December 2018	**5,676**	**18,489**

The contingent consideration of ₦5.7 billion ($18.5 million) for OML 53 relates solely to the oil segment. This is contingent on the oil price rising above $90/bbl (₦27,630/bbl) over a one-year period and expiring on 31 January 2020. The fair value loss arising during the reporting period is ₦1.4 billion ($4.6 million).

32 Provision for decommissioning obligation

	₦ million	US$ '000
At 1 January 2017	182	597
Unwinding of discount due to passage of time	29	96
Change in estimate	32,299	105,619
At 31 December 2017	**32,510**	**106,312**
At 1 January 2018	32,510	106,312
Unwinding of discount due to passage of time	892	2,914
Change in estimate	10,112	32,511
At 31 December 2018	**43,514**	**141,737**

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a "probable future sacrifice of economic benefits arising from a present obligation", and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred from 2027 to 2054 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2027 to 2054. These provisions were based on estimations carried out by Ryder Scott based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

Following the review of the current assumptions for the year ended 31 December 2018, the future value of the decommissioning liability was adjusted to reflect economic reality in the primary economic environment in which the Group operates.

As a result, the change in estimate in the current year for the Group amounted to ₦10.1 billion, 2017: ₦32.3 billion (US$32.5 million, 2017: US$105.6 million).

	Current estimated life span of reserves	
	2018 In years	2017 In years
Seplat Petroleum Development Company:	2027	2027
OML 4	2037	2034
OML 38	2027 – 2037	2027 – 2034
OML 41	2037	2034
Newton Energy Limited (OPL 283)	2037 – 2044	2027 – 2047
Seplat East Onshore Ltd (OML 53)	2028 – 2054	2041 – 2043

33. Employee benefit obligation

33a Defined contribution plan

The Group contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Group pays fixed contributions to an approved Pension Fund Administrator ('PFA') – a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Group. The Group's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2018 was ₦103 million, 2017: ₦55 million ($333,983, 2017: $180,462).

33b Defined benefit plan

i) Investment management strategy and policy

The Group operates a funded defined benefit pension plan in Nigeria under the regulation of the National Pension Commission. The plan provides benefits to all the employees (excluding Directors holding salaried employment in the Group) who have been employed by the Group for a continuous period of five years and whose employment has been confirmed. The employee's entitlement to the accrued benefits occurs on retirement from the Group. The level of benefits provided on severance depends on members' length of service and salary at retirement age.

The overall investment philosophy of the defined benefit plan fund is to ensure safety, optimum returns and liquidity in line with the regulation and guidelines of the Pension Reform Act 2014 or guidelines that may be issued from time to time by the National Pension Commission.

Plan assets are held in trust. Responsibility for supervision of the plan assets (including investment decisions and contributions schedules) lies jointly with the trustees and the pension fund managers. The trustees are made up of members of the Group's senior management appointed by Group's Board of Directors. The Group does not have an investment strategy of matching plan assets with the defined obligations as they fall due, however, the Group has an obligation to settle shortfalls in the plan asset upon annual actuarial valuations.

The provision for gratuity is based on an independent actuarial valuation performed by Logic Professional Services ('LPS') using the projected unit credit method. The provision is adjusted for inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

ii) Liability recognised in the financial position

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Defined benefit obligation	2,324	1,994	7,568	6,518
Fair value of plan assets	(505)	–	(1,645)	–
	1,819	**1,994**	**5,923**	**6,518**

iii) Amount recognised in profit or loss

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Present value of obligation				
Current service cost	500	444	1,633	1,451
Past service cost due to curtailment	–	(180)	–	(589)
Interest cost on benefit obligation	285	238	931	779
	785	502	2,564	1,641
Interest income on plan assets	(3)	–	(10)	–
Balance as at 31 December	**782**	**502**	**2,554**	**1,641**

The Group recognises a part of its defined benefit expenses in profit or loss and recharges the other part to its joint operations partners, this is recognised as a receivable from the partners. Below is the breakdown:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Balance as at 31 December	782	502	2,554	1,641
Charged to receivables	(442)	–	(1,443)	–
Charged to profit or loss	340	502	1,111	1,641

iv) Remeasurement (gains)/losses in other comprehensive income

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Remeasurement gains/(losses) due to changes in financial assumptions	408	(172)	1,331	(561)
Remeasurement losses/(gains) due to experience adjustment	(14)	82	(46)	267
Credited to other comprehensive income as at 31 December	394	(90)	1,285	(294)

The Group recognises a part of the remeasurement losses in other comprehensive income and credits the other part to its joint operations partners. Below is the breakdown:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Credited to other comprehensive income as at 31 December	394	(90)	1,285	(294)
Charged to receivables	(216)	–	(706)	–
Credited to comprehensive income	178	(90)	579	(294)

33 Employee benefit obligation continued

v) Deferred tax (expense)/credit on remeasurement (gains)/losses

The Group recognises deferred tax (expense)/credit on a part of the remeasurement losses in other comprehensive income. Below is the breakdown:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Deferred tax on remeasurement losses	(335)	76	(1,094)	250
Credited to receivables	255	–	833	-
Charged to comprehensive income	(80)	76	(261)	250

vi) The changes in the present value of the defined benefit obligation are as follows:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Defined benefit obligation as at 1 January	1,994	1,559	6,518	5,112
Current service cost	500	444	1,633	1,451
Past service cost due to curtailment	–	(180)	–	(589)
Interest cost on benefit obligation	285	238	931	779
Remeasurement losses	(394)	90	(1,285)	294
Contributions paid by the employer	(63)	(163)	(206)	(532)
Exchange differences	2	6	(23)	3
Defined benefit obligation at 31 December	**2,324**	**1,994**	**7,568**	**6,518**

vii) The changes in the fair value of plan assets are as follows:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Balance as at 1 January	–	–	–	–
Employer contributions	502	–	1,635	–
Contributions paid by the employer	63	–	206	–
Benefits paid by the employer	(63)	–	(206)	–
Interest income on plan assets	3		10	
Balance as at 31 December	**505**	**–**	**1,645**	**–**

The net liability disclosed above relates to funded plans as follows:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Present value of funded obligations	2,324	1,994	7,568	6,518
Fair value of plan assets	(505)	–	(1,645)	–
Deficit of funded plans	**1,819**	**1,994**	**5,923**	**6,518**

The fair value of the plan asset of the Group at the end of the reporting period was determined using the market values of the comprising assets as shown below:

	Quoted	Not quoted	2018 ₦ million	Quoted	Not quoted	2018 US$ '000
Money market	–	125	125	–	407	407
Treasury bills	379	–	379	1,234	–	1,234
Cash at bank	–	1	1	–	4	4
Total plan asset as at 31 December	**379**	**126**	**505**	**1,234**	**411**	**1,645**

viii) The principal assumptions used in determining defined benefit obligations for the Group's plans are shown below:

	2018 %	2017 %
Discount rate	15.50	14.00
Average future pay increase	12.00	12.00
Average future rate of inflation	12.00	12.00

a) Mortality in service

	Number of deaths in year out of 10,000 lives	
Sample age	2018	2017
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

b) Withdrawal from service

	Rates	
Age band	2018	2017
Less than or equal to 30	1.0%	1.0%
31 – 39	1.5%	1.5%
40 – 44	1.5%	1.5%
45 – 55	1.0%	1.0%
56 – 60	0.0%	0.0%

c) A quantitative sensitivity analysis for significant assumption as at 31 December 2018 is as shown below:

		Discount rate		Salary increases		Mortality	
Assumptions	Base	1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million
Sensitivity level: Impact on the net defined benefit obligation							
31 December 2018	2,324	(225)	262	280	(243)	3	(3)
31 December 2017	1,994	(215)	253	266	(229)	27	(28)

		Discount rate		Salary increases		Mortality	
Assumptions	Base	1% increase US$'000	1% decrease US$'000	1% increase US$'000	1% decrease US$'000	1% increase US$'000	1% decrease US$'000
Sensitivity level: Impact on the net defined benefit obligation							
31 December 2018	7,568	(735)	856	915	(794)	10	(10)
31 December 2017	6,518	(704)	828	869	(749)	88	(91)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The methods and assumptions used in preparing the sensitivity analysis did not change compared to prior period.

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

The expected maturity analysis of the undiscounted defined benefit plan obligation is as follows:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Within the next 12 months (next annual reporting period)	57	70	186	228
Between 2 and 5 years	1,335	926	4,361	3,028
Between 5 and 10 years	131,806	3,796	430,604	12,412
	133,198	**4,792**	**435,151**	**15,668**

The weighted average liability duration for the Plan is 11.95 years. The longest weighted duration for Nigerian Government bonds as at 31 December 2018 was about 5.96 years with a gross redemption yield of about 15.29%.

33 Employee benefit obligation continued

d) Risk exposure

Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

i) Liquidity risk

The plan liabilities are not fully funded and as a result, there is a risk of the Group not having the required cash flow to fund future defined benefit obligations as they fall due.

ii) Inflation risk

This is the risk of an unexpected significant rise/fall of market interest rates. A rise leads to a fall in long-term asset values and a rise in liability values.

iii) Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant where inflationary increases result in higher sensitivity to changes in life expectancy.

iv) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to federal government bond yields. The majority of the plan assets are investments in fixed income securities. If plan assets underperform the federal government bond yields, it will result in a deficit in the plan assets.

34 Trade and other payables

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Trade payable	12,073	19,191	39,328	62,758
Nigerian Petroleum Development Company (NPDC)	10,022	–	32,643	–
National Petroleum Investment Management Services (NAPIMS)	2,785	–	9,073	–
Accruals and other payables	53,296	45,570	173,604	149,020
Pension payables	107	55	350	180
NDDC levy	345	2,564	1,124	8,383
Deferred revenue	–	41,970	–	137,248
Royalties payable	8,732	16,209	28,443	53,004
	87,360	**125,559**	**284,565**	**410,593**

Included in accruals and other payables are field-related accruals of ₦22.7 billion, 2017: ₦17.1 billion ($74 million, 2017: $56 million) and other vendor payables of ₦31 billion, 2017: ₦28.7 billion ($101 million, 2017: $93 million). Royalties include accruals in respect of crude and gas production for which payment is outstanding at the end of the year.

NPDC payables relate to cash calls paid in advance in line with the Group's Joint Operating Agreement (JOA) on OML 4, OML 38 and OML 41.The outstanding NPDC receivables at the end of the reporting period was used to calculate the impairment losses for the year. The impairment losses were then netted against the outstanding receivable to arrive at a net receivables amount. At the end of the reporting period, this net receivables amount has been netted against payables to NPDC as the Group has a right to offset.

In 2017, NAPIMS receivables related to cash calls from its JOA with Seplat East Onshore. At the end of the reporting period, NAPIMS settled their cash calls and advanced monies for the Jisike Oil project, which is yet to commence. The amount advanced has therefore been recognised as a payable.

34a. Net debt reconciliation

Included in accruals and other payables is advance payment on crude oil sales. Below is the net debt reconciliation on this amount.

	2018 ₦ million	2018 US$ '000
Balance as at 1 January 2018	23,723	77,499
Principal repayment	(23,193)	(75,769)
Interest repayment	(530)	(1,730)
Carrying amount as at 31 December 2018	–	–

35 Earnings per share (EPS)

Basic

Basic EPS is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average number of issued and fully paid ordinary shares at the end of the year.

Diluted

Diluted EPS is calculated by dividing the profit after taxation attributable to the parent entity by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (arising from outstanding share awards in the share based payment scheme) into ordinary shares.

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Profit for the year	44,867	81,111	146,576	265,230
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	567,555	563,445	567,555	563,445
Outstanding share based payments (shares)	12,351	8,206	12,351	8,206
Weighted average number of ordinary shares adjusted for the effect of dilution	580,006	571,651	580,006	571,651
	₦	₦	US$	US$
Basic earnings/(loss) per share	79.04	143.96	0.26	0.47
Diluted earnings/(loss) per share	77.36	141.89	0.25	0.46
	₦ million	₦ million	US$ '000	US$ '000
Profit used in determining basic/diluted earnings per share	44,867	81,111	146,576	265,230

The shares were weighted for the proportion of the number of months they were in issue during the reporting period

36 Dividends paid and proposed

As at 31 December 2018, there was no final dividend proposed for the Group (2017: Nil).

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Cash dividends on ordinary shares declared and paid:				
Interim dividend for 2018: ₦30.7 ($0.10) per share, 568,497,025 shares in issue (2017: ₦ Nil, $ Nil per share, 563,444,561 shares in issue)	18,036	–	58,888	–
Proposed dividend on ordinary shares:				
Final proposed dividend for the year: ₦15.35 ($0.05) per share	9,033		29,422	

₦9 billion ($29.4 million) of the interim dividend was paid at ₦15.35 ($0.05) per share as at 31 March 2018 and the remaining dividend ($29.4 million, ₦9 billion) was paid at ₦15.35 ($0.05) as at 31 December 2018.

37 Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the parent Company). The parent Company is owned 7.81% either directly or by entities controlled by A.B.C. Orjiako (SPDCL(BVI)) and members of his family and 12.04% either directly or by entities controlled by Austin Avuru (Professional Support Limited and Platform Petroleum Limited). The remaining shares in the parent Company are widely held.

37a Related party relationships

The services provided by the related parties:

Abbeycourt Trading Company Limited: The Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): Is owned by common shareholders with the parent Company. The company provides drilling rigs and drilling services to Seplat.

Charismond Nigeria Limited: The sister to the CEO works as a General Manager. The company provides administrative services including stationery and other general supplies to the field locations.

Helko Nigeria Limited: The Chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

37 Related party relationships and transactions continued

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The Chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

Stage Leasing (Ndosumili Ventures Limited): Is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The Chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

Nerine Support Services Limited: Is owned by common shareholders with the parent company. Seplat leases a warehouse from Nerine and the company provides agency and contract workers to Seplat.

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Petroleum Development Company Limited ('BVI'): The Chairman of Seplat is a director and shareholder of SPDCL (BVI). The company provided consulting services to Seplat.

The following transactions were carried by Seplat with related parties:

37b Related party transactions

Year-end balances arising from related party transactions:

i) Purchases of goods and services

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Shareholders of the parent Company				
SPDCL (BVI)	333	413	1,088	1,350
Total	333	413	1,088	1,350
Entities controlled by key management personnel:				
Contracts > $1million in 2018				
Nerine Support Services Limited*	2,335	2,161	7,627	7,066
Cardinal Drilling Services Limited	621	1,001	2,029	3,272
Helko Nigeria Limited	–	444	–	1,453
Abbey Court Trading Company Limited	334	199	1,090	650
Stage Leasing (formerly Ndosumuli Venture Limited)	434	171	1,419	560
	3,724	3,976	12,165	13,001
Contracts < $1million in 2017				
Montego Upstream Services Limited	24	131	79	427
Oriental Catering Services Limited	199	159	650	520
Keco Nigeria Enterprises	78	110	254	361
ResourcePro Inter Solutions Limited	3	9	9	31
Neimeth International Pharmaceutical Plc	–	1	–	2
Charismond Nigeria Limited	23	17	74	55
	327	427	1,066	1,396
	4,051	**4,403**	**13,231**	**14,397**

1 Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. The amounts shown above are gross i.e. it includes salaries and Nerine's mark-up. Total cost for agency and contracts during 2018 is ₦0.2 billion, 2017: ₦1.4 billion ($0.6 million, 2017: $4.6million).

All other transactions were made on normal commercial terms and conditions, and at market rates.

37c Balances

The following balances were receivable from or payable to related parties as at the end of the year:

i) Prepayments/receivables

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Entities controlled by key management personnel				
Cardinal Drilling Services Limited – current portion	1,495	1,681	4,869	5,498
Montego Upstream Services Limited	8	–	26	–
ResourcePro Inter Solutions Ltd	2	–	6	–

ii) Payables

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Entities controlled by key management personnel				
Montego Upstream Services Limited	–	115	–	375
Nerine Support Services Limited	–	2	–	8
Keco Nigeria Enterprises	19	8	61	25
Oriental Catering Services Ltd	14	–	47	
Cardinal Drilling Services Limited	–	292	–	954
Abbey Court Trading Company Limited	9	–	28	
Charismond Nigeria Limited	–	–	1	
Stage Leasing Limited	13	–	43	
	55	**417**	**180**	**1,362**

The outstanding balances payable to/receivable from related parties are unsecured and are payable/receivable in cash.

38 Information relating to employees

38a Key management compensation

Key management includes executive and members of the leadership team. The compensation paid or payable to key management for employee services is shown below:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Salaries and other short-term employee benefits	793	612	2,590	2,107
Post-employment benefits	86	88	281	287
Share based payment expenses	146	87	476	283
	1,025	**792**	**3,347**	**2,587**

38b Chairman and Directors' emoluments

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Chairman (Non-executive)	342	342	1,118	1,118
Chief Executive Officer	445	476	1,453	1,557
Executive Directors	699	284	2,283	928
Non-Executive Directors	494	580	1,614	1,897
Bonus[1]	–	632	–	2,067
JOA Partner Share	–	(418)	–	(1,367)
Total	**1,980**	**1,896**	**6,468**	**6,200**

1 This relates to 2017 bonus paid in 2018. Out of this amount ₦231 million ($0.7 million) relates to 2016 bonus accrued and paid in 2017.

38c Highest paid Director

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Highest paid Director	483	476	1,577	1,557

Emoluments are inclusive of income taxes.

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38d Number of Directors

	2018 Number	2017 Number
Zero – ₦19,896,500	–	–
₦19,896,501 – ₦115,705,800	8	8
₦115,705,801 – ₦157,947,600	–	1
Above ₦157,947,600	3	3
	11	**12**

	2018 Number	2017 Number
Zero – $65,000	–	–
$65,001 – $378,000	8	8
$378,001 – $516,000	–	1
Above $516,000	3	3
	11	**12**

38e Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,989,650 ($6,500), received remuneration (excluding pension contributions) in the following ranges:

	2018 Number	2017 Number
₦1,989,650 – ₦4,897,600	71	61
₦4,897,601– ₦9,795,200	177	184
₦9,795,201 – ₦14,692,800	77	59
Above ₦14,692,800	139	110
	464	**414**

	2018 Number	2017 Number
$6,500 – $16,000	71	7
$16,001 – $32,000	177	21
$32,001 – $48,000	77	102
Above $48,000	139	269
	464	**414**

38f Number of persons employed during the year

	2018 Number	2017 Number
Senior management	16	14
Managers	93	88
Senior staff	193	147
Junior staff	162	165
	464	**414**

38g Employee costs

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to the following:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Salaries and wages	6,021	5,016	19,670	16,401
	6,021	**5,016**	**19,670**	**16,401**

39 Commitments and contingencies

39a Non-cancellable operating leases

The Group leases drilling rigs, buildings and land. The lease terms are between one and five years. The leases have varying terms, including extension options. On renewal of a lease, the terms are renegotiated. Commitments for minimum operating lease payments in relation to non-cancellable operating leases are payable as follows:

Operating lease commitments	2018 ₦ million	2017 ₦ million	2018 US$'000	2017 US$'000
Not later than one year	589	728	1,918	2,382
Later than one year and not later than five years	7,379	565	24,036	1,846
	7,968	**1,293**	**25,954**	**4,228**

Rental expenses relating to operating leases are disclosed within general and administrative expenses. See note 10.

The Group entered into a five-year agreement from 1 January 2018 to 31 December 2023 for the lease of its new head office. The agreement had a Fit-Out period of four months from 1 September to 31 December 2018 in which the premises were made available for the Group's use and purpose. As a result, the non-cancellable lease commitment relating to this has been included in the table above. The Group has not early adopted IFRS 16 which will affect the accounting for this contract. See note 3.2 for further details.

39b Contingent assets

Seplat solely constructed Oben Gas plant to process gas extracted from OML 4, 38 and 41. Seplat has processed NPDC's 55% share of gas from 2015 till date and has not received payment for this service. Seplat did not recognise the related income or receivable for the service provided till date as the basis for determining the fees is yet to be concluded with NPDC.

To enable parties to close out this, in 2018, a Value For Money (VFM) audit was initiated by NPDC to determine whether to buy in to the gas processing operation or to pay tolling for the processing services provided in the past and to continue tolling. A contingent asset is highly probable but has not been recognised as a receivable as at 31 December 2018 as receipt of the amount is dependent on the outcome of the VFM audit and eventual negotiations.

Seplat entered into a non-contractual promise with PanOcean to allow PanOcean pass crude oil through its pipelines from a field just above Seplat's to the terminal for loading. Management has determined that the non-existence of an enforceable contract with PanOcean means that it may not be viewed as a valid contract with a customer in accordance with IFRS 15 which was adopted at the beginning of the year. However, parties are now in discussions and in the concluding stages of executing a contract.

Seplat has not recognised the related income or receivable for the service provided. It has therefore disclosed a contingent asset of ₦0.4 billion, 1 January 2018: ₦0.4 billion ($1.4 million, 1 January 2018: $1.4 million) as the amount that will be due to Seplat when an enforceable contract is agreed by both parties. No amount has been recognised in revenue in relation to the transaction.

39c Contingent liabilities

The Group is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2018 is ₦0.7 billion, 2017: ₦57 billion ($2.4 million, 2017: $187 million). The contingent liability for the year is determined based on possible occurrences, though unlikely to occur. No provision has been made for this potential liability in these financial statements. Management and the Group's solicitors are of the opinion that the Group will suffer no loss from these claims.

39d Capital commitments

As the end of the reporting period, the Group had no capital commitments (2017: nil).

40 Events after the reporting period

Group has contingent consideration relating to the transfer of OMLs 52, 53 and 55 to Chevron Nigeria Limited. Both parties agreed to defer a part of the price of the transfer (₦5.7 billion, $18.5 million) for a maximum period of five (5) years until 31 January 2020. The terms of the deferred payment provide that the Group is required to pay the full amount if the average daily Brent crude closing has been maintained at a price of less than $90 per barrel for a minimum period of twelve (12) consecutive months at any time before the expiration of the deferred payment term.

Subsequent to the year-end, the Group has determined that the price of average daily Brent crude closing will not be more than $90 per barrel and is therefore not liable to make the deferred payment.

Following a review of the Group's financial position and liquidity at 31 December 2018, the Board has proposed a final dividend of ₦15.35 ($0.05) per share. The total amount of this proposed dividend expected to be paid out of retained earnings but for which no liability has been recognised in the financial statements is ₦9 billion ($29.4 million).

Except for the dividends paid and the reversal of the contingent consideration (note 31), there were no significant events after the statement of financial position date which could have a material effect on the state of affairs of the Group as at 31 December 2018 and on the profit or loss for the year ended on that date, which have not been adequately provided for or disclosed in these financial statements.

41 Transition disclosures

This note explains the impact of the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers (including the amendments to IFRS 15) on the Group's financial statements.

41.1 Impact on the financial statements

As explained in note 41.1.2 below, IFRS 9: Financial Instruments was adopted without restating comparative information. The adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of changes in equity on 1 January 2018. The Group has not elected to adopt practical expedients on adoption of IFRS 9.

The Group has also adopted IFRS 15: Revenue from Contracts with Customers using the modified retrospective method, with the effect of applying this standard recognised at the date of initial application (1 January 2018). The Group has elected to adopt the right to invoice as a practical expedient for gas sales on adoption of IFRS 15. Accordingly, the information presented for 2017 financial year has not been restated but is presented, as previously reported, under IAS 18 and related interpretations.

The following tables summarise the impact, net of tax, of transition to IFRS 9 and IFRS 15 for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. There was no impact on the statement of cash flows as a result of adopting the new standards.

Operating lease commitments	Notes	At 31 December 2017 ₦ million	Impact of IFRS 9 ₦ million	Impact of IFRS 15 ₦ million	As at 1 January 2018 ₦ million
Assets					
Non-current assets					
Deferred tax		68,417	2,013	–	70,430
Current assets					
Trade and other receivables	23	94,904	(2,265)	(4,217)	88,422
Contract assets	24	–	–	4,217	4,217
Cash and bank balances	26	133,699	(103)	–	133,596
Total assets		**799,553**	**(355)**	**–**	**799,198**
Equity and liabilities					
Equity					
Retained earnings		166,149	(355)	–	165,794
Total shareholders' equity		**459,646**	**(355)**	**–**	**459,291**

Operating lease commitments	Notes	At 31 December 2017 US$'000	Impact of IFRS 9 US$'000	Impact of IFRS 15 US$'000	As at 1 January 2018 US$'000
Assets					
Non-current assets					
Deferred tax		223,731	6,577	–	230,308
Current assets					
Trade and other receivables	23	310,345	(7,402)	(13,790)	289,153
Contract assets	24	–	–	13,790	13,790
Cash and bank balances	26	437,212	(335)	–	436,877
Total assets		**2,614,630**	**(1,160)**	**–**	**2,613,470**
Equity and liabilities					
Equity					
Retained earnings		944,108	(1,160)	–	942,948
Total shareholders' equity		**1,503,097**	**(1,160)**	**–**	**1,501,937**

41.2 IFRS 9 Financial Instruments – Impact of adoption

The new financial instruments standard, IFRS 9 replaces the provisions of IAS 39. The new standard presents a new model for classification and measurement of assets and liabilities, a new impairment model which replaces the incurred credit loss approach with an expected credit loss approach, and new hedging requirements.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in the notes below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated but the impact of adoption has been adjusted through opening retained earnings for the current reporting period.

41.2.1 Classification and measurement

a) Financial assets

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management assessed the classification of its financial assets which is driven by the cash flow characteristics of the instrument and the business model in which the asset is held.

The Group's financial assets include cash and bank balances and trade and other receivables. The Group's business model is to hold these financial assets to collect contractual cash flows and to earn contractual interest. For cash and bank balances, interest is based on prevailing market rates of the respective bank accounts in which the cash and bank balances are domiciled. Interest on trade and other receivables is earned on defaulted payments in accordance with the Joint Operating Agreement (JOA). The contractual cash flows arising from these assets represent solely payments of principal and interest (SPPI).

Cash and bank balances and trade and other receivables that were previously classified as loans and receivables (L and R) are now classified as financial assets at amortised cost.

Since there was no change in the measurement basis except for nomenclature change, opening retained earnings was not impacted (no difference between the previous carrying amount and the revised carrying amount of these assets at 1 January 2018).

b) Financial liabilities

The adoption of IFRS 9 eliminates the policy choice on the treatment of gain or loss from the refinancing of a borrowing. Day one gain or loss can no longer be deferred over the remaining life of the borrowing but must now be recognised at once. No retrospective adjustments have been made in relation to this change as at 1 January 2018.

On the date of initial application, 1 January 2018, the financial instruments of the Group were classified as follows:

	Classification & Measurement category		Carrying amount	
	Original IAS 39	New IFRS 9	Original ₦ million	New ₦ million
Current financial assets				
Trade and other receivables:				
Trade receivables	L and R	Amortised cost	33,236	33,236
NPDC receivables	L and R	Amortised cost	34,453	34,453
NAPIMS receivables	L and R	Amortised cost	3,824	3,824
Other receivables[1]	L and R	Amortised cost	7	7
Cash and bank balances	L and R	Amortised cost	133,699	133,699
Non-current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	93,170	93,170
Current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	81,159	81,159
Trade and other payables[2]	Amortised cost	Amortised cost	38,876	38,876

	Classification & Measurement category		Carrying amount	
	Original IAS 39	New IFRS 9	Original US$'000	New US$'000
Current financial assets				
Trade and other receivables:				
Trade receivables	L and R	Amortised cost	108,685	108,685
NPDC receivables	L and R	Amortised cost	112,664	112,664
NAPIMS receivables	L and R	Amortised cost	12,506	12,506
Other receivables[1]	L and R	Amortised cost	23	23
Cash and bank balances	L and R	Amortised cost	437,212	437,212
Non-current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	304,677	304,677
Current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	265,400	265,400
Trade and other payables[2]	Amortised cost	Amortised cost	127,128	127,128

1 Other receivables exclude NGMC VAT receivables, cash advance and advance payments.

2 Trade and other payables exclude provisions (including provisions for bonus and royalties), VAT, Withholding tax, deferred revenue and royalties.

The new carrying amounts in the table above have been determined based on the measurement criteria specified in IFRS 9. However, the impact of IFRS 9 expected credit loss impairment and IFRS 15 reclassifications has also not been considered here. See the subsequent pages for the impacts.

41 Transition disclosures continued

41.2.2 Impairment of financial assets

The Group has five types of financial assets that are subject to IFRS 9's new expected credit loss model. Contract assets are also subject to the new expected credit loss model, even though they are not financial assets, as they have substantially the same credit risk characteristics as trade receivables. Under IFRS 9, the Group is required to revise its previous impairment methodology under IAS 39 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings is disclosed in the table below.

- Nigerian Petroleum Development Company (NPDC) receivables;
- National Petroleum Investment Management Services (NAPIMS);
- Trade receivables;
- Contract assets;
- Other receivables; and
- Cash and bank balances.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Notes	₦ million	US$'000
Closing retained earnings as at 31 December 2017 – IAS 39		166,149	944,108
Increase in provision for Nigerian Petroleum Development Company (NPDC) receivables	(a)	(1,698)	(5,553)
Increase in provision for National Petroleum Investment Management Services (NAPIMS) receivables	(b)	(64)	(213)
Increase in provision for Nigerian Gas Marketing Company (NGMC) receivables	(c)	(468)	(1,535)
Increase in provision for Pillar Limited receivables	(c)	(31)	(101)
Increase in provision for fixed deposits	(e)	(103)	(335)
Exchange difference		(4)	–
Total transition adjustments		(2,368)	(7,737)
Deferred tax impact on transition adjustments		2,013	6,577
Opening retained earnings as at 1 January 2018 on adoption of IFRS 9		165,794	942,948

The parameters used to determine impairment for NPDC receivables, NAPIMS receivables, other receivables and fixed deposits are shown below. For all receivables presented in the table, the respective 12-month Probability of Default (PD) equates to the Lifetime PD for stage 2 as the maximum contractual period over which the Group is exposed to credit risk arising from the receivables is less than 12 months.

	Nigerian Petroleum Development Company (NPDC) receivables	National Petroleum Investment Management Services (NAPIMS) receivables	Other receivables	Fixed deposits
Probability of Default (PD)	The 12-month PD and lifetime PD for stage 1 and stage 2 is 3.9%. The PD for stage 3 is 99%.	The 12-month PD and lifetime PD for stage 1 and stage 2 is 3.9%. The PD for stage 3 is 99%.	The 12-month PD and lifetime PD for stage 1 and stage 2 is 0.05%. The PD for stage 3 is 99%.	The 12-month PD and lifetime PD for stage 1 and stage 2 is 0.09%. The PD for stage 3 is 99%.
Loss Given Default (LGD)	The 12-month LGD and lifetime LGD were determined using average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using the average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.
Exposure at Default (EAD)	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the fixed deposits to credit risk.
Macroeconomic indicators	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were used.	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were used.	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were used.	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were used.
Probability weightings	75%, 8% and 17% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	75%, 8% and 17% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	89%, 2% and 9% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	78%, 12% and 10% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.

The Group considers both quantitative and qualitative indicators in classifying its receivables into the relevant stages for impairment calculation as shown below:

- Stage 1: This stage includes financial assets that are less than 30 days past due (Performing).
- Stage 2: This stage includes financial assets that have been assessed to have experienced a significant increase in credit risk using the days past due criteria (i.e. the outstanding receivables amounts are more than 30 days past due but less than 90 days past due) and other qualitative indicators such as the increase in political risk concerns or other micro-economic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance.
- Stage 3: This stage includes financial assets that have been assessed as being in default (i.e. receivables that are more than 90 days past due) or that have a clear indication that the imposition of financial or legal penalties and/or sanctions will make the full recovery of indebtedness highly improbable.

a) Nigerian Petroleum Development Company (NPDC) receivables

NPDC receivables represent the outstanding cash calls due to Seplat from its Joint Arrangement partner, Nigerian Petroleum Development Company. The Group applies the IFRS 9 general model for measuring expected credit losses (ECL). This requires a three-stage approach in recognising the expected loss allowance for NPDC receivables.

The ECL recognised for the period is a probability-weighted estimate of credit losses discounted at the effective interest rate of the financial asset. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The ECL was calculated based on actual credit loss experience from 2014, which is the date the Group initially became a party to the contract. The following analysis provides further detail about the calculation of ECLs related to these assets. The Group considers the model and the assumptions used in calculating these ECLs as key sources of estimation uncertainty. See notes 11, 23 and 34 for further details.

				1 January 2018
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	–	11,369	23,084	**34,453**
Loss allowance as at 1 January 2018	–	(32)	(1,666)	**(1,698)**
Net EAD	–	11,337	21,418	**32,755**

				31 December 2018
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	–	–	14,871	**14,871**
Loss allowance as at 31 December 2018	–	–	(2,475)	**(2,475)**
Net EAD	–	–	12,396	**12,396**

1 Exposure at default

				1 January 2018
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	–	37,179	75,485	**112,664**
Loss allowance as at 1 January 2018	–	(105)	(5,448)	**(5,553)**
Net EAD	–	37,074	70,037	**107,111**

				31 December 2018
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	–	–	48,439	**48,439**
Loss allowance as at 31 December 2018	–	–	(8,086)	**(8,086)**
Net EAD	–	–	40,353	**40,353**

1 Exposure at default

41 Transition disclosures continued

The reconciliation of loss allowances for Nigerian Petroleum Development Company receivables as at 31 December 2017 and 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 31 December 2017 – calculated under IAS 39	–	–
Amounts adjusted through opening retained earnings	1,698	5,553
Loss allowance as at 1 January 2018 – calculated under IFRS 9	1,698	5,553
Unwinding of discount	19	62
Increase in provision for impairment loss on NPDC receivables	756	2,471
Exchange difference	2	–
Loss allowance as at 31 December 2018 – Under IFRS 9	2,475	8,086

b) National Petroleum Investment Management services (NAPIMS) receivables

NAPIMS receivables represent the outstanding cash calls due to Seplat from its Joint Operating Arrangement (JOA) partner, National Petroleum Investment Management Services. The Group applies the IFRS 9 general model for measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for NAPIMS receivables.

The ECL was calculated based on actual credit loss experience from 2016, which is the date the Group initially became a party to the contract. The following analysis provides further detail about the calculation of ECLs related to these assets. The Group considers the model and the assumptions used in calculating these ECLs as key sources of estimation uncertainty. The explanation of inputs, assumptions and estimation techniques used are consistent with those for NPDC receivables.

On initial application of IFRS 9, an impairment loss of ₦80 million, ($263,000) was recognised for NAPIMS receivables. This loss allowance was calculated on a total exposure of ₦3.8 billion, ($12.5 million). During the reporting period, the outstanding receivable was settled. This resulted in a reversal of the previously recognised impairment loss. See notes 11, 23 and 34 for further details.

	1 January 2018			
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	1,306	–	2,518	**3,824**
Loss allowance as at 1 January 2018	(2)	–	(62)	**(64)**
Net EAD	1,304	–	2,456	**3,760**

	1 January 2018			
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	4,274	–	8,232	**12,506**
Loss allowance as at 1 January 2018	(5)	–	(208)	**(213)**
Net EAD	4,269	–	8,024	**12,293**

The reconciliation of gross carrying amount for National Petroleum Investment Management Services receivables is as follows:

	₦ million	US$'000
Gross carrying amount as at 1 January	3,824	12,506
Receipts for the year	(3,824)	(12,506)
Exchange differences	–	–
Gross carrying amount as at 31 December	–	–

The reconciliation of loss allowances for National Petroleum Investment Management Services receivables as at 31 December 2017 and 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 31 December 2017 – calculated under IAS 39	–	–
Amounts restated through opening retained earnings	64	213
Loss allowance as at 1 January 2018 – calculated under IFRS 9	64	213
Unwinding of discount	1	2
Reversal of impairment loss on NAPIMS receivables	(65)	(215)
Exchange difference	–	–
Loss allowance as at 31 December 2018 – Under IFRS 9	–	–

c) Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due criterion. Contract assets relate to unbilled amounts for the delivery of gas supplies in which NGMC has taken delivery of but has not been invoiced as at the end of the reporting period. These assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Trade receivables and contract assets include amounts receivable from Nigerian Gas Marketing Company (NGMC), Mercuria Energy Group and Pillar Limited. See notes 11 and 23 for further details.

i) Nigerian Gas Marketing Company (NGMC) receivables

NGMC receivables represents the amount receivable from NGMC for gas sales. The expected credit loss rate for this receivable is determined using a provision matrix. The provision matrix used is based on the Group's historical default rates observed over the expected life of the receivable and is adjusted for forward-looking estimates.

An expected loss rate was calculated as the percentage of the receivable that is deemed uncollectible during a particular period. The expected loss rates as at 1 January 2018 and 31 December 2018 are as follows:

						1 January 2018
	Current ₦'million	1-30 days past due ₦'million	31-60 days past due ₦'million	61-90 days past due ₦'million	91 and 120 days past due ₦'million	More than 120 days past due ₦'million
Gross carrying amount	–	–	3,328	5,168	6,103	3,404
Expected loss rate	–	–	1.43%	1.56%	1.60%	7.13%
Lifetime ECL	–	–	(47)	(81)	(98)	(242)
Total	**–**	**–**	**3,281**	**5,087**	**6,005**	**3,162**

						31 December 2018
	Current ₦'million	1-30 days past due ₦'million	31-60 days past due ₦'million	61-90 days past due ₦'million	91 and 120 days past due ₦'million	More than 120 days past due ₦'million
Gross carrying amount	4,639	–	2,392	4,035	–	3,080
Expected loss rate	0.53%	–	0.53%	0.53%	–	2.04%
Lifetime ECL	(25)	–	(13)	(21)	–	(63)
Total	**4,614**	**–**	**2,379**	**4,014**	**–**	**3,017**

						1 January 2018
	Current US$'000	1-30 days past due US$'000	31-60 days past due US$'000	61-90 days past due US$'000	91 and 120 days past due US$'000	More than 120 days past due US$'000
Gross carrying amount	–	–	10,877	16,888	19,944	11,128
Expected loss rate	–	–	1.43%	1.56%	1.60%	7.13%
Lifetime ECL	–	–	(155)	(265)	(320)	(794)
Total	**–**	**–**	**10,722**	**16,623**	**19,624**	**10,334**

						31 December 2018
	Current US$'000	1-30 days past due US$'000	31-60 days past due US$'000	61-90 days past due US$'000	91 and 120 days past due US$'000	More than 120 days past due US$'000
Gross carrying amount	15,111	–	7,792	13,142	–	10,033
Expected loss rate	0.53%	–	0.53%	0.53%	–	2.04%
Lifetime ECL	(80)	–	(41)	(70)	–	(205)
Total	**15,031**	**–**	**7,751**	**13,072**	**–**	**9,828**

The reconciliation of gross carrying amount for NGMC is as follows:

	₦ million	US$'000
Gross carrying amount as at 1 January	18,003	58,837
Receipts for the year	(3,903)	(12,750)
Exchange differences	46	–
Gross carrying amount as at 31 December	14,146	46,077

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41 Transition disclosures continued

The reconciliation of loss allowances for Nigerian Gas Marketing Company receivables as 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 31 December 2017 – calculated under IAS 39	–	–
Amounts restated through opening retained earnings	468	1,535
Loss allowance as at 1 January 2018 – calculated under IFRS 9	468	1,535
Reversal of impairment loss on NGMC receivables	(347)	(1,139)
Exchange difference	1	–
Loss allowance as at 31 December 2018 – Under IFRS 9	122	396

ii) Pillar Limited receivables

These amounts represent cash calls receivables from Pillar Limited. The expected cash calls were assessed to be repayable within the next 12 months after adjusting for possible cash shortfalls and macroeconomic indicators. Based on this, possible loss rates were determined for each ageing bucket.

						1 January 2018
	Current ₦'million	1-30 days past due ₦'million	31-60 days past due ₦'million	61-90 days past due ₦'million	91 and 120 days past due ₦'million	More than 120 days past due ₦'million
Gross carrying amount	1,273	–	–	–	–	–
Expected loss rate	2.46%	–	–	–	–	–
Lifetime ECL	(31)	–	–	–	–	–
Total	**1,242**	**–**	**–**	**–**	**–**	**–**

						31 December 2018
	Current ₦'million	1-30 days past due ₦'million	31-60 days past due ₦'million	61-90 days past due ₦'million	91 and 120 days past due ₦'million	More than 120 days past due ₦'million
Gross carrying amount	164	–	–	–	–	–
Expected loss rate	2.26%	–	–	–	–	–
Lifetime ECL	(4)	–	–	–	–	–
Total	**160**	**–**	**–**	**–**	**–**	**–**

						1 January 2018
	Current US$'000	1-30 days past due US$'000	31-60 days past due US$'000	61-90 days past due US$'000	91 and 120 days past due US$'000	More than 120 days past due US$'000
Gross carrying amount	4,160	–	–	–	–	–
Expected loss rate	2.46%	–	–	–	–	–
Lifetime ECL	(101)	–	–	–	–	–
Total	**4,059**	**–**	**–**	**–**	**–**	**–**

						31 December 2018
	Current US$'000	1-30 days past due US$'000	31-60 days past due US$'000	61-90 days past due US$'000	91 and 120 days past due US$'000	More than 120 days past due US$'000
Gross carrying amount	535	–	–	–	–	–
Expected loss rate	2.26%	–	–	–	–	–
Lifetime ECL	(12)	–	–	–	–	–
Total	**523**	**–**	**–**	**–**	**–**	**–**

The reconciliation of gross carrying amount for Pillar Limited receivables is as follows:

	₦ million	US$'000
Gross carrying amount as at 1 January	1,273	4,160
Receipts for the year	(1,110)	(3,625)
Exchange differences	1	–
Gross carrying amount as at 31 December	164	535

The reconciliation of loss allowances for Pillar Limited receivables as 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 31 December 2017 – calculated under IAS 39	–	–
Amounts restated through opening retained earnings	31	101
Loss allowance as at 1 January 2018 – calculated under IFRS 9	31	101
Reversal of impairment loss on Pillar Limited receivables	(27)	(89)
Exchange difference	–	–
Loss allowance as at 31 December 2018 – Under IFRS 9	4	12

iii) Mercuria Energy Group

Mercuria Energy Group receivables represents the amount receivable from oil sales. The expected credit loss rate was determined using provision matrix. The loss rate was calculated to be 0.05% for both 1 January 2018 and 31 December 2018 reporting periods. The impairment calculated was therefore assessed to be insignificant. These assets are classified as less than 30 days past due.

iv) Contract assets

The contract assets comprise mainly in unbilled gas invoices from the Group's sale of gas to NGMC. In determining the expected credit losses using a provision matrix, contract assets were grouped in the current 'ageing' bucket i.e. less than 30 days. This is based on the premise that the period between the delivery of gas and the date an invoice is raised is usually 30 days.

The estimated loss was calculated using the applicable loss rate of current NGMC receivables of 0.53% as the Group's exposure to credit risk on contract asset is similar to that of NGMC receivables. The loss was calculated for both 1 January 2018 and 31 December 2018 reporting periods. The impairment calculated was assessed as insignificant. See note 24.1 for reconciliation of gross carrying amounts.

d) Other receivables

The Group applies the IFRS 9 general approach to measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for all financial assets that are classified within other receivables.

i) Other receivables

These receivables represent the outstanding payments due to Seplat from an investment no longer being pursued. This amount was previously presented as advances on investment but is now included in other receivables. See notes 11 and 23 for further details.

				31 December 2018
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	–	10,770	3,070	**13,840**
Loss allowance as at 1 January 2018	–	(1,186)	(3,029)	**(4,215)**
Net EAD	–	9,584	41	**9,625**

				31 December 2018
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	–	35,121	10,000	**45,121**
Loss allowance as at 1 January 2018	–	(3,875)	(9,895)	**(13,770)**
Net EAD	–	31,246	105	**31,351**

The reconciliation of gross carrying amount for other receivables is as follows:

	₦ million	US$'000
Gross carrying amount as at 1 January	–	–
Additions during the year	13,840	45,121
Gross carrying amount as at 31 December	13,840	45,121

The reconciliation of loss allowances for these receivables as 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 1 January 2018 – calculated under IFRS 9	–	–
Increase in provision for impairment loss on other receivables	4,215	13,770
Loss allowance as at 31 December 2018 – Under IFRS 9	4,215	13,770

41 Transition disclosures continued

ii) Staff receivables

These receivables relate to staff receivables. For impairment assessment, the Group uses the only borrower specific information available (days past due information and employment status) to assess whether credit risk has increased significantly since initial recognition. These assets are classified as less than 30 days past due (stage 1).

Impairment allowance on receivable amounts was assessed to be insignificant. This was on the basis that there has been no history of default on these assets as repayments are deducted directly from the staff's monthly salary. In addition, the outstanding balance as at 31 December 2018 and 31 December 2017 was deemed to be insignificant (₦218 million, 2017: ₦7.1 million) ($0.7 million, 2017: $23,288). The impairment loss was nil under the incurred loss model of IAS 39.

e) Cash and bank balances

i) Fixed deposits

The Group applies the IFRS 9 general model for measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for cash and bank balances. The ECL was calculated as the probability weighted estimate of the credit losses expected to occur over the contractual period of the facility after considering macroeconomic indicators. See notes 11 and 26 for further details.

	1 January 2018			
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	30,191	–	–	**30,191**
Loss allowance as at 31 December 2018	(103)	–	–	**(103)**
Net EAD	30,088	–	–	**30,088**

1 Exposure at default

	31 December 2018			
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	33,272	–	–	**33,272**
Loss allowance as at 1 January 2018	(36)	–	–	**(36)**
Net EAD	33,236	–	–	**33,236**

	1 January 2018			
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	98,343	–	–	**98,343**
Loss allowance as at 31 December 2018	(335)	–	–	**(335)**
Net EAD	98,008	–	–	**98,008**

1 Exposure at default

	31 December 2018			
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	108,732	–	–	**108,732**
Loss allowance as at 1 January 2018	(118)	–	–	**(118)**
Net EAD	108,614	–	–	**108,614**

The reconciliation of gross carrying amount for fixed deposits is as follows:

	₦ million	US$'000
Gross carrying amount as at 1 January	30,191	98,343
Additions during the year	3,180	10,389
Exchange differences	135	–
Gross carrying amount as at 31 December	33,506	108,732

The reconciliation of loss allowances for fixed deposits as at 31 December 2017 and 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 31 December 2017 – calculated under IAS 39	–	–
Amounts adjusted through opening retained earnings	103	335
Loss allowance as at 1 January 2018 – calculated under IFRS 9	103	335
Reversal of impairment loss on fixed deposits	(67)	(217)
Exchange difference	–	–
Loss allowance as at 31 December 2018 – Under IFRS 9	36	118

The impact of unwinding of discount on impairments of fixed deposits is rounded up to zero.

ii) Other cash and bank balances

The Group also assessed the other cash and bank balances to determine their expected credit losses. Based on this assessment, they identified the expected losses as at 1 January 2018 and 31 December 2018 to be insignificant. The assets are assessed to be in stage 1.

iii) Credit quality of cash and bank balances

The credit quality of the Group's other cash and bank balances is assessed on the basis of external credit ratings (Fitch national long-term rating) as shown below:

	2018 ₦ million	2017 ₦ million	2018 US$'000	2017 US$'000
Non-rated	4	62,937	12	205,811
B-	–	24,978	–	81,681
B	–	16,589	–	54,247
B+	–	4,308	–	14,090
BB+	–	–	–	–
BBB+	36	–	117	–
BBB	619	–	2,015	–
A+	94,128	24,331	306,608	79,564
AA	47,920	–	156,090	–
AA-	28,688	556	93,451	1,819
AAA	8,150	–	26,548	–
	179,545	133,699	584,841	437,212
Allowance for impairment recognised during the year	(36)	–	(118)	–
Net cash and cash bank balances	**179,509**	**133,699**	**584,723**	**437,212**

f) Deferred tax impact on transition adjustment

The deferred tax assets recognised were as a result of the expected credit losses recognised on initial adoption of IFRS 9.

g) Reconciliation of impairment loss on financial assets

Movements in the provision for impairment of financial assets that are assessed are as follows:

	2018 ₦ million	2017 ₦ million	2018 US$'000	2017 US$'000
At 1 January	–	3,129	–	10,260
Impact on initial application of IFRS 9	2,369	–	7,737	–
Adjusted balance at 1 January 2018	2,369		7,737	
Allowance for impairment recognised during the year	4,990	–	16,303	–
Reversal of previously recognised impairment losses	(505)	(3,138)	(1,660)	(10,260)
Exchange rate differences	(2)	9	–	–
At 31 December	**6,852**	**–**	**22,380**	**–**

41.2.3 Hedge accounting

The Group entered agreements to sell put options for crude oil in Brent at a strike price of ₦12,280 ($40) per barrel to Ned Bank Limited for 600,000 barrels within a period of six months from 1 January 2018 to 30 June 2018.

It also entered into agreements to sell put options for crude oil in Brent at a strike price of ₦15,350 ($50) per barrel to Natixis for 500,000 barrels within a period of six months from 1 July 2018 to 31 December 2018.

The purpose of these is to hedge its cash flows against oil price risk. The contracts provide for a no loss position for Seplat, in that Seplat makes a gain if the price of oil falls below the strike price; and if the price of oil is above the strike price, there is no loss i.e. no payment is made by Seplat except for the mutually agreed monthly premium which is paid in arrears and is settled net of any gain on settlement date.

As at the reporting periods ended 31 December 2017 and 31 December 2018, the Group had derivative assets and no derivative liabilities. The derivative assets are measured and recognised at fair value. The Group has not formally designated any of these instruments for hedge accounting.

41 Transition disclosures continued

41.3 IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules using the modified retrospective approach and has not restated comparatives for the 2017 financial year. There was no impact on the Group's retained earnings at the date of initial application (i.e. 1 January 2018). The reclassification adjustments resulting from the adoption of IFRS 15 are shown in note 41.3 and detailed below:

41.3.1 Impact on statement of financial position

a) Trade and other receivables

The Group introduced the presentation of contract assets in the balance sheet to reflect the guidance of IFRS 15. Contract assets of ₦4.3 billion, 1 January 2018: ₦4.2 billion ($14.1 million, 1 January 2018: $13.8 million) recognised in relation to unbilled amounts from Nigerian Gas Marketing Company (NGMC) were previously presented as part of trade and other receivables. See notes 23 and 24 for further details.

41.3.2 Impact on statement of profit or loss and other comprehensive income

a) Reclassification of underlifts to other income

In some instances, Joint Operating Arrangement (JOA) partners lift the share of production of other partners. Under IAS 18, overlifts and underlifts were recognised net in revenue using entitlement accounting. They are settled at a later period through future liftings and not in cash (non-monetary settlements). This is referred to as the entitlement method. IFRS 15 excludes transactions arising from arrangements where the parties are participating in an activity together and share the risks and benefits of that activity as the counterparty is not a customer. To reflect the change in policy, the Group has reclassified underlifts to other income. Revenue has therefore been recognised net of underlifts of ₦4.2 billion ($13.7 million) for the reporting period. Under IAS 18, revenue recognised without reclassifying underlifts to other income would have been ₦232.6 billion ($759.8 million). See note 9 for other details.

b) Reclassification of demurrage from costs of sales

Seplat pays demurrage to Mercuria for delays caused by incomplete cargoes delivered at the port. These are referred to as price adjustments and Seplat is billed subsequently by Mercuria. Under IFRS 15, these are considerations payable to customers and should be recognised net of revenue. Revenue has therefore been recognised net of demurrage costs of ₦64.6 million ($211,160) for the reporting period. This had no tax impact. In the current period, there was a refund of demurrage which has been added to revenue. In prior reporting periods, demurrage costs were included as part of operations and maintenance costs. Under IAS 18, revenue recognised without reclassifying demurrage costs to revenue would have been ₦228.3 billion ($745.9 million). See note 8 for further details.

c) Reclassification of barging costs from cost of sales

Seplat refunds to Mercuria barging costs incurred on crude oil barrels delivered. Seplat does not enjoy a separate service which it would have to pay another party for. This has been determined to be a consideration payable to a customer and is accounted for as a direct deduction from revenue. Revenue is therefore recognised net of barging costs. In the current period, there were no barging costs. In prior periods, barging costs were shown separately in cost of sales. See note 8 for further details.

Consolidated statement of value added

For the year ended 31 December 2018

	2018 ₦million	%	2017 ₦million	%	2018 US$'000	%	2017 US$'000	%
Revenue	228,391		138,281		746,140		452,179	
Other income	4,618		209		15,085			
Finance income	3,032		1,326		9,905		4,335	
Cost of goods and other services:								
Local	(54,041)		(41,757)		(176,546)		(136,543)	
Foreign	(36,028)		(27,838)		(117,697)		(91,028)	
Valued added	145,972		70,012	100%	476,887		228,943	100%

Applied as follows:

	2018 ₦million	%	2017 ₦million	%	2018 US$'000	%	2017 US$'000	%
To employees:								
– as salaries and labour related expenses	10,604	7	7,925	11	34,648	7	25,917	11
To external providers of capital:								
– as interest	17,292	12	22,248	32	56,492	12	72,752	32
To government:								
– as Group taxes	7,693	5	687	1	25,134	5	2,248	1
Retained for the Group's future:								
– For asset replacement, depreciation, depletion & amortisation	37,461	26	26,385	38	122,383	26	86,277	38
Deferred tax (charges)/credit	28,055	19	(68,344)	(98)	91,654	19	(223,481)	(98)
Profit for the year	44,867	31	81,111	116	146,576	31	265,230	116
Valued added	145,972	100%	70,012	100%	476,887	100%	228,943	100%

The value added represents the additional wealth which the Group has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for the creation of future wealth.

Consolidated five-year financial summary
As at 31 December 2018

	2018 ₦ million	2017 ₦ million	2016 ₦ million	2015 ₦ million	2014 ₦ million
Revenue	228,391	138,281	63,384	112,972	124,377
Profit/(loss) before taxation	80,615	13,454	(47,419)	17,243	40,481
Income tax (expense)/credit	(35,748)	67,657	2,035	(4,252)	–
Profit/(loss) for the year	44,867	81,111	(45,384)	12,991	40,481

	2018 ₦ million	2017 ₦ million	2016 ₦ million	2015 ₦ million	2014 ₦ million
Capital employed:					
Issued share capital	286	283	283	282	277
Share premium	82,080	82,080	82,080	82,080	82,080
Share based payment reserve	7,298	4,332	2,597	1,729	–
Capital contribution	5,932	5,932	5,932	5,932	5,932
Retained earnings	192,723	166,149	85,052	134,919	135,727
Foreign translation reserve	203,153	200,870	200,429	56,182	35,642
Non-controlling interest	–	–	–	(148)	–
Total equity	491,472	459,646	376,373	280,976	259,658
Represented by:					
Non-current assets	512,219	539,672	462,402	295,735	182,162
Current assets	263,437	259,881	202,274	249,462	261,864
Non-current liabilities	(184,808)	(131,925)	(141,473)	(131,786)	(48,247)
Current liabilities	(99,376)	(207,982)	(146,830)	(132,435)	(136,121)
Net assets	491,472	459,646	376,373	280,976	259,658

	2018 US$ '000	2017 US$ '000	2016 US$ '000	2015 US$ '000	2014 US$ '000
Revenue	746,140	452,179	254,217	570,477	775,019
Profit/(loss) before taxation	263,364	43,997	(172,766)	87,079	252,253
Income tax (expense)/credit	(116,788)	221,233	6,672	(21,472)	–
Profit/(loss) for the year	146,576	265,230	(166,094)	65,607	252,253

	2018 US$ '000	2017 US$ '000	2016 US$ '000	2015 US$ '000	2014 US$ '000
Capital employed:					
Issued share capital	1,834	1,826	1,826	1,821	1,798
Share premium	497,457	497,457	497,457	497,457	497,457
Share based payment reserve	27,499	17,809	12,135	8,734	–
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	1,030,954	944,108	678,922	865,483	869,861
Foreign currency translation reserve	3,141	1,897	3,675	325	26
Non-controlling interest	–	–	–	(745)	–
Total equity	1,600,885	1,503,097	1,234,015	1,413,075	1,409,142
Represented by:					
Non-current assets	1,668,466	1,764,789	1,516,073	1,487,307	988,576
Current assets	858,099	849,841	663,200	1,254,583	1,421,114
Non-current liabilities	(601,976)	(431,407)	(463,847)	(662,774)	(261,834)
Current liabilities	(323,704)	(680,126)	(481,411)	(666,041)	(738,714)
Net assets	1,600,885	1,503,097	1,234,015	1,413,075	1,409,142

Consolidated supplementary financial information (unaudited)

For the year ended 31 December 2018

42 Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural gas Bscf	Oil equivalent MMboe
At 31 December 2017	226.2	1,455.8	477.2
Revisions	10.7	70.2	22.8
Discoveries and extensions	–	–	–
Acquisitions	–	–	–
Production	(10.3)	(53.0)	(19.4)
At 31 December 2018	**226.6**	**1,473.0**	**480.6**

Reserves are those quantities of crude oil, natural gas and natural gas liquid that, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions.

As additional information becomes available or conditions change, estimates are revised.

43 Capitalised costs related to oil producing activities

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Capitalised costs:				
Unproved properties	–	–	–	–
Proved properties	551,540	508,314	1,796,547	1,662,243
Total capitalised costs	551,540	508,314	1,796,547	1,662,243
Accumulated depreciation	(152,065)	(114,937)	(495,327)	(375,856)
Net capitalised costs	**399,475**	**393,377**	**1,301,220**	**1,286,387**

Capitalised costs include the cost of equipment and facilities for oil producing activities. Unproved properties include capitalised costs for oil leaseholds under exploration, and uncompleted exploratory well costs, including exploratory wells under evaluation. Proved properties include capitalised costs for oil leaseholds holding proved reserves, development wells and related equipment and facilities (including uncompleted development well costs) and support equipment.

44 Concessions

The expiry dates of concessions granted to the Group are:

		Expiry date
Seplat	OMLs 4, 38 & 41	October 2038
Newton	OPL 283	October 2028
Seplat East Swamp	OML 53	June 2027
Seplat Swamp	OML 55	June 2027

On 15 November 2018 Seplat announced the President and Honourable Minister of Petroleum Resources had given consent for the renewal of OMLs 4, 38 and 41 to a new expiry date of 21 October 2038. Seplat holds a 45% working interest in OMLs 4, 38 and 41. In connection with the license renewal Seplat has paid in full a Renewal Bonus of ₦7.8 billion, 2017: nil ($25.9 million, 2017: nil), thus ensuring all conditions for license renewal have been met. The Company is working with the Department of Petroleum Resources to obtain the updated title deeds in connection with the renewal.

45 Results of operations for oil producing activities

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Revenue from contracts with customers	180,751	100,369	590,503	328,206
Other income – net	4,618	209	15,085	682
Production and administrative expenses	(105,111)	(86,792)	(343,396)	(283,800)
Depreciation & amortisation	(36,073)	(22,691)	(117,842)	(74,198)
Profit/(loss) before taxation	44,185	(8,905)	144,350	(29,110)
Taxation	(35,748)	67,657	(116,788)	221,233
Profit/(loss) after taxation	**8,437**	**58,752**	**27,562**	**192,123**

46 Reclassification

Certain comparative figures have been reclassified in line with the current year's presentation.

47 Exchange rates used in translating the accounts to Naira

The table below shows the exchange rates used in translating the accounts into Naira

	Basis	31 December 2018 ₦/$	31 December 2017 ₦/$
Fixed assets – opening balances	Historical rate	Historical	Historical
Fixed assets – additions	Average rate	306.10	305.80
Fixed assets – closing balances	Closing rate	307.00	305.81
Current assets	Closing rate	307.00	305.81
Current liabilities	Closing rate	307.00	305.81
Equity	Historical rate	Historical	Historical
Income and Expenses:	Overall Average rate	306.10	305.81

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

	Notes	31 Dec 2018 ₦ million	31 Dec 2017 ₦ million	31 Dec 2018 US$ '000	31 Dec 2017 US$ '000
Revenue	7	217,174	127,655	709,493	417,428
Cost of sales	8	(103,086)	(67,666)	(336,777)	(221,258)
Gross profit		114,088	59,989	372,716	196,170
Other income – net	9	1,757	334	5,739	1,092
General and administrative expenses	10	(19,752)	(18,459)	(64,520)	(60,355)
(Impairment)/reversal of losses on financial assets – net	11	(69)	3,138	(227)	10,260
Fair value gain/(loss) – net	12	1,319	(5,931)	4,308	(19,393)
Operating profit		97,343	39,071	318,016	127,774
Finance income	13	2,874	11,924	9,388	38,992
Finance cost	13	(14,788)	(22,236)	(48,311)	(72,710)
Profit before taxation		85,429	28,759	279,093	94,056
Income tax (expense)/credit	14	(35,748)	67,657	(116,788)	221,233
Profit for the year		49,681	96,416	162,305	315,289
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference		2,026	1,027	–	–
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations	31	178	(90)	579	(294)
Deferred tax (expense)/credit on remeasurement (gains)/losses	14	(80)	76	(261)	250
		98	(14)	318	(44)
Other comprehensive income/(loss) for the year (net of tax)		2,124	1,013	318	(44)
Total comprehensive income for the year (net of tax)		51,805	97,429	162,623	315,245
Basic earnings per share ₦/($)	33	87.52	171.12	0.29	0.56
Diluted earnings per share ₦/($)	33	85.66	168.66	0.28	0.55

* There is no revenue other than revenue from contracts with customers in 2018.

Notes 1 to 39 on pages 201 to 266 are an integral part of the financial statements.

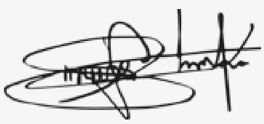
Separate statement of financial position

As at 31 December 2018

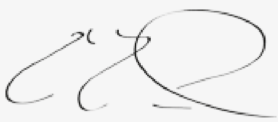
	Notes	31 Dec 2018 ₦ million	31 Dec 2017 ₦ million	31 Dec 2018 US$ '000	31 Dec 2017 US$ '000
Assets					
Non-current assets					
Oil & gas properties	17	275,085	278,841	896,040	911,839
Other property, plant and equipment	17	1,285	1,537	4,183	5,025
Tax paid in advance	18	9,708	9,670	31,623	31,623
Prepayments	19	7,871	287	25,635	939
Deferred tax	15	44,284	68,417	144,246	223,731
Investment in subsidiaries	20	345	345	1,129	1,129
Total non-current assets		**338,578**	**359,097**	**1,102,856**	**1,174,286**
Current assets					
Inventories	21	30,400	29,576	99,022	96,719
Trade and other receivables	22	318,997	327,528	1,039,074	1,071,044
Prepayments	19	3,456	513	11,258	1,674
Contract assets	23	4,327	–	14,096	–
Derivative financial instruments	24	2,693	–	8,772	–
Cash and bank balances	25	153,535	117,220	500,116	383,321
Total current assets		**513,408**	**474,837**	**1,672,338**	**1,552,758**
Total assets		**851,986**	**833,934**	**2,775,194**	**2,727,044**
Equity and liabilities					
Equity					
Issued share capital	26	286	283	1,834	1,826
Share premium	26	82,080	82,080	497,457	497,457
Share based payment reserve	26	7,298	4,332	27,499	17,809
Capital contribution	27	5,932	5,932	40,000	40,000
Retained earnings		234,148	203,072	1,147,526	1,045,985
Foreign currency translation reserve	28	196,542	194,526	–	–
Total shareholders' equity		**526,296**	**490,225**	**1,714,316**	**1,603,077**
Non-current liabilities					
Interest bearing loans and borrowings	29	133,799	93,170	435,827	304,677
Provision for decommissioning obligation	30	37,658	30,716	122,666	100,447
Defined benefit plan	31	1,819	1,994	5,923	6,518
Total non-current liabilities		**173,276**	**125,880**	**564,416**	**411,642**
Current liabilities					
Interest bearing loans and borrowings	29	3,031	81,159	9,872	265,400
Trade and other payables	32	140,398	135,406	457,323	442,792
Current tax liabilities	14	8,985	1,264	29,267	4,133
Total current liabilities		**152,414**	**217,829**	**496,462**	**712,325**
Total liabilities		**325,690**	**343,709**	**1,060,878**	**1,123,967**
Total shareholders' equity and liabilities		**851,986**	**833,934**	**2,775,194**	**2,727,044**

Notes 1 to 39 on pages 201 to 266 are an integral part of the financial statements.

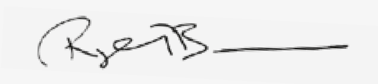
The financial statements of Seplat Development Company Plc for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 6 March 2019 and were signed on its behalf by:



A.B.C. Orjiako
FRC/2013/IODN/00000003161
Chairman
6 March 2019



Austin Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
6 March 2019



Roger Brown
FRC/2014/ANAN/00000017939
Chief Financial Officer
6 March 2019

Separate statement of changes in equity

For the year ended 31 December 2018

₦ million

	Issued share capital	Share premium	Share based payment reserve	Capital contribution	Retained earnings	Foreign currency translation reserve	Total equity
At 1 January 2017	**283**	**82,080**	**2,597**	**5,932**	**106,670**	**193,499**	**391,061**
Profit for the year	–	–	–	–	96,416	–	96,416
Other comprehensive (loss)/income	–	–	–	–	(14)	1,027	1,013
Total comprehensive income for the year	–	–	–	–	96,402	1,027	97,429
Transactions with owners in their capacity as owners:							
Share based payments (note 26)	–	–	1,735	–		–	1,735
Total	–	–	1,735	–		–	1,735
At 31 December 2017 as originally presented	**283**	**82,080**	**4,332**	**5,932**	**203,072**	**194,526**	**490,255**
Impact of change in accounting policy:							
Adjustment on initial application of IFRS 9 – net of tax (note 39.1)	–	–	–	–	(667)	–	(667)
At 1 January 2018 – Restated	283	82,080	4,332	5,932	202,405	194,526	489,558
Profit for the year	–	–	–	–	49,681	–	49,681
Other comprehensive income	–	–	–	–	98	2,026	2,124
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**49,779**	**2,026**	**51,805**
Transactions with owners in their capacity as owners:							
Dividends paid	–	–	–	–	(18,036)	–	(18,036)
Share based payments (note 26)	–	–	2,969	–	–	–	2,969
Vested shares (note 26)	3	–	(3)	–	–	–	–
Total	3	–	2,966	–	(18,036)	–	(15,067)
At 31 December 2018	**286**	**82,080**	**7,298**	**5,932**	**234,148**	**196,552**	**526,296**

US$ '000

	Issued share capital	Share premium	Share based payment reserve	Capital contribution	Retained earnings	Total equity
At 1 January 2017	**1,826**	**497,457**	**12,135**	**40,000**	**730,740**	**1,282,158**
Profit for the year	–	–	–	–	315,289	315,289
Other comprehensive loss	–	–	–	–	(44)	(44)
Total comprehensive income for the year	–	–	–	–	315,245	315,245
Transactions with owners in their capacity as owners:						
Share based payments (note 26)	–	–	5,674	–	–	5,674
Total	–	–	5,674	–	–	5,674
At 31 December 2017 as originally presented	**1,826**	**497,457**	**17,809**	**40,000**	**1,045,985**	**1,603,077**
Impact of change in accounting policy:						
Adjustment on initial application of IFRS 9 – net of tax (note 39.1)	–	–	–	–	(2,194)	(2,194)
At 1 January 2018 – Restated	1,826	497,457	17,809	40,000	1,043,791	1,600,883
Profit for the year	–	–	–	–	162,305	162,305
Other comprehensive income	–	–	–	–	318	318
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**162,623**	**162,623**
Transactions with owners in their capacity as owners:						
Dividends paid	–	–	–	–	(58,888)	(58,888)
Share based payments (note 26)	–	–	9,698	–	–	9,698
Vested shares (note 26)	8	–	(8)	–	–	–
Total	8	–	9,690	–	(58,888)	(49,190)
At 31 December 2018	**1,834**	**497,457**	**27,499**	**40,000**	**1,147,526**	**1,714,316**

Notes 1 to 39 on pages 201 to 266 are an integral part of the financial statements.

Separate statement of cash flows

For the year ended 31 December 2018

	Notes	31 Dec 2018 ₦ million	31 Dec 2017 ₦ million	31 Dec 2018 US$ '000	31 Dec 2017 US$ '000
Cash flows from operating activities					
Cash generated from operations	16	151,582	118,577	495,074	387,760
Defined benefit paid		(63)	(163)	(206)	(532)
Net cash inflows from operating activities		151,519	118,414	494,868	387,228
Cash flows from investing activities					
Investment in oil and gas properties	17	(20,128)	(4,818)	(65,757)	(15,756)
Investment in other property, plant and equipment	17	(698)	(441)	(2,281)	(1,442)
Investment in subsidiary	20	–	(20)	–	(65)
Proceeds from disposal of other property, plant and equipment	17	73	50	239	162
Payments for plan assets	31b	(502)	–	(1,635)	
Interest received	13	2,874	11,924	9,388	38,992
Net cash (outflows/inflows) from investing activities		(18,389)	6,695	(60,046)	21,891
Cash flows from financing activities					
Repayments of loans	29	(207,532)	(29,970)	(678,000)	(98,000)
Proceeds from loans	29	163,775	–	535,045	–
Dividends paid	34	(18,036)	–	(58,888)	–
Principal repayments on crude oil advance	32a	(23,193)	–	(75,769)	–
Interest repayments on crude oil advance	32a	(530)	(1,770)	(1,730)	(5,789)
Payments for other financing charges	29	(1,802)	–	(5,885)	–
Interest paid on bank financing	29	(10,890)	(21,213)	(35,471)	(69,366)
Net cash outflows from financing activities		(98,208)	(52,953)	(320,698)	(173,155)
Net increase in cash and cash equivalents		35,980	72,156	117,541	235,964
Cash and cash equivalents at beginning of the year		117,220	44,950	383,321	147,377
Effects of exchange rate changes on cash and cash equivalents		344	114	(747)	(20)
Cash and cash equivalents at end of the year	25	152,486	117,220	496,698	383,321

Notes 1 to 39 on pages 201 to 266 are an integral part of the financial statements.

Notes to the separate financial statements

1 Corporate information and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company') was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2014, under the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004. The Company commenced operations on 1 August 2010. The Company is principally engaged in oil and gas exploration.

The Company's registered address is: 25a Lugard Avenue, Ikoyi, Lagos, Nigeria.

The Company acquired, pursuant to an agreement for assignment dated 31 January 2010 between the Company, SPDC, TOTAL and AGIP, a 45% participating interest in the following producing assets:

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was ₦50.4 billion ($340 million) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of ₦4.8 billion ($33 million) payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds ₦11,850 ($80) per barrel. ₦53.1 billion ($358.6 million) was allocated to the producing assets including ₦2.8 billion ($18.6 million) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of ₦5.1 billion ($33 million) was paid on 22 October 2012.

2 Significant changes in the current accounting period

The following significant changes occurred during the reporting year ended 31 December 2018:

- The offering of 9.25% senior notes with an aggregate principal amount of ₦107 billion ($350 million) due in April 2023. The notes were issued by the Company in March 2018 and guaranteed by some of its subsidiaries. The proceeds of the notes are being used to refinance existing indebtedness and for general corporate purposes.
- In March 2018, the Company obtained a ₦92 billion ($300 million) revolving facility to refinance an existing ₦92 billion ($300 million) revolving credit facility due in December 2018. The facility has a tenor of four years (due in June 2022) with an initial interest rate of the 6% +LIBOR. Interest is payable semi-annually and principal repayable annually. ₦61 billion ($200 million) was drawn down in March 2018. The proceeds from the notes are being used to repay existing indebtedness. In October 2018, the Company made a principal repayment of ₦30.7 billion ($100 million) out of its existing cash surplus.
- 25,000,000 additional shares were issued in furtherance of the Company's Long Term Incentive Plan, in February 2018. The additional issued shares, less 5,052,464 shares which vested in April 2018, are held by Stanbic IBTC Trustees Limited as Custodian. The Company's share capital as at the reporting date consists of 568,497,025 ordinary shares (excluding the additional shares held in trust) of ₦0.50k each, all with voting rights.

3 Summary of significant accounting policies

3.1 Introduction to summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements. These accounting policies have been applied to all the years presented, unless otherwise stated.

3.2 Basis of preparation

i) Compliance with IFRS

The financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee (IFRS IC). The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). Additional information required by National regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

ii) Historical cost convention

The financial information has been prepared under the going concern assumption and historical cost convention, except for derivative financial instruments measured at fair value through profit or loss on initial recognition. The financial statements are presented in Nigerian Naira and United States Dollars, and all values are rounded to the nearest million (₦'million) and thousand ($'000) respectively, except when otherwise indicated.

iii) Going concern

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least 12 months from the date of this statement.

iv) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time in the annual reporting period commencing 1 January 2018.

- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers
- Amendments to IFRS 15 Revenue from contracts with customers

The impact of the adoption of these standards and the new accounting policies are disclosed in note 39. Other new accounting standards effective for reporting periods beginning on or after 1 January 2018 did not have any impact on the Company's accounting policies and did not require retrospective adjustments to the financial statements.

3 Summary of significant accounting policies continued

v) New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

a) IFRS 16 Leases

Title of standard	IFRS 16 Leases
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	**Operating leases:** The standard will affect primarily the accounting for the Company's operating leases which include leases of drilling rigs, buildings and land. As at the reporting date, the Company had non-cancellable operating lease commitments (₦8 billion, $26 million). **Short-term leases & low-value leases:** The Company's one-year contracts with no planned extension commitments mostly applicable to leased staff flats will be covered by the exception for short-term leases. Of these non-cancellable lease commitments, approximately ₦190.8 million ($0.6 million) relate to short-term leases. None of the Company's other leases will be covered by the exception for low-value leases. Short-term leases will be recognised on a straight-line basis as an expense in profit or loss. **Service contracts:** Some commitments such as contracts for the provision of drilling, cleaning and community services were identified as service contracts as they did not contain an identifiable asset which the Company had a right to control. They therefore did not qualify as leases under IFRS 16. **Right of use assets and lease liabilities:** As at 1 January 2019, the Company expects to recognise right of use assets and lease liabilities of approximately ₦6.8 billion, $22.2 million and ₦5.6 billion, $18.4 million respectively. The overall net current assets will be lower by approximately ₦141.4 million, $0.5 million due to the presentation of a portion of the liability as current liability. Cash flows from principal repayments would be recognised in financing activities while cash flows from interest repayments and short-term lease payments would be recognised in operating activities. The Company does not have arrangements where it is lessor.
Date of adoption	The standard for leases is mandatory for financial years commencing on or after 1 January 2019. The Company does not intend to adopt the standard before its effective date. The Company intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption.

b) Amendments to IAS 19 Employee benefits

These amendments were issued in February 2018. The amendments issued require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. They also require an entity to recognise in profit or loss as part of past service cost or as a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before their effective date and does not expect them to have a material impact on its current or future reporting periods.

c) IFRIC 23 Uncertainty over income tax treatment

These amendments were issued in June 2017. IAS 12 Income taxes specifies requirements for current and deferred tax assets and liabilities. An entity applies the requirements in IAS 12 based on applicable tax laws. It may be unclear how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the tax authority may affect an entity's accounting for a current or deferred tax asset or liability.

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before their effective date and does not expect them to have a material impact on its current or future reporting periods.

d) Conceptual framework for financial reporting – Revised

These amendments were issued in March 2018. Included in the revised conceptual framework are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure. The amendments focused on areas not yet covered and areas that had shortcomings.

These amendments are mandatory for annual periods beginning on or after 1 January 2020. The Company does not intend to adopt the amendments before their effective date and does not expect them to have a material impact on its current or future reporting periods.

e) Amendments to IAS 23 Borrowing costs

These amendments were issued in December 2017. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before their effective date and does not expect them to have a material impact on its current or future reporting periods.

f) Amendments to IAS 12 Income taxes

These amendments were issued in December 2017. These amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits. In effect, the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before their effective date and does not expect them to have a material impact on its current or future reporting periods.

g) Amendments to IFRS 11 Joint arrangement

These amendments were issued in December 2017. These amendments clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. In addition to clarifying when a previously held interest in a joint operation is remeasured, the amendments also provide further guidance on what constitutes the previously held interest. This is the entire previously held interest in the joint operation.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before their effective date and does not expect them to have a material impact on its current or future reporting periods.

3.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'), which is the US Dollar. The financial statements are presented in Nigerian Naira and the US Dollars.

The Company has chosen to show both presentation currencies and this is allowable by the regulator.

i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss or other comprehensive income depending on where fair value gain or loss is reported.

3.4 Oil and gas accounting

i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

ii) Exploration licence cost

Exploration licence costs are capitalised within oil and gas properties. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

Licence costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made to establish development plans and timing. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence is written off through profit or loss.

iii) Acquisition of producing assets

Upon acquisition of producing assets which do not constitute a business combination, the Company identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The purchase price paid for the group of assets is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

iv) Exploration and evaluation expenditures

Geological and geophysical exploration costs are charged to profit or loss as incurred.

3 Summary of significant accounting policies continued

Exploration and evaluation expenditures incurred by the entity are accumulated separately for each area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure, but do not include general overheads or administrative expenditure that is not directly related to a particular area of interest. Each area of interest is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation.

Costs directly associated with an exploration well, exploratory stratigraphic test well and delineation wells are temporarily suspended (capitalised) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons ('proved reserves') are not found, the exploration expenditure is written off as a dry hole and charged to profit or loss. If hydrocarbons are found, the costs continue to be capitalised.

Suspended exploration and evaluation expenditure in relation to each area of interest is carried forward as an asset provided that one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale;
- exploration and/or evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves; and
- active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined above are written off. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if the Directors consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the decision is made. While an area of interest is in the development phase, amortisation of development costs is not charged pending the commencement of production. Exploration and evaluation costs are transferred from the exploration and/or evaluation phase to the development phase upon commitment to a commercial development.

v) Development expenditure

Development expenditure incurred by the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure directly related to the development property. All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment is expected to be derived from the sale of production from the relevant development property.

3.5 Revenue recognition

3.5.1 Revenue recognition (policy from 1 January 2018)

The Company has adopted IFRS 15 as issued in May 2014 which has resulted in changes in the accounting policy of the Company. IFRS 15 replaces IAS 18 which covers revenue arising from the sale of goods and the rendering of services, IAS 11 which covers construction contracts, and related interpretations. In accordance with the transitional provisions in IFRS 15, comparative figures have not been restated as the Company has applied the modified retrospective approach in adopting this standard.

IFRS 15 introduces a five-step model for recognising revenue to depict transfer of goods or services. The model distinguishes between promises to a customer that are satisfied at a point in time and those that are satisfied over time.

It is the Company's policy to recognise revenue from a contract when it has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has been ascertained as probable. Collectability of a customer's payments is ascertained based on the customer's historical records, guarantees provided, the customer's industry and advance payments made if any.

Revenue is recognised when control of goods sold has been transferred. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits (potential cash inflows or savings in cash outflows) associated with the asset. Seplat has two promises to its customers which are the sale of crude oil and gas. For crude oil, this occurs when the crude products are lifted by the customer (buyer) Free on Board at the Company's loading facility. Revenue from the sale of oil is recognised at a point in time when the performance obligation is satisfied. For gas, revenue is recognised when the product passes through the custody transfer point to the customer. Revenue from the sale of gas is recognised over time using the practical expedient of the right to invoice.

The surplus or deficit of the product sold during the period over the Company's share of production in line with entitlement method is termed as an overlift or underlift. With regard to underlifts, if the over-lifter does not meet the definition of a customer or the settlement of the transaction is non-monetary, a receivable and other income is recognised. Conversely, when an overlift occurs, cost of sale is debited and a corresponding liability is accrued. Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase. Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the profit or loss as other income/expenses – net.

Definition of a customer

A customer is a party that has contracted with the Company to obtain crude oil or gas products in exchange for consideration, rather than to share in the risks and benefits that result from sale. The Company has entered into collaborative arrangements with its joint arrangement partners to share in the production of oil. Collaborative arrangements with its joint arrangement partners to share in the production of oil are accounted for differently from arrangements with customers as collaborators share in the risks and benefits of the transaction, and therefore, do not meet the definition of customers. Revenue arising from these arrangements is recognised separately in other income.

Contract enforceability and termination clauses
It is the Company's policy to assess that the defined criteria for establishing contracts that entail enforceable rights and obligations are met. The criteria provide that the contract has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has-been ascertained as probable. Revenue is not recognised for contracts that do not create enforceable rights and obligations to parties in a contract. The Company also does not recognise revenue for contracts that do not meet the revenue recognition criteria. In such cases where consideration is received it recognises a contract liability and only recognises revenue when the contract is terminated. For crude oil and gas sales, a contract is enforceable at the inception of the contract.

The Company may also have the unilateral rights to terminate an unperformed contract without compensating the other party. This could occur where the Company has not yet transferred any promised goods or services to the customer and the Company has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

Identification of performance obligation
At inception, the Company assesses the goods or services promised in the contract with a customer to identify as a performance obligation each promise to transfer to the customer either a distinct good or series of distinct goods. The number of identified performance obligations in a contract will depend on the number of promises made to the customer. The delivery of barrels of crude oil or units of gas are usually the only performance obligation included in oil and gas contract with no additional contractual promises. Additional performance obligations may arise from future contracts with the Company and its customers.

The identification of performance obligations is a crucial part in determining the amount of consideration recognised as revenue. This is due to the fact that revenue is only recognised at the point where the performance obligation is fulfilled. Management has therefore developed adequate measures to ensure that all contractual promises are appropriately considered and accounted for accordingly.

Transaction price
Transaction price is the amount allocated to the performance obligations identified in the contract. It represents the amount of revenue recognised as those performance obligations are satisfied. Complexities may arise where a contract includes variable consideration, significant financing component or consideration payable to a customer.

Variable consideration not within the Company's control is estimated at the point of revenue recognition and reassessed periodically. The estimated amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. As a practical expedient, where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date, the Company may recognise revenue in the amount to which it has a right to invoice.

Sales contracts for crude oil and gas often incorporate provisional pricing – at the date of delivery of the oil or gas, a provisional price is recognised as revenue. The amount of revenue to be recognised is estimated based on the market price of the commodity being sold at the delivery date. The final price is based on agreements between the Company and counterparty with any adjustments recognised within revenue. The existence of provisionally priced arrangements may result in variable consideration. The Company applies judgement to determine if there is an amount that is variable consideration and, if so, whether it is subject to a significant reversal. Such a reversal would occur if there were a significant downward adjustment of the cumulative amount of revenue recognised for that performance obligation.

Although variable considerations are subject to a constraint, revenue recognised as the performance obligation is satisfied is not subject to a significant reversal in future periods.

For crude oil contracts, revenue recognition is delayed until the invoice date. As a result, crude contracts are not categorised as provisionally pricing contracts. However for gas contracts, revenue is recognised on the date of delivery at a provisional price. At the invoice date, revenue is marked to market with any adjustments being recognised in revenue. A lag period exists between the delivery of the gas and the date gas volumes are agreed. As a result of the differences in gas volumes that may give rise to variable quantities, the Company recognises the corresponding transaction as contract assets until the point at which the variable consideration becomes unconditional, and is then considered a financial asset within the scope of IFRS 9.

Significant financing component (SFC) assessment is carried out (using a discount rate that reflects the amount charged in a separate financing transaction with the customer and also considering the Company's incremental borrowing rate) on contracts that have a repayment period of more than 12 months.

As a practical expedient, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when it transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Instances when SFC assessment may be carried out include where the Company receives advance payment for agreed volumes of crude oil or receives take or pay deficiency payment on gas sales. A take or pay gas sales contract ideally provides that the customer must sometimes pay for gas even when not delivered to the customer. The customer, in future contract years, takes delivery of the product without further payment. The portion of advance payments that represents significant financing component will be recognised as interest expense.

Consideration payable to a customer is accounted for as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Company. Examples include barging costs incurred, demurrage and freight costs. These do not represent a distinct service transferred and are therefore recognised as a direct deduction from revenue.

3 Summary of significant accounting policies continued

Breakage

The Company enters into take or pay contracts for sale of gas where the buyer may not ultimately exercise all of their rights to the gas. The take or pay quantity not taken is paid for by buyer called take or pay deficiency payment. The Company assesses if there is a reasonable assurance that it will be entitled to a breakage amount. Where it establishes that a reasonable assurance exists, it recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. However, where the Company is not reasonably assured of a breakage amount, it would only recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Contract modification and contract combination

Contract modifications relate to a change in the price and/or scope of an approved contract. Where there is a contract modification, the Company assesses if the modification will create a new contract or change the existing enforceable rights and obligations of the parties to the original contract.

Contract modifications are treated as new contracts when the performance obligations are separately identifiable and the transaction price reflects the standalone selling price of the crude oil or the gas to be sold. Revenue is adjusted prospectively when the crude oil or gas transferred is separately identifiable and the price does not reflect the standalone selling price.

The Company enters into new contracts with its customers only on the expiry of the old contract. In the new contracts, prices and scope may be based on terms in the old contract. In gas contracts, prices change over the course of time. Even though gas prices change over time, the changes are based on agreed terms in the initial contract i.e. price change due to consumer price index. The change in price is therefore not a contract modification. Any other change expected to arise from the modification of a contract is implemented in the new contract.

The Company combines contracts entered into at nearly the same time (less than 12 months) as one contract if they are entered into with the same or related party customer, the performance obligations are the same for the contracts and the price of one contract depends on the other contract.

Portfolio expedients

As a practical expedient, the Company may apply the requirements of IFRS 15 to a portfolio of contracts (or performance obligations) with similar characteristics if it expects that the effect on the financial statements would not be materially different from applying IFRS to individual contracts within that portfolio.

Contract assets and liabilities

The Company recognises contract assets for unbilled amounts from crude oil and gas sales. Contract liability is recognised for consideration received for which a performance obligation has not been met.

Disaggregation of revenue from contract with customers

The Company derives revenue from two types of products, oil and gas. The Company has determined that the disaggregation of revenue based on the criteria of type of products meets the disaggregation of revenue disclosure requirement of IFRS 15. It depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. See further details in note 6.

3.5.2 Revenue recognition (policy prior to 1 January 2018)

Revenue arises from the sale of crude oil and gas. Revenue comprises the realised value of crude oil lifted by customers. Revenue is recognised when crude products are lifted by a third party (buyer) Free on Board ('FOB') at the Company's designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognised when gas passes through the custody transfer point.

Overlift and underlift

The excess of the product sold during the period over the Company's ownership share of production is termed as an overlift and is accrued for as a liability and not as revenue. Conversely, an underlift is recognised as an asset and the corresponding revenue is also reported.

Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase.

Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the profit or loss as revenue or cost of sales.

3.6 Property, plant and equipment

Oil and gas properties and other plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the entity, the expenditure is capitalised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Overhaul costs for major maintenance programmes are capitalised as incurred as long as these costs increase the efficiency of the unit or extend the useful life of the asset. All other maintenance costs are expensed as incurred.

Depreciation

Production and field facilities are depreciated on a unit-of-production basis over the estimated proved developed reserves. Assets under construction are not depreciated. Other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Depreciation commences when an asset is available for use. The depreciation rate for each class is as follows:

Plant and machinery	20%
Motor vehicles	25%
Office furniture and IT equipment	33.33%
Leasehold improvements	Over the unexpired portion of the lease

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Gains or losses on disposal of property, plant and equipment are determined as the difference between disposal proceeds and carrying amount of the disposed assets. These gains or losses are included in profit or loss.

3.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds. These costs may arise from: specific borrowings used for the purpose of financing the construction of a qualifying asset, and those that arise from general borrowings that would have been avoided if the expenditure on the qualifying asset had not been made. The general borrowing costs attributable to an asset's construction are calculated by reference to the weighted average cost of general borrowings that are outstanding during the period.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.8 Finance income and costs

Finance income

Finance income is recognised in the statement of profit or loss as it accrues using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the amortised cost of the financial instrument. The determination of finance income takes into account all contractual terms of the financial instrument as well as any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate (EIR), but not future credit losses.

Finance cost

Finance cost includes borrowing costs, interest expense calculated using the effective interest rate method, finance charges in respect of lease liabilities, the unwinding of the effect of discounting provisions, and the amortisation of discounts and premiums on debt instruments that are liabilities.

3 Summary of significant accounting policies continued

3.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. This should be at a level not higher than an operating segment.

If any such indication of impairment exists or when annual impairment testing for an asset group is required, the entity makes an estimate of its recoverable amount. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

The recoverable amount is the higher of an asset's fair value less costs of disposal ('FVLCD') and value in use ('VIU'). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the asset is tested as part of a larger cash generating unit to which it belongs. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment once commercial reserves are found before they are transferred to oil and gas assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

Impairment – proved oil and gas production properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

3.10 Cash and bank balances

Cash and bank balances in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Please see note 3.13.1(b) for accounting policies on impairment of cash and bank balances.

3.11 Inventories

Inventories represent the value of tubulars, casings and wellheads. These are stated at the lower of cost and net realisable value. Cost is determined using the invoice value and all other directly attributable costs to bringing the inventory to the point of use determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

3.12 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board of Directors has appointed a steering committee which assesses the financial performance and position of the Company, and makes strategic decisions. The steering committee, which has been identified as the chief operating decision maker, consists of the Chief Financial Officer, the General Manager (Finance), the General Manager (Gas) and the Financial Reporting Manager. See further details in note 6.

3.13 Financial instruments

3.13.1 Financial instruments (policy from 1 January 2018)

The Company's accounting policies were changed to comply with IFRS 9. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets; and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

a) Classification and measurement

Financial assets

It is the Company's policy to initially recognise financial assets at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which are expensed in profit or loss.

Classification and subsequent measurement is dependent on the Company's business model for managing the asset and the cash flow characteristics of the asset. On this basis, the Company may classify its financial instruments at amortised cost, fair value through profit or loss and at fair value through other comprehensive income.

All the Company's financial assets as at 31 December 2018 satisfy the conditions for classification at amortised cost under IFRS 9 except derivative financial instruments which are measured at fair value through profit or loss.

The Company's financial assets include trade receivables, NPDC receivables, intercompany receivables, other receivables, derivative financial instruments and cash and bank balances. They are included in current assets, except for maturities greater than 12 months after the reporting date. Interest income from these assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in finance income/cost.

Financial liabilities

Financial liabilities of the Company are classified and measured at fair value on initial recognition and subsequently at amortised cost net of directly attributable transaction costs, except for derivatives which are classified and subsequently recognised at fair value through profit or loss.

Fair value gains or losses for financial liabilities designated at fair value through profit or loss are accounted for in profit or loss except for the amount of change that is attributable to changes in the Company's own credit risk which is presented in other comprehensive income. The remaining amount of change in the fair value of the liability is presented in profit or loss. The Company's financial liabilities include trade and other payables and interest bearing loans and borrowings.

b) Impairment of financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit loss (ECL) model. The ECL model is applicable to financial assets classified at amortised cost and contract assets under IFRS 15: Revenue from Contracts with Customers. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

The simplified approach is applied for trade receivables and contract assets while the general approach is applied to NPDC receivables, cash and bank balances, and other receivables.

The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. This involves determining the expected loss rates using a provision matrix that is based on the Company's historical default rates observed over the expected life of the receivable and adjusted forward-looking estimates. This is then applied to the gross carrying amount of the receivable to arrive at the loss allowance for the period.

The three-stage approach assesses impairment based on changes in credit risk since initial recognition using the past due criterion and other qualitative indicators such as increase in political concerns or other macroeconomic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance. Financial assets classified as stage 1 have their ECL measured as a proportion of their lifetime ECL that results from possible default events that can occur within one year, while assets in stage 2 or 3 have their ECL measured on a lifetime basis.

Under the three-stage approach, the ECL is determined by projecting the probability of default (PD), loss given default (LGD) and exposure at default (EAD) for each ageing bucket and for each individual exposure. The PD is based on default rates determined by external rating agencies for the counterparties. The LGD is determined based on management's estimate of expected cash recoveries after considering the historical pattern of the receivable, and it assesses the portion of the outstanding receivable that is deemed to be irrecoverable at the reporting period. The EAD is the total amount of outstanding receivable at the reporting period. These three components are multiplied together and adjusted for forward-looking information, such as the gross domestic product (GDP) in Nigeria and crude oil prices, to arrive at an ECL which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the related financial assets and the amount of the loss is recognised in profit or loss.

3 Summary of significant accounting policies continued

c) Significant increase in credit risk and default definition

The Company assesses the credit risk of its financial assets based on the information obtained during periodic review of publicly available information, industry trends and payment records. Based on the analysis of the information provided, the Company identifies the assets that require close monitoring.

Furthermore, financial assets that have been identified to be more than 30 days past due on contractual payments are assessed to have experienced significant increase in credit risk. These assets are grouped as part of Stage 2 financial assets where the three-stage approach is applied.

In line with the Company's credit risk management practices, a financial asset is defined to be in default when contractual payments have not been received at least 90 days after the contractual payment period. Subsequent to default, the Company carries out active recovery strategies to recover all outstanding payments due on receivables. Where the Company determines that there are no realistic prospects of recovery, the financial asset and any related loss allowance is written off either partially or in full.

d) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and the transfer qualifies for derecognition. Gains or losses on derecognition of financial assets are recognised as finance income/cost.

Financial liabilities

The Company derecognises a financial liability when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised immediately in the statement of profit or loss.

e) Modification

When the contractual cash flows of a financial instrument are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial instrument, the Company recalculates the gross carrying amount of the financial instrument and recognises a modification gain or loss immediately within finance income/(cost) – net at the date of the modification. The gross carrying amount of the financial instrument is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial instrument's original effective interest rate.

f) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position. Offsetting can be applied when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The legally enforceable right is not contingent on future events and is enforceable in the normal course of business, and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

g) Derivatives

The Company uses derivative financial instruments such as forward exchange contracts to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. Any gains or losses arising from changes in the fair value of derivatives are recognised within operating profit in profit or loss for the period. An analysis of the fair value of derivatives is provided in note 5, financial risk management.

The Company accounts for financial assets with embedded derivatives (hybrid instruments) in their entirety on the basis of its contractual cash flow features and the business model within which they are held, thereby eliminating the complexity of bifurcation for financial assets. For financial liabilities, hybrid instruments are bifurcated into hosts and embedded features. In these cases, the Company measures the host contract at amortised cost and the embedded feature is measured at fair value through profit or loss.

For the purpose of the maturity analysis, embedded derivatives included in hybrid financial instruments are not separated. The hybrid instrument, in its entirety, is included in the maturity analysis for non-derivative financial liabilities.

h) Fair value of financial instruments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Company establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measure the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in the income statement on initial recognition of the instrument. In other cases, the difference is not recognised in the income statement immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

3.13.2 Financial instruments (policy prior to 1 January 2018)

a) Financial assets

i) Financial assets initial recognition and measurement

The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which do not include transaction costs. The Company's financial assets include cash and short-term deposits, trade and other receivables, favourable derivatives, intercompany receivables and other receivables.

ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

Trade and other receivables

Trade and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in the current assets, except for maturities greater than 12 months after the reporting date. The Company's receivables comprised trade and other receivables in the historical financial information.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade is uncollectable, it is written off against the allowance account for trade receivables.

iii) Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

iv) Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. When an existing financial asset is transferred, the transfer qualifies for derecognition if the Company transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

b) Financial liabilities

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, and financial liabilities at amortised cost as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

i) Financial liabilities initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, and interest bearing loans and borrowings.

ii) Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

3 Summary of significant accounting policies continued

Interest bearing loans and borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost while any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of borrowings using the effective interest method.

Fees paid on establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

iii) Derecognition of financial liabilities

A financial liability is derecognised when the associated obligation is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

c) Derivative financial instruments

The Company uses derivative financial instruments, such as forward exchange contracts, to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss and presented within operating profit.

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Company recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 5 financial risk management.

d) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Company establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in the income statement on initial recognition of the instrument. In other cases, the difference is not recognised in the income statement immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

3.14 Share capital

On issue of ordinary shares, any consideration received net of any directly attributable transaction costs is included in equity. Shares held by the Company are disclosed as treasury shares and deducted from equity. Issued share capital has been translated at the exchange rate prevailing at the date of the transaction and is not retranslated subsequent to initial recognition.

3.15 Earnings and dividends per share

Basic EPS

Basic earnings per share is calculated on the Company's profit or loss after taxation attributable to the Company and on the basis of the weighted average of issued and fully paid ordinary shares at the end of the year.

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss after taxation attributable to the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (after adjusting for outstanding share options arising from the share based payment scheme) into ordinary shares.

Dividend

Dividends on ordinary shares are recognised as a liability in the period in which they are approved.

3.16 Post-employment benefits

The Company contributes to a defined contribution scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. The scheme is fully funded and is managed by licensed Pension Fund Administrators. Membership of the scheme is automatic upon commencement of duties at the Company. The Company's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. The Company operates a defined contribution plan and it is accounted for based on IAS 19 Employee benefits.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

Defined benefit scheme

The Company operates a defined benefit gratuity plan, which requires contributions to be made to a separately administered fund. The Company also provides certain additional post-employment benefits to employees. These benefits are unfunded.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method and calculated annually by independent actuaries. The liability or asset recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (if any). The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using government bonds.

Remeasurement gains and losses, arising from changes in financial and demographic assumptions and experience adjustments, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit obligation and the fair value of the plan assets.

The Company recognises the following changes in the net defined benefit obligation under employee benefit expenses in general and administrative expenses.

- Service costs comprise current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest cost.

3 Summary of significant accounting policies continued

3.17 Provisions

Provisions are recognised when (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of economic resources will be required to settle the obligation as a whole; and (iii) the amount can be reliably estimated. Provisions are not recognised for future operating losses.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted (where the effects of the time value of money is considered to be material) using a pre-tax rate that is reflective of current market assessments of the time value of money and the risk specific to the liability;
- when discounting is used, the increase of the provision over time is recognised as interest expense;
- future events, such as changes in law and technology, are taken into account where there is subjective audit evidence that they will occur; and
- gains from expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

Decommissioning

Liabilities for decommissioning costs are recognised as a result of the constructive obligation of past practice in the oil and gas industry, when it is probable that an outflow of economic resources will be required to settle the liability and a reliable estimate can be made. The estimated costs, based on current requirements, technology and price levels, prevailing at the reporting date, are computed based on the latest assumptions as to the scope and method of abandonment.

Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as a finance cost. The corresponding amount is capitalised as part of the oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalised, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance costs.

If the change in estimate results in an increase in the decommissioning provision and, therefore, an addition to the carrying value of the asset, the Company considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature fields, the revised oil and gas assets net of decommissioning provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

3.18 Contingencies

A contingent asset or contingent liability is a possible asset or obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events. The assessment of the existence of the contingencies will involve management judgement regarding the outcome of future events.

3.19 Income taxation

i) Current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Taxation on crude oil activities is provided in accordance with the Petroleum Profits Tax Act ('PPTA') CAP. P13 Vol. 13 LFN 2004 and on gas operations in accordance with the Companies Income Tax Act ('CITA') CAP. C21 Vol. 3 LFN 2004. Education tax is assessed at 2% of the assessable profits.

ii) Deferred tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the historical financial information and the corresponding tax bases used in the computation of taxable profit.

A deferred income tax charge is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

iii) New tax regime

During the year 2013, applications were made by Seplat for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Under these incentives, the Company's profits were subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years if certain conditions included in the Nigerian Investment Promotion Commission (NIPC) pioneer status award document were met. After the expiration of the initial three years, the Company considered the extension and concluded that it would be of no benefit to the business.

In May 2015, in line with sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Company provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two-year tax holiday.

3.20 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

3.21 Share based payments

Employees (including senior executives) of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

i) Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity (share based payment reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date and for fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding awards is reflected as additional share dilution in the computation of diluted earnings per share.

4 Significant accounting judgements, estimates and assumptions

The preparation of the Company's historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

4.1 Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the historical financial information:

i) OMLs 4, 38 and 41

OMLs 4, 38 and 41 are grouped together as a cash generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows. They currently operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced when the Company has an unconditional right to receive payment.

ii) New tax regime

Effective 1 January 2013, the Company was granted the inter tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company was exempted from paying petroleum profits tax on crude oil profits (at 85%), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. After the expiration of the initial three years, the Company considered the extension and concluded that it would be of no benefit to the business.

In May 2015, in line with sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Company provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two-year tax holiday.

The impact of the tax holiday has been considered in calculating the current income tax and deferred tax asset recognised in the financial statements.

iii) Deferred tax asset

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. See further details in note 15.

iv) Foreign currency translation reserve

The Company has used the CBN rate to translate its Dollar currency to its Naira presentation currency. Management has determined that this rate is available for immediate delivery. If the rate used was 10% higher or lower, revenue in Naira would have increased/decreased by ₦21.7 billion (2017: ₦12.8 billion). See note 45 for the applicable translation rate.

v) Revenue recognition

Definition of contracts

The Company has entered into a non-contractual promise with PanOcean where it allows PanOcean to pass crude oil through its pipelines from a field just above Seplat's to the terminal for loading. Management has determined that the non-existence of an enforceable contract with PanOcean means that it may not be viewed as a valid contract with a customer. As a result, income from this activity is recognised as other income when earned.

Performance obligations

The judgements applied in determining what constitutes a performance obligation will impact when control is likely to pass and therefore when revenue is recognised i.e. over time or at a point in time. The Company has determined that only one performance obligation exists in oil contracts which is the delivery of crude oil to specified ports. Revenue is therefore recognised at a point in time.

For gas contracts, the performance obligation is satisfied through the delivery of a series of distinct goods. Revenue is recognised over time in this situation as the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company has elected to apply the 'right to invoice' practical expedient in determining revenue from its gas contracts. The right to invoice is a measure of progress that allows the Company to recognise revenue based on amounts invoiced to the customer. Judgement has been applied in evaluating that the Company's right to consideration corresponds directly with the value transferred to the customer and is therefore eligible to apply this practical expedient.

Significant financing component

The Company has entered into an advance payment contract with Mercuria for future crude oil to be delivered. The Company has considered whether the contract contains a financing component and whether that financing component is significant to the contract, including both of the following;

(a) The difference, if any, between the amount of promised consideration and cash selling price; and

(b) The combined effect of both the following:

- The expected length of time between when the Company transfers the crude to Mercuria and when payment for the crude is received and;
- The prevailing interest rate in the relevant market.

The advance period is greater than 12 months. In addition, the interest expense accrued on the advance is based on a comparable market rate. Interest expense has therefore been included as part of finance cost.

Transactions with Joint Operating Arrangement (JOA) partners
The treatment of underlift and overlift transactions is judgemental and requires a consideration of all the facts and circumstances including the purpose of the arrangement and transaction. The transaction between the Company and its JOA partners involves sharing in the production of crude oil, and for which the settlement of the transaction is non-monetary. The JOA partners have been assessed to be partners not customers. Therefore, shortfalls or excesses below or above the Company's share of production are recognised in other income/(expenses) – net.

Barging costs
The Company refunds to Mercuria barging costs incurred on crude oil barrels delivered. The Company does not enjoy a separate service which it could have paid another party for. The barging cost is therefore determined to be a consideration payable to customer as there is no distinct goods or service being enjoyed by the Company. Since no distinct good or service is transferred, barging costs are accounted for as a direct deduction from revenue i.e. revenue is recognised net of barging costs.

vi) Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board of Directors has appointed a steering committee which assesses the financial performance and position of the Company, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the Chief Financial Officer, the General Manager (Finance), the General Manager (Gas) and the Financial Reporting Manager. See further details in note 6.

4.2 Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

i) Defined benefit plans (pension benefits)
The cost of the defined benefit retirement plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and changes in inflation rates.

Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bonds in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

ii) Oil and gas reserves
Proved oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure for estimating decommissioning liabilities and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

iii) Share based payment reserve
Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share award or appreciation right, volatility and dividend yield and making assumptions about them. The Company measures the fair value of equity-settled transactions with employees at the grant date. The assumptions and models used for estimating fair value for share based payment transactions are disclosed in note 26.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

iv) Provision for decommissioning obligations
Provisions for environmental clean-up and remediation costs associated with the Company's drilling operations are based on current constructions, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

4 Significant accounting judgements, estimates and assumptions continued

v) Property, plant and equipment

The Company assesses its property, plant and equipment, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

If there are low oil prices or natural gas prices during an extended period the Company may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil and natural gas.

During the year, the Company carried out an impairment assessment on OML 4, 38 and 48. The Company used the value in use in determining the recoverable amount of the cash-generating unit. In determining the value, the Company used a forecast of the annual net cash flows over the estimated life of proved plus probable reserves, production rates, oil and gas prices, future cost and other relevant assumptions based on 2018 year end CPR report.

The pre-tax future cash flows were adjusted for risk specific to the forecast and discounted using a pre-tax discount rate of 10% which reflects both current market assessment of the time value of money and risk specific to the assets. The impairment test did not result in an impairment charge for both 2018 and 2017 reporting periods.

Management has considered whether a reasonable possible change in one of the main assumptions will cause an impairment and believes otherwise.

vi) Useful life of other property, plant and equipment

The Company recognises depreciation on other property, plant and equipment on a straight-line basis in order to write-off the cost of the asset over its expected useful life. The economic life of an asset is determined based on existing wear and tear, economic and technical ageing, legal and other limits on the use of the asset, and obsolescence. If some of these factors were to deteriorate materially, impairing the ability of the asset to generate future cash flow, the Company may accelerate depreciation charges to reflect the remaining useful life of the asset or record an impairment loss.

vii) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

viii) Income taxes

The Company is subject to income taxes by the Nigerian tax authority, which does not require significant judgement in terms of provision for income taxes, but a certain level of judgement is required for recognition of deferred tax assets. Management is required to assess the ability of the Company to generate future taxable economic earnings that will be used to recover all deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. The estimates are based on the future cash flow from operations taking into consideration the oil and gas prices, volumes produced, operational and capital expenditure.

ix) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default, expected loss rates and maximum contractual period. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed note 39.2.2.

5 Financial risk management

5.1 Financial risk factors

The Company's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in US dollars.	Cash flow forecasting Sensitivity analysis	Match and settle foreign denominated cash inflows with foreign denominated cash outflows.
Market risk – interest rate	Interest bearing loans and borrowings at variable rate	Sensitivity analysis	Review refinancing opportunities
Market risk – commodity prices	Future sales transactions	Sensitivity analysis	Oil price hedges
Credit risk	Cash and bank balances, trade and other receivables, contract assets and derivative financial instruments.	Ageing analysis Credit ratings	Diversification of bank deposits.
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

5.1.1 Market risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

i) Commodity price risk

The Company is exposed to the risk of fluctuations on crude oil prices. The uncertainty around the rate at which oil prices increase or decline led to the Company's decision to enter into an option contract to insure the Company's revenue against adverse oil price movements.

On 17 December 2018, the Company entered economic crude oil hedge contracts with a strike price of ₦15,350 ($50/bbl) to ₦16,885 ($55/bbl) for 4 million barrels at an average premium price of ₦399 ($1.3/bbl) on 19 December 2018. These contracts, which will commence in 1 January 2019, are expected to reduce the volatility attributable to price fluctuations of oil. The Company has pre-paid a premium of ₦1.6 billion, 2017: nil ($5.2 million; 2017: nil) and has recognised an unrealised fair value gain of ₦2.7 billion, 2017: nil ($8.8 million; 2017: nil) for these hedges. The termination date is 31 December 2019. Hedging the price volatility of forecast oil sales is in accordance with the risk management strategy of the Company. The Company has not made a formal designation to apply hedge accounting principles in accounting for the economic hedge.

The maturity of the commodity options the Company holds is shown in the table below:

As at 31 December 2018	Less than 6 months Volume (bbls)	6 to 9 months Volume (bbls)	9 to 12 months Volume (bbls)	Total	Fair value ₦ million	Fair value $'000
Crude oil hedges	2,500,000	750,000	750,000	4,000,000	2,693	8,772

The following table summarises the impact of a 10 % change in crude oil prices, with all other variables held constant:

Increase/decrease in commodity price	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2018 $'000	Effect on other components of equity before tax 2018 $'000
+10%	111	–	363	–
-10%	(136)	–	(443)	–

5 Financial risk management continued

The Company may be exposed to business risks from fluctuations in the future prices of crude oil and gas. The following table summarises the impact of a 10 % change in crude oil prices, with all other variables held constant:

Increase/decrease in commodity price	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+10%	16,953	–	8,974	–
-10%	(16,953)	–	(8,974)	–

Increase/decrease in commodity price	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+10%	55,386	–	29,346	–
-10%	(55,386)	–	(29,346)	–

The following table summarises the impact on the Group's profit before tax of a 10% change in gas prices, with all other variables held constant:

Increase/decrease in commodity price	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+10%	4,764	–	3,791	–
-10%	(4,764)	–	(3,791)	–

Increase/decrease in commodity price	Effect on profit/(loss) before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit/(loss) before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+10%	15,564	–	12,397	–
-10%	(15,564)	–	(12,397)	–

ii) Cash flow and fair value interest rate risk

The Company's exposure to interest rate risk relates primarily to interest bearing loans and borrowings. The Company has both variable and fixed borrowings and deposits. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. Fixed rate borrowings and deposits only give rise to interest rate risk if measured at fair value. The Company's borrowings and fixed deposits are not measured at fair value and are denominated in US Dollars.

The contractual re-pricing date of the interest bearing loans and borrowings is three (3) months. The exposure of the Company's interest bearing loans and borrowings at the end of the reporting period is shown below.

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Corporate loan	29,558	174,329	96,282	570,077

The following table demonstrates the sensitivity to changes in LIBOR rate, with all other variables held constant.

Increase/decrease in interest rate	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+1%	(296)	–	(1,743)	–
-1%	296	–	1,743	–

Increase/decrease in interest rate	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+1%	(963)	–	(5,701)	–
-1%	963	–	5,701	–

iii) Foreign exchange risk

The Company has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US Dollar.

The Company holds the majority of its bank balances equivalents in US Dollar. However, the Company does maintain deposits in Naira in order to fund ongoing general and administrative activities and other expenditure incurred in this currency. Other monetary assets and liabilities which give rise to foreign exchange risk include trade and other receivables, and trade and other payables.

The following table demonstrates the carrying value of monetary assets and liabilities exposed to foreign exchange risks at the reporting date:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Financial assets				
Cash and bank balances	13,567	22,699	44,191	74,229
Trade and other receivables	4,327	–	14,096	–
Contract assets	56,026	26,565	182,496	86,869
	73,920	49,264	240,783	161,098
Financial liabilities				
Trade and other payables	(24,647)	(23,335)	(82,284)	(76,307)
Net exposure to foreign exchange risk	49,273	25,929	158,499	84,791

Sensitivity to foreign exchange risk is based on the Company's net exposure to foreign exchange risk due to Naira denominated balances. If the Naira strengthens or weakens by the following thresholds, the impact is as shown in the table below:

Increase/decrease in foreign exchange risk	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+5%	(2,346)	–	(1,235)	–
-5%	2,593	–	1,365	–

Increase/decrease in foreign exchange risk	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+5%	(7,643)	–	(4,038)	–
-5%	8,447	–	4,463	–

5.1.2 Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Company. Credit risk arises from cash and bank balances, derivative assets, deposits with banks and financial institutions as well as credit exposures to customers (i.e. Mercuria, Pillar and NGMC receivables), and other parties (i.e. NPDC receivables and other receivables).

i) Risk management

The Company is exposed to credit risk from its sale of crude oil to Mercuria. The off-take agreement with Mercuria also runs for five years until 31 July 2020 with a 30 day payment term.

In addition, the Company is exposed to credit risk in relation to its sale of gas to its customers. This risk is managed by the treasury and credit department approved by the Board of Directors through policies that ensure collectability of receivable amounts.

The credit risk on cash and bank balances is managed through the diversification of banks in which cash and bank balances are held. This risk on cash is limited because the majority of deposits are with banks that have an acceptable credit rating assigned by an international credit agency. The Company's maximum exposure to credit risk due to default of the counterparty is equal to the carrying value of its financial assets.

The maximum exposure to credit risk as at the reporting date is:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Trade and other receivables (Gross)	322,020	324,552	1,048,785	1,061,321
Contract asset	4,327		14,096	
Cash and bank balances	153,563	117,220	500,207	383,321
Gross amount	479,910	441,772	1,563,088	1,444,642
Impairment of receivables	(4,541)	–	(14,650)	–
Net amount	475,369	441,772	1,548,438	1,444,642

Trade and other receivables (excluding prepayments), contract assets and cash and bank balances are financial instruments whose carrying amounts as per the financial statements approximate their fair values.

The gross carrying amount of the Company's financial assets have been disclosed using the days past due criteria and other borrower specific information. The details of the credit quality of each financial asset is shown in note 39.2.2.

5 Financial risk management continued

ii) Estimation uncertainty in measuring impairment loss

The table below shows information on the sensitivity of the carrying amounts of the Company's financial assets to the methods, assumptions and estimates used in calculating impairment losses on those financial assets at the end of the reporting period. These methods, assumptions and estimates have a significant risk of causing material adjustments to the carrying amounts of the Company's financial assets.

a) Expected cash flow recoverable

The table below demonstrates the sensitivity to a 20% change in the expected cash flows from financial assets, with all other variables held constant:

Increase/decrease in estimated cash flows	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+20%	24	–	79	–
-20%	(24)	–	(79)	–

b) Significant unobservable inputs

The table below demonstrates the sensitivity to movements in the probability of default (PD) and loss given default (LGD) for financial assets, with all other variables held constant:

Increase/decrease in loss given default	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+10%	(538)	–	(1,759)	–
-10%	538	–	1,759	–

The table below demonstrates the sensitivity to movements in the probability of default (PD) for financial assets (intercompany receivables) classified as stage 1 and stage 2 financial assets, with all other variables held constant:

Increase/decrease in probability of default	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+10%	(193)	–	(632)	–
-10%	193	–	630	–

The table below demonstrates the sensitivity to movements in the forward-looking macroeconomic indicators, with all other variables held constant:

Increase/decrease in forward-looking macroeconomic indicators	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000	Effect on profit before tax 2017 US$ '000	Effect on other components of equity before tax 2017 US$ '000
+10%	165	–	540	–
-10%	(164)	–	(540)	–

5.1.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Company uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Company's debt financing plans and covenant compliance.

Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

i) Financing arrangements

The Company had access to the undrawn loan facility at the end of the reporting period:

Floating rate	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Expiring within one year (bank loans)	61,400	–	200,000	–

The outstanding amount on the loan facility may be drawn at any time up to the total commitment balance available at each commitment period. The available commitment balance as at the year end was ₦92.1billion ($300 million). This amount reduces by ₦11.5 billion ($37.5 million) at each subsequent reporting period, that is, every six months. There are no restrictions to the amounts available for drawdown.

ii) Maturities of financial liabilities

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Company can be required to pay.

31 December 2018	Effective interest rate %	Less than 1 year ₦ million	1 – 2 years ₦ million	2 – 3 years ₦ million	3 – 5 years ₦ million	Total ₦ million
Non-derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	10,130	10,075	10,048	122,220	152,473
Variable interest rate borrowings						
Stanbic IBTC Bank Plc	6.0% +LIBOR	312	313	312	3,789	4,726
The Standard Bank of South Africa Limited	6.0% +LIBOR	208	209	208	2,526	3,151
Nedbank Limited, London Branch	6.0% +LIBOR	434	434	434	5,263	6,565
Standard Chartered Bank	6.0% +LIBOR	390	391	390	4,736	5,907
Natixis	6.0% +LIBOR	304	304	304	3,684	4,596
FirstRand Bank Limited Acting	6.0% +LIBOR	304	304	304	3,684	4,596
Citibank N.A. London	6.0% +LIBOR	260	261	260	3,158	3,939
The Mauritius Commercial Bank Plc	6.0% +LIBOR	260	261	260	3,158	3,939
Nomura International Plc	6.0% +LIBOR	130	130	130	1,579	1,969
		2,602	2,607	2,602	31,577	39,388
Other non-derivatives						
Trade and other payables[1]		109,902	–	–	–	109,902
		122,634	**12,682**	**12,650**	**153,797**	**301,763**

1 Trade and other payables excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables.

31 December 2017	Effective interest rate %	Less than 1 year US$ '000	1 – 2 years US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	Total US$ '000
Non-derivatives						
Variable interest rate borrowings (bank loans):						
Allan Gray	8.5% + LIBOR	1,696	1,564	1,124	538	4,922
Zenith Bank Plc	8.5% + LIBOR	23,243	21,439	15,404	7,371	67,457
First Bank of Nigeria Limited	8.5% + LIBOR	12,830	11,835	8,503	4,069	37,237
United Bank for Africa Plc	8.5% + LIBOR	14,527	13,400	9,628	4,607	42,162
Stanbic IBTC Bank Plc	8.5% + LIBOR	2,177	2,008	1,443	690	6,318
Standard Bank Plc	8.5% + LIBOR	2,177	2,008	1,443	690	6,318
Standard Chartered Bank	6.0% + LIBOR	5,747	–	–	–	5,747
Natixis	6.0% + LIBOR	5,747	–	–	–	5,747
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	4,470	–	–	–	4,470
FirstRand Bank Limited Acting	6.0% + LIBOR	3,831	–	–	–	3,831
Nomura Bank Plc[1]	6.0% + LIBOR	3,831	–	–	–	3,831
NedBank Ltd, London Branch	6.0% + LIBOR	3,831	–	–	–	3,831
The Mauritius Commercial Bank Plc[1]	6.0% + LIBOR	3,831	–	–	–	3,831
Stanbic IBTC Bank Plc	6.0% + LIBOR	2,874	–	–	–	2,874
		90,812	52,254	37,545	17,965	198,576
Other non-derivatives						
Trade and other payables[2]	–	59,351	–	–	–	59,351
		150,163	**52,254**	**37,545**	**17,965**	**257,927**

1 Nomura and The Mauritius Commercial Bank replace JP Morgan and Bank of America.

2 Trade and other payables excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables.

5 Financial risk management continued

31 December 2018	Effective interest rate %	Less than 1 year ₦ million	1 – 2 years ₦ million	2 – 3 years ₦ million	3 – 5 years ₦ million	Total ₦ million
Non-derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	33,094	32,915	32,825	399,282	498,116
Variable interest rate borrowings						
Stanbic IBTC Bank Plc	6.0% +LIBOR	1,020	1,023	1,020	12,378	15,441
The Standard Bank of South Africa Limited	6.0% +LIBOR	680	682	680	8,252	10,294
Nedbank Limited, London Branch	6.0% +LIBOR	1,417	1,421	1,417	17,192	21,447
Standard Chartered Bank	6.0% +LIBOR	1,275	1,279	1,275	15,473	19,302
Natixis	6.0% +LIBOR	992	995	992	12,035	15,014
FirstRand Bank Limited Acting	6.0% +LIBOR	992	995	992	12,035	15,014
Citibank N.A. London	6.0% +LIBOR	850	853	850	10,315	12,868
The Mauritius Commercial Bank Plc	6.0% +LIBOR	850	853	850	10,315	12,868
Nomura International Plc	6.0% +LIBOR	425	426	425	5,158	6,434
		8,501	8,527	8,501	103,153	128,682
Other non-derivatives						
Trade and other payables[1]		357,988	–	–	–	357,988
		399,583	**41,442**	**41,326**	**502,435**	**984,786**

1 Trade and other payables excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables.

31 December 2017	Effective interest rate %	Less than 1 year US$ '000	1 – 2 years US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	Total US$ '000
Non-derivatives						
Variable interest rate borrowings (bank loans):						
Allan Gray	8.5% + LIBOR	5,546	5,116	3,676	1,759	16,097
Zenith Bank Plc	8.5% + LIBOR	76,006	70,109	50,373	24,104	220,592
First Bank of Nigeria Limited	8.5% + LIBOR	41,957	38,702	27,807	13,306	121,772
United Bank for Africa Plc	8.5% + LIBOR	47,504	43,818	31,483	15,065	137,870
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,119	6,567	4,718	2,258	20,662
Standard Bank Plc	8.5% + LIBOR	7,119	6,567	4,718	2,258	20,662
Standard Chartered Bank	6.0% + LIBOR	18,794	–	–	–	18,794
Natixis	6.0% + LIBOR	18,794	–	–	–	18,794
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	14,617	–	–	–	14,617
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	12,529	–	–	–	12,529
FirstRand Bank Limited Acting	6.0% + LIBOR	12,529	–	–	–	12,529
Nomura Bank Plc[1]	6.0% + LIBOR	12,529	–	–	–	12,529
NedBank Ltd, London Branch	6.0% + LIBOR	12,529	–	–	–	12,529
The Mauritius Commercial Bank Plc[1]	6.0% + LIBOR	9,399	–	–	–	9,399
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,576	–	–	–	13,576
		310,547	170,879	122,775	58,750	662,951
Other non-derivatives						
Trade and other payables[2]	–	194,084	–	–	–	194,084
		504,631	**170,879**	**122,775**	**58,750**	**857,035**

1 Nomura and The Mauritius Commercial Bank replace JP Morgan and Bank of America.

2 Trade and other payables excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables.

5.2 Fair value measurements

Set out below is a comparison by category of carrying amounts and fair value of all financial instruments:

	Carrying amount		Fair value	
	2018 ₦ million	2017 ₦ million	2018 ₦ million	2017 ₦ million
Financial assets at amortised cost				
Trade and other receivables[1]	317,507	324,552	317,507	324,552
Contract assets	4,327	–	4,327	–
Cash and bank balances	153,535	117,220	153,535	117,220
	475,369	441,772	475,369	441,772
Financial assets at fair value				
Derivative financial instruments	2,693	–	2,693	–
	2,693	–	2,693	–
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	136,830	174,329	143,158	174,329
Trade and other payables	109,902	59,351	109,902	59,351
	246,732	**233,680**	**253,060**	**233,680**

1 Trade and other receivables exclude NGMC VAT receivables, cash advances and advance payments.

	Carrying amount		Fair value	
	2018 ₦ million	2017 ₦ million	2018 ₦ million	2017 ₦ million
Financial assets at amortised cost				
Trade and other receivables[1]	1,034,226	1,061,321	1,034,226	1,061,321
Contract assets	14,096	–	14,096	–
Cash and bank balances	500,116	383,321	500,116	383,321
	1,548,438	1,444,642	1,548,438	1,444,642
Financial assets at fair value				
Derivative financial instruments	8,772	–	8,772	–
	8,772	–	8,772	–
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	445,699	570,077	466,314	570,077
Trade and other payables	357,988	194,084	357,988	194,084
	803,687	**764,161**	**824,302**	**764,161**

1 Trade and other receivables exclude NGMC receivables, VAT receivables, cash advances and advance payments.

In determining the fair value of the interest bearing loans and borrowings, non-performance risks of the Company as at year-end were assessed to be insignificant.

Trade and other payables (excludes non-financial liabilities such as provisions, accruals, taxes, pension and other non-contractual payables), trade and other receivables and contract assets (excluding prepayments) and cash and bank balances are financial instruments whose carrying amounts as per the financial statements approximate their fair values. This is mainly due to their short-term nature.

5 Financial risk management continued

5.2.1 Fair value hierarchy

As at the reporting period, the Company had classified its financial instruments into the three levels prescribed under the accounting standards. These are all recurring fair value measurements. There were no transfers of financial instruments between fair value hierarchy levels during the year.

31 Dec 2018	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
						Financial assets
Financial assets:						
Derivative financial instruments	2,693	–	–	8,772	–	–
	2,693	–	–	8,772	–	–

31 Dec 2018	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
						Financial liabilities
Financial liabilities:						
Interest bearing loans and borrowings	–	136,830	–	–	445,699	–
	–	**136,830**	**–**	**–**	**445,699**	**–**
31 Dec 2017						
Financial liabilities:						
Interest bearing loans and borrowings	–	174,329	–	–	570,077	–
	–	**174,329**	**–**	**–**	**570,077**	**–**

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of the Company's derivative financial instruments has been determined using a proprietary pricing model that uses marked to market valuation. The valuation represents the mid-market value and the actual close-out costs of trades involved. The market inputs to the model are derived from observable sources. Other inputs are unobservable but are estimated based on the market inputs or by using other pricing models.

5.3 Capital management

5.3.1 Risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain optimal capital structure and reduce cost of capital. Consistent with others in the industry, the Company monitors capital on the basis of the following gearing ratio, net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances.

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Interest bearing loans and borrowings	136,830	174,329	445,699	570,077
Less: cash and bank balances	(153,535)	(117,220)	(500,116)	(383,321)
Net debt	(16,705)	57,109	(54,417)	186,756
Total equity	526,296	490,225	1,714,316	1,603,077
Total capital	509,591	547,334	1,659,899	1,789,833
Net debt (net debt/total capital) ratio	(3%)	10%	(3%)	10%

During the year, the Company's strategy, which was unchanged from 2017, was to maintain a gearing ratio of 20% to 40%. Capital includes share capital, share premium, treasury shares, capital contribution and all other equity reserves.

5.3.2 Loan covenant

Under the terms of the major borrowing facilities, the Company is required to comply with the following financial covenants:

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1.
- The sources of funds exceed the relevant expenditures in each semi-annual period within the 18 months shown in the Company's liquidity plan.
- The minimum production levels stipulated for each six-month period must be achieved.

The Company has complied with these covenants throughout the reporting periods presented.

6 Segment reporting

Business segments are based on Seplat's internal organisation and management reporting structure. Seplat's business segments are the two core businesses: oil and gas. The oil segment deals with the exploration, development and production of crude oil while the gas segment deals with the production and processing of gas. These two reportable segments make up the total operations of the Company.

For the year ended 31 December 2018, revenue from the gas segment of the business constituted 22% of the Company's revenue. Management believes that the gas segment of the business will continue to generate higher profits in the foreseeable future. It also decided that more investments will be made toward building the gas arm of the business. This investment will be used in establishing more offices, creating a separate operational management and procuring the required infrastructure for this segment of the business. The gas business is positioned separately within the Company and reports directly to the chief operating decision maker. As this business segment's revenues and results, and also its cash flows, will be largely independent of other business units within Seplat, it is regarded as a separate segment.

The result is two reporting segments, oil and gas. There were no intersegment sales during the reporting periods under consideration, therefore all revenue was from external customers.

Amounts relating to the gas segment are determined using the gas cost centres, with the exception of depreciation. Depreciation relating to the gas segment is determined by applying a percentage which reflects the proportion of the Net Book Value of oil and gas properties that relates to gas investment costs (i.e. cost for the gas processing facilities).

Where applicable, the comparative figures for 2017 have been reclassified to match the new structure for the year ended 31 December 2018.

The Company accounting policies are also applied in the segment reports.

6.1 Segment profit disclosure

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Oil	13,251	74,057	43,291	242,182
Gas	36,430	22,359	119,014	73,107
Total profit for the year	**49,681**	**96,416**	**162,305**	**315,289**

Oil	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Revenue				
Crude oil sales	169,534	89,742	553,856	293,455
Operating profit before depreciation, amortisation and impairment	87,523	38,334	300,092	125,372
Depreciation, amortisation and impairment	(26,610)	(21,622)	(101,090)	(70,705)
Operating profit	60,913	16,712	199,002	54,667
Finance income	2,874	11,924	9,388	38,992
Finance cost	(14,788)	(22,236)	(48,311)	(72,710)
Profit before taxation	48,999	6,400	160,079	20,949
Taxation	(35,748)	67,657	(116,788)	221,233
Profit for the year	**13,251**	**74,057**	**43,291**	**242,182**

Gas	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Revenue				
Crude oil sales	47,640	37,913	155,637	123,973
Operating profit before depreciation, amortisation and impairment	40,762	25,879	138,161	84,617
Depreciation, amortisation and impairment	(4,332)	(3,520)	(19,147)	(11,510)
Operating profit	36,430	22,359	119,014	73,107
Finance income	–	–	–	–
Finance cost	–	–	–	–
Profit before taxation	36,430	22,359	119,014	73,107
Taxation	–	–	–	–
Profit for the year	**36,430**	**22,359**	**119,014**	**73,107**

During the reporting period, impairment losses recognised in the gas segment related to NGMC. Impairment losses recognised in the oil segment relate to receivables from NPDC. See note 39.2.2 and note 11 for further details.

6 Segment reporting continued

6.1.1 Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of commodities at a point in time or over time and from different geographical regions. The Company has not disclosed disaggregated revenue and contract asset for the comparative periods, as the effects of IFRS 15 adjustments have been treated retrospectively using the modified retrospective approach. The modified approach does not require a restatement of comparatives.

			₦ million			US$ '000
	Oil 2018	Gas 2018	Total 2018	Oil 2018	Gas 2018	Total 2018
Geographical markets						
Nigeria	–	47,640	**47,640**	–	155,637	**155,637**
Switzerland	169,534	–	**169,534**	553,856	–	**553,856**
Revenue	169,534	47,640	**217,174**	553,856	155,637	**709,493**
Timing of revenue recognition						
At a point in time	169,534	–	**169,534**	553,856	–	**553,856**
Over time	–	47,640	**47,640**	–	155,637	**155,637**
Revenue	169,534	47,640	**217,174**	553,856	155,637	**709,493**

The Company's transactions with its major customer, Mercuria, constitutes more than 10% (₦169 billion, $554 million) of the total revenue from the oil segment and the Company as a whole. Also, the Company's transactions with NGMC (₦48 billion, $156 million) accounted for more than 10% of the total revenue from the gas segment and the Company as a whole.

6.1.2 Impairment/(reversal of) losses by reportable segment

			₦ million			₦ million
	Oil 2018	Gas 2018	Total 2018	Oil 2017	Gas 2017	Total 2017
Impairment losses recognised during the period	775	–	**775**	–	–	**–**
Reversal of previously recognised impairment losses	(356)	(347)	**(703)**	(3,129)	–	**(3,129)**
Exchange differences	(4)	1	**(3)**	(9)	–	**(9)**
Total	415	(346)	**69**	(3,138)	–	**(3,138)**

			US$ '000			US$ '000
	Oil 2018	Gas 2018	Total 2018	Oil 2017	Gas 2017	Total 2017
Impairment losses recognised during the period	2,533	–	**2,533**	–	–	**–**
Reversal of previously recognised impairment losses	(1,167)	(1,138)	**(2,305)**	(10,260)	–	**(10,260)**
Total	1,366	(1,138)	**228**	(10,260)	–	**(10,260)**

No impairment loss was recognised in the comparative period. See note 11 for further details.

6.2 Segment assets

Segment assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the reporting segment and the physical location of the asset. The Company had no non-current assets domiciled outside Nigeria.

			₦ million			US$ '000
Total segment assets	Oil	Gas	Total	Oil	Gas	Total
31 December 2018	699,347	152,639	**851,986**	2,278,003	497,191	**2,775,194**
31 December 2017	751,038	82,896	**833,934**	2,455,967	271,077	**2,727,044**

6.3 Segment liabilities

Segment liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

			₦ million			US$ '000
Total segment liabilities	Oil	Gas	Total	Oil	Gas	Total
31 December 2018	299,070	26,620	**325,690**	974,169	86,709	**1,060,878**
31 December 2017	329,769	13,940	**343,709**	1,078,384	45,583	**1,123,967**

7 Revenue from contracts with customers

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Crude oil sales	169,534	97,313	553,856	318,210
Gas sales	47,640	37,913	155,637	123,973
	217,174	135,226	709,493	442,183
(Overlift)/ Underlift	–	(7,571)	–	(24,755)
	217,174	**127,655**	**709,493**	**417,428**

* There is no revenue other than revenue from contracts with customers in 2018.

The major off-taker for crude oil is Mercuria. The major off-taker for gas is the Nigerian Gas Marketing Company.

8 Cost of sales

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Royalties	36,691	20,963	119,867	68,546
Depletion, depreciation and amortisation (note 17a)	35,851	23,877	117,126	78,078
Crude handling fees	19,331	8,556	63,154	27,976
Nigeria Export Supervision Scheme (NESS) fee	217	104	708	340
Barging costs	–	2,787	–	9,113
Niger Delta Development Commission Levy	1,364	1,061	4,456	3,469
Rig related costs	12	985	39	3,220
Operational & maintenance expenses	9,620	9,333	31,427	30,516
	103,086	**67,666**	**336,777**	**221,258**

Rig related costs for 2017 mostly relate to work-overs which form part of expenses for the relevant reporting period. During the year ended 2018, activities carried out on the site were mainly drilling activities for which the related costs have been capitalised within oil and gas properties (note 17).

Operational & maintenance expenses mainly relates to maintenance costs, warehouse operations expenses, security expenses, community expenses, cleanup costs, fuel supplies and catering services.

9 Other income – net

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Underlift	1,462	–	4,776	–
Gains on foreign exchange	295	334	963	1,092
	1,757	**334**	**5,739**	**1,092**

Shortfalls may exist between the crude oil lifted and sold to customers during the period and the participant's ownership share of production. The shortfall is initially measured at the market price of oil at the date of lifting and recognised as other income. At each reporting period, the shortfall is remeasured at the current market value. The resulting change, as a result of the remeasurement, is also recognised in profit or loss as other income.

Gains on foreign exchange are principally as a result of translation of Naira denominated monetary assets and liabilities.

10 General and administrative expenses

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Depreciation (note 17b)	883	1,265	2,884	4,137
Auditors' remuneration	141	136	458	444
Professional and consulting fees	2,661	1,832	8,693	5,990
Directors' emoluments (Executive)	617	711	2,014	2,322
Directors' emoluments (Non-Executive)	1,053	933	3,439	3,051
Donations	118	102	386	333
Employee benefits (note10a)	8,618	6,407	28,154	20,951
Flights and other travel costs	2,101	2,036	6,863	6,657
Rentals	532	509	1,738	1,664
Loss on disposal of plant & equipment	–	10	–	32
Other general expenses	3,028	4,518	9,891	14,774
	19,752	**18,459**	**64,520**	**60,355**

Directors' emoluments have been split between Executive and Non-Executive Directors. There were no non-audit services rendered by the Company's auditors during the period (2017: nil).

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others. Share based payment expenses are included in employee benefits expense.

Reversal of impairment loss on NPDC receivables was reclassified from other general expenses to (impairment)/reversal of losses on financial assets in note 11.

10a Salaries and employee related costs include the following:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Short-term employee benefits:				
Basic salary	4,001	2,761	13,071	9,028
Housing allowances	14	421	45	1,376
Other allowances	855	685	2,794	2,241
Post-employment benefits:				
Defined contribution expenses	439	303	1,435	991
Defined benefit expenses (note 31b)	340	502	1,111	1,641
Share based benefits (note 26d)	2,969	1,735	9,698	5,674
	8,618	**6,407**	**28,154**	**20,951**

Other allowances mainly relates to staff bonus, car allowances and relocation expenses.

11 (Impairment)/reversal of losses on financial assets – net

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Impairment loss on NPDC receivables	(775)	–	(2,533)	–
	(775)	–	(2,533)	–
Reversal of impairment losses:				
Reversal of impairment on NPDC receivables	–	3,129	–	10,260
Reversal of impairment loss on intercompany receivables	309	–	1,014	–
Reversal of impairment loss on NGMC receivables	347	–	1,139	–
Reversal of impairment loss on fixed deposits	47	–	153	–
	703	3,129	2,306	10,260
Exchange difference	3	9	–	–
Total (impairment)/reversal of loss allowance	**(69)**	**3,138**	**(227)**	**10,260**

The trade receivables balances included in note 22 includes NGMC receivables

Reversal of impairment loss on NPDC receivables was reclassified from other general expenses within general and administrative expenses in note 10.

The impairment losses in 2018 relate to the expected credit losses (ECL) computed on these financial assets on adoption of IFRS 9. For some trade receivables and contract assets, impairment was assessed to be immaterial and therefore has not been recognised in 2018. The reversals of impairment losses are as a result of decreases in the outstanding balances of trade receivables and fixed deposits. See note 39.2.2 for further details.

12 Fair value gain/(loss) – net

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Realised fair value (loss) on derivatives	(1,374)	(5,931)	(4,464)	(19,393)
Unrealised fair value gain on derivatives (note 24)	2,693	–	8,772	–
	1,319	**(5,931)**	**4,308**	**(19,393)**

Fair value gain/(loss) on derivatives represents changes arising from the valuation of the crude oil economic hedge contracts charged to profit or loss.

13 Finance income/(cost)

Finance income	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Interest income	2,874	11,924	9,388	38,992
Finance cost				
Interest on advance payments for crude oil sales	(530)	(1,770)	(1,730)	(5,789)
Interest on bank loans	(13,415)	(20,449)	(43,828)	(66,867)
Unwinding of discount on provision for decommissioning (note 30)	(843)	(17)	(2,753)	(54)
	(14,788)	(22,236)	(48,311)	(72,710)
Finance income/(cost) – net	**(11,914)**	**(10,312)**	**(38,923)**	**(33,718)**

Finance income represents interest on fixed deposits for the Company.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Company's general borrowings denominated in dollars during the year, in this case 13.1% (2017: 9.41%).

14 Taxation

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

14a Income tax (expense)/credit

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Current tax:				
Current tax on profit for the year	(6,651)	–	(21,726)	–
Education tax	(1,042)	(687)	(3,408)	(2,248)
Total current tax	(7,693)	(687)	(25,134)	(2,248)
Deferred tax:				
Deferred tax (expense)/credit in profit or loss	(28,055)	68,344	(91,654)	223,481
Total tax (expense)/credit in statement of profit or loss	(35,748)	67,657	(116,788)	221,233
Deferred tax recognised in other comprehensive income	(80)	76	(261)	250
Total tax charge/credit for the period	**(35,828)**	**67,733**	**(117,049)**	**221,483**
Effective tax rate	(42%)	236%	(42%)	235%

14b Reconciliation of effective tax rate

The estimated applicable average annual tax rates used for the year ended 31 December 2018 were 85% for crude oil activities and 30% for gas activities. A tax rate of 85% applies to Seplat for petroleum profit tax and 30% is the company income tax rate for the gas business. These rates remained unchanged from the year ended 31 December 2017.

In May 2015, in line with sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Company provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two-year tax holiday.

The financial statements have been prepared taking into consideration the impact of the additional tax holiday relating to gas sales and this forms the basis for the Company's current income taxation and deferred taxation for the year ended 31 December 2018.

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Profit before taxation	85,429	28,759	279,093	94,056
Tax rate of 85%, 65.75% and 30%	72,615	24,445	237,229	79,948
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Income not subject to tax	(24,827)	(25,578)	(81,108)	(83,644)
Expenses not deductible for tax purposes		27,305	–	89,290
Recognition of previously unrecognised deductible temporary difference	–	(64,335)	–	(210,380)
Impact of tax incentive	(13,083)	(29,227)	(42,741)	(95,577)
Education tax	1,043	687	3,408	2,248
Tax loss utilised	–	(954)	–	(3,118)
Total tax credit in statement of profit or loss	**35,748**	**(67,657)**	**116,788**	**(221,233)**

14c Current tax liabilities

The movement in the current tax liabilities is as follows:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
As at 1 January	1,264	575	4,133	1,885
Tax charge	7,693	687	25,134	2,248
Exchange difference	28	2	–	–
As 31 December	**8,985**	**1,264**	**29,267**	**4,133**

15 Deferred tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

Deferred tax assets	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Deferred tax asset to be recovered in less than 12 months	–	–	–	–
Deferred tax asset to be recovered after more than 12 months	132,263	158,381	431,984	517,924
	132,263	**158,381**	**431,984**	**517,924**

Deferred tax liabilities	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Deferred tax liabilities to be recovered in less than 12 months	–	–	–	–
Deferred tax liabilities to be recovered after more than 12 months	(87,979)	(89,964)	(287,738)	(294,193)
	(87,979)	(89,964)	(287,738)	(294,193)
Net deferred tax assets	**44,284**	**68,417**	**144,246**	**223,731**

15a Deferred tax assets

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

					₦ million
	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
Tax losses	12,392	–	(12,404)	–	**(12)**
Other cumulative timing differences:		–	–		**–**
Unutilised capital allowance	127,499	–	(11,431)	–	**116,068**
Provision for decommissioning obligation	102	–	716	–	**818**
Defined benefit plan	1,250	–	370	(80)	**1,540**
Share based payment reserve	4,629	–	(1,335)	–	**3,294**
Unrealised foreign exchange (gain)/loss on trade and other receivables	4,209	–	(2,951)	–	**1,258**
Other income	6,489	–	(1,243)	–	**5,246**
Impairment provision on trade and other receivables	1,811	3,805	(1,753)	–	**3,863**
	158,381	3,805	(30,031)	(80)	**132,075**
Effect of exchange difference	–	11	177	–	**188**
	158,381	3,816	(29,854)	(80)	**132,263**

					US$ '000
	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
Tax losses	40,523	–	(40,523)	–	**–**
Other cumulative timing differences:					
Unutilised capital allowance	416,935	–	(37,343)	–	**379,592**
Provision for decommissioning obligation	334	–	2,340	–	**2,674**
Defined benefit plan	4,087	–	1,209	(261)	**5,035**
Share based payment reserve	15,138	–	(4,360)	–	**10,778**
Unrealised foreign exchange (gain)/loss on trade and other receivables	13,765	–	(9,642)	–	**4,123**
Other income	21,219	–	(4,060)	–	**17,159**
Impairment provision on trade and other receivables	5,923	12,430	(5,730)	–	**12,623**
	517,924	12,430	(98,109)	(261)	**431,984**

Following a significant improvement in the financial position of the Company in 2017, the Company conducted an assessment of its assessable profit based on a five (5) year business plan in order to determine the possibility of future profit making prospects for 2018 to 2022. The Company reviewed previously unrecognised tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilised. As a result, net deferred tax assets of ₦44 billion, 2017: ₦68 billion ($144 million, 2017: $224 million) were recognised for those losses.

15 Deferred tax continued

15b Deferred tax liabilities

Deferred tax liabilities are recognised for amounts of income taxes payable in future periods in respect of taxable temporary differences.

					₦ million
	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
Other cumulative timing differences:					
Fixed assets	(89,964)	–	4,258	–	**(85,706)**
Derivative financial instruments	–	–	(2,282)		**(2,282)**
	(89,964)	–	1,976	–	**(87,988)**
Effect of exchange difference	–	–	9	–	**9**
	(89,964)	–	1,976	–	**(87,979)**

					US$ '000
	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
Other cumulative timing differences:					
Fixed assets	(294,193)	–	13,911	–	**(280,282)**
Derivative financial instruments	–	–	(7,456)		**(7,456)**
	294,193	–	6,455	–	**(287,738)**

16 Computation of cash generated from operations

	Notes	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Profit before tax		85,429	28,759	279,093	94,056
Adjusted for:					
Depletion, depreciation and amortisation	17	36,734	25,142	120,010	82,215
Impairment/(reversal) of losses on financial assets	11	69	(3,138)	227	(10,260)
Interest income	13	(2,874)	(11,924)	(9,388)	(38,992)
Interest on advance payments for crude oil sales	13	530	1,770	1,730	5,789
Interest expense on bank loans	13	13,415	20,449	43,828	66,867
Unwinding of discount on provision for decommissioning	13	843	17	2,753	54
Unrealised fair value gain on derivative financial instruments	12	(2,693)	–	(8,772)	–
Unrealised foreign exchange gain	9	(295)	(334)	(963)	(1,092)
Share based payment expenses	10a	2,969	1,735	9,698	5,674
Defined benefit expenses	10a	340	502	1,111	1,641
Loss on disposal of other property, plant and equipment	17	–	10	–	32
Changes in working capital: (excluding the effects of exchange differences)					
Trade and other receivables		6,689	3,989	21,787	13,045
Prepayments		(10,521)	322	(34,271)	1,054
Contract assets		(4,327)	–	(14,096)	–
Trade and other payables		27,030	49,477	88,048	161,788
Restricted cash		(1,049)		(3,418)	
Inventories		(707)	1,801	(2,303)	5,889
Net cash from operating activities		**151,582**	**118,577**	**495,074**	**387,760**

17 Property, plant and equipment

17a Oil and gas properties

	₦ million			US$ '000		
Cost	Production and field facilities	Assets under construction	Total	Production and field facilities	Assets under construction	Total
At 1 January 2017	314,270	37,178	351,448	1,030,395	121,895	1,152,290
Additions	4,818	–	4,818	15,756	–	15,756
Changes in decommissioning	30,596	–	30,596	100,054	–	100,054
Transfer from asset under construction	10,305	(10,305)	–	33,698	(33,698)	–
Interest capitalised	–	1,982	1,982	–	6,480	6,480
Exchange differences	825	97	922	–	–	–
At 31 December 2017	**360,814**	**28,952**	**389,766**	**1,179,903**	**94,677**	**1,274,580**
Depreciation						
At 1 January 2017	86,822	–	86,822	284,663	–	284,663
Charge for the year	23,877	–	23,877	78,078	–	78,078
Exchange differences	226	–	226	–	–	–
At 31 December 2017	**110,925**	**–**	**110,925**	**362,741**	**–**	**362,741**
NBV						
At 31 December 2017	**249,889**	**28,952**	**278,841**	**817,162**	**94,677**	**911,839**

Cost						
At 1 January 2018	360,814	28,952	389,766	1,179,903	94,677	1,274,580
Additions	1,979	18,149	20,128	6,481	59,276	65,757
Changes in decommissioning	6,099	–	6,099	19,466	–	19,466
Transfer from asset under construction	1,526	(1,526)	–	4,970	(4,970)	–
Interest capitalised	–	4,929	4,929	–	16,104	16,104
Exchange differences	1,304	178	1,482	–	–	–
At 31 December 2018	**371,722**	**50,682**	**422,404**	**1,210,820**	**165,087**	**1,375,907**
Depreciation						
At 1 January 2018	110,925	–	110,925	362,741	–	362,741
Charge for the year	35,851	–	35,851	117,126	–	117,126
Exchange difference	543	–	543	–	–	–
At 31 December 2018	**147,319**	**–**	**147,319**	**479,867**	**–**	**479,867**
NBV						
At 31 December 2018	**224,403**	**50,682**	**275,085**	**730,953**	**165,087**	**896,040**

Assets under construction represent costs capitalised in connection with the development of the Company's oil fields and other property, plant and equipment not yet ready for their intended use. Some of which are qualifying assets which take a substantial period of time to get ready for their intended use. A capitalisation rate of 13.1% (2017: 9.41%) has been determined and applied to the Company's general borrowing to determine the borrowing cost capitalised as part of the qualifying assets. Borrowing costs capitalised during the year amounted to ₦4.93 billion, 2017: ₦1.98 billion ($16.1 million, 2017: $6.48 million). There was no oil and gas property pledged as security during the reporting period.

17 Property, plant and equipment continued

17b Other property, plant and equipment

Cost	Plant & machinery ₦ million	Motor vehicles ₦ million	Office furniture & IT equipment ₦ million	Leasehold improvements ₦ million	Total ₦ million
At 1 January 2017	1,462	2,180	4,106	864	8,612
Additions	122	169	136	13	441
Disposals	–	(141)	–	–	(141)
Exchange differences	4	5	12	3	23
At 31 December 2017	1,588	2,213	4,254	880	8,935
Depreciation					
At 1 January 2017	777	1,409	3,412	600	6,198
Disposals	–	(82)	–	–	(82)
Charge for the year	267	364	515	119	1,265
Exchange differences	2	4	9	2	17
At 31 December 2017	1,046	1,695	3,936	721	7,398
NBV					
At 31 December 2017	**542**	**518**	**318**	**159**	**1,537**

Cost					
At 1 January 2018	1,588	2,213	4,254	880	8,935
Addition	–	469	199	30	698
Disposals	(104)	(82)	–	–	(186)
Exchange differences	6	10	17	3	36
At 31 December 2018	**1,490**	**2,610**	**4,470**	**913**	**9,483**
Depreciation					
At 1 January 2018	1,046	1,695	3,936	721	7,398
Disposal	(31)	(82)	–	–	(113)
Charge for the year	223	331	268	61	883
Exchange differences	5	7	16	2	30
At 31 December 2018	**1,243**	**1,951**	**4,220**	**784**	**8,198**
NBV					
At 31 December 2018	**247**	**659**	**250**	**129**	**1,285**

Cost	Plant & machinery US$ '000	Motor vehicles US$ '000	Office furniture & IT equipment US$ '000	Leasehold improvements US$ '000	Total US$ '000
At 1 January 2017	4,793	7,146	13,463	2,833	28,235
Additions	399	554	446	43	1,442
Disposals	–	(462)	–	–	(462)
At 31 December 2017	5,192	7,238	13,909	2,876	29,215
Depreciation					
At 1 January 2017	2,546	4,621	11,187	1,967	20,321
Disposals	–	(268)	–	–	(268)
Charge for the year	876	1,189	1,683	389	4,137
At 31 December 2017	3,422	5,542	12,870	2,356	24,190
NBV					
At 31 December 2017	**1,770**	**1,696**	**1,039**	**520**	**5,025**

Cost	Plant & machinery US$ '000	Motor vehicles US$ '000	Office furniture & IT equipment US$ '000	Leasehold improvements US$ '000	Total US$ '000
At 1 January 2018	5,192	7,238	13,909	2,876	29,215
Addition	–	1,533	651	97	2,281
Disposals	(340)	(268)	–	–	(608)
At 31 December 2018	**4,852**	**8,503**	**14,560**	**2,973**	**30,888**
Depreciation					
At 1 January 2018	3,422	5,542	12,870	2,356	24,190
Disposals	(101)	(268)	–	–	(369)
Charge for the year	727	1,082	875	200	2,884
At 31 December 2018	**4,048**	**6,356**	**13,745**	**2,556**	**26,705**
NBV					
At 31 December 2018	**804**	**2,147**	**815**	**417**	**4,183**

17c Depletion, depreciation and amortisation

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Oil and gas properties	35,851	23,877	117,126	78,078
Other property, plant and equipment	883	1,265	2,884	4,137
Total depletion, depreciation and amortisation	**36,734**	**25,142**	**120,010**	**82,215**

17d Gain/(loss) on disposal of other property, plant and equipment

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Proceeds from disposal of assets	73	50	239	162
Less net book value of disposed assets	(73)	(59)	(239)	(194)
Exchange difference	–	(1)	–	–
	–	**(10)**	**–**	**(32)**

18 Tax paid in advance

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Tax paid in advance	9,708	9,670	31,623	31,623

In 2013 and 2014, Petroleum Profit Tax payments (2013: ₦9 billion and 2014: ₦0.9 billion) (2013: $28.7 million and 2014: $2.9 million) were made by the Company prior to obtaining a pioneer status. This was accounted for as a tax credit under non-current prepayments until a future date when the Company will be expected to offset it against its tax liability.

19 Prepayments

Non-current	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Rent	196	287	635	939
Advances to suppliers	7,675	–	25,000	–
	7,871	**287**	**25,635**	**939**
Current				
Rent	1,182	173	3,850	565
Crude oil hedge	1,584	–	5,159	–
Other prepayments	690	340	2,249	1,109
	3,456	513	11,258	1,674
	11,327	**800**	**36,893**	**2,613**

19a Rent

In 2014, the Company entered into three new commercial leases in relation to three buildings that it occupies, with two in Lagos state and one in Delta state. The non-cancellable leases which relate to buildings in Lagos expire in 2018 and 2019 respectively. The rent on the expired lease agreement was not renewed. The rent on the building in Delta state has been renewed and now expires in 2021. The Company has prepaid these rents. The long-term portion as at 31 December 2018 is ₦0.2 billion, 2017: ₦0.3 billion ($0.6 million, 2017: $0.9 million).

In 2018, the Company entered into a lease agreement for an office building in Lagos. The non-cancellable period of the lease is five years commencing on 1 January 2019 and ending on 31 December 2023. However, the Company has an option of either extending the lease period on terms to be mutually agreed by parties to the lease on the expiration of the current term, or purchase the property.

19b Advances to suppliers

Advances to suppliers relate to a milestone payment made to Fenog to finance the construction of the Amukpe Escravos Pipeline Project and other related facilities. At the end of the reporting period, the total prepaid amount is ₦7.7 billion, 2017: nil ($25 million, 2017: nil).

19c Other prepayments

Included in other prepayments are pre-paid service charge expenses for office buildings, health insurance, software licence maintenance, motor insurance premium and crude oil handling fees.

19d Crude oil hedge

In 2018, the Company commenced a crude oil hedge of ₦15,350 ($50/bbl) for 4 million barrels at a cost of ₦1.6 billion ($5.2 million). The contract commenced on 1 January 2019. A premium of ₦1.6 billion ($5.2 million) has been pre-paid and has been recognised as a prepayment as at 31 December 2018.

20 Investment in subsidiaries

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Newton Energy Limited	290	290	950	950
Seplat Petroleum Development Company UK Limited	15	15	50	50
Seplat East Onshore Limited	10	10	32	32
Seplat East Swamp Company Limited	10	10	32	32
Seplat Gas Company Limited	10	10	32	32
ANOH Gas Processing Company Limited	10	10	33	33
	345	**345**	**1,129**	**1,129**

21 Inventories

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Tubular, casing and wellheads	30,400	29,576	99,022	96,719

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. There was no inventory charged to profit or loss and included in cost of sales during the year (2017: ₦1.3 billion, $4.3 million). There was no write down or reversal of previously recognised write down of inventory for the year ended 31 December 2018.

22 Trade and other receivables

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Trade receivables	27,203	30,890	88,608	101,011
Nigerian Petroleum Development Company (NPDC) receivables	–	34,453	–	112,664
Intercompany receivables	256,874	231,348	836,723	756,532
Advances on investments	20	188	65	613
Advances to related parties	33,086	27,854	107,773	91,086
Advances to suppliers	1,689	1,929	5,499	6,307
Other receivables	125	866	406	2,831
	318,997	**327,528**	**1,039,074**	**1,071,044**

22a Trade receivables

Included in trade receivables is an amount due from Nigerian Gas Company (NGMC) and Central Bank of Nigeria (CBN) totalling ₦14 billion, 2017: ₦22 billion ($46 million, 2017: $72 million) with respect to the sale of gas. Also included in trade receivables is an amount of ₦13 billion, 2017: ₦13 billion ($43 million, 2017: $43 million) due from Mercuria for sale of crude.

22b NPDC receivables

The outstanding cash calls due to Seplat from its JOA partner NPDC is ₦ nil, 2017: ₦34 billion ($ nil, 2017: $113 million). The outstanding NPDC receivable at the end of the reporting period has been netted against the gas receipts payable to NPDC as Seplat has a legally enforceable right to settle outstanding amounts on a net basis.

				2018 ₦ million
	Gross amounts	Loss allowance	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet
Financial assets				
Trade receivables	14,871	(2,475)	12,396	–
Financial liabilities				
Payable to NPDC	(22,418)	–	(12,396)	(10,022)

				2018 US$ '000
	Gross amounts	Loss allowance	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet
Financial assets				
Trade receivables	48,439	(8,086)	40,353	–
Financial liabilities				
Payable to NPDC	(72,996)	–	(40,353)	(32,643)

22c Other receivables

Other receivables are amounts that arise as a result of activities outside the operating activities of the Company.

22.1 Reconciliation of trade receivables

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Balance as at 1 January	30,890	21,061	101,011	69,052
Additions during the year	192,567	9,829	629,098	31,959
Receipts for the year	(196,242)	–	(641,105)	–
Exchange differences	110	–	–	–
Gross carrying amount	27,325	30,890	89,004	101,011
Less: impairment allowance (note 39.2.2)	(122)	–	(396)	–
Balance as at 31 December	**27,203**	**30,890**	**88,608**	**101,011**

23 Contract assets

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Revenue on gas sales	4,327	–	14,096	–

A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. The Company has recognised an asset in relation to a contract with NGMC for the delivery of gas supplies which NGMC has received but which has not been invoiced as at the end of the reporting period.

The terms of payment relating to the contract are between 30-45 days from the invoice date. However, invoices are raised after delivery between 14-21 days when the receivable amount has been established and the right to the receivables crystallises. The right to the unbilled receivables is recognised as a contract asset.

At the point where the final billing certificate is obtained from NGMC authorising the quantities, this will be reclassified from the contract assets to trade receivables.

23.1 Reconciliation of contract assets

The movement in the Company's contract assets is as detailed below:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Impact on initial application of IFRS 15	4,217	–	13,790	–
Additions during the year	39,120	–	127,803	–
Receipts for the year	(39,027)	–	(127,497)	–
Exchange difference	17	–	–	–
Gross carrying amount	4,327	–	14,096	–
Less: impairment allowance	–	–	–	–
	4,327	**–**	**14,096**	**–**

24 Derivative financial instruments

The Company uses its derivatives for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss. They are presented as current assets.

The derivative financial instrument of ₦2.7 billion, 2017: nil ($8.8 million, 2017: $ nil) as at 31 December 2018 is as a result of a fair value gain on crude oil hedges. The fair value has been determined using a proprietary pricing model which generates results from inputs. The market inputs to the model are derived from observable sources. Other inputs are unobservable but are estimated based on the market inputs or by using other pricing models.

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Foreign currency option – crude oil hedges	2,693	–	8,772	–

25 Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash at bank and on hand, fixed deposits with a maturity of three months or less and restricted cash balances.

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Cash on hand	2	3	6	9
Restricted cash	1,049	19,166	3,418	62,674
Cash at bank	152,512	98,051	496,783	320,638
	153,563	117,220	500,207	383,321
Less: impairment allowance (note 39.2.2)	(28)	–	(91)	–
	153,535	**117,220**	**500,116**	**383,321**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Cash on hand	2	3	6	9
Fixed deposits	31,663	29,658	103,138	96,984
Restricted cash	–	19,166	–	62,674
Cash at bank	120,821	68,393	393,554	223,654
	152,486	**117,220**	**496,698**	**383,321**

In 2017, the restricted cash balance comprised amounts relating to debt reserve account and stamping reserve account. The amount was subject to capital restrictions relating to the borrowings in that period and was therefore not available for general use by the Company. During the reporting period, a portion of the restricted cash was used to settle the outstanding borrowing facility, resulting in a reduction in the restricted cash balance as at 31 December 2018.

In 2018, the restricted cash balance relates to amounts set aside in the stamping reserve account for the revolving credit facility (RCF). The amount is to be used for the settlement of all fees and costs payable for the purposes of stamping and registering the Security Documents at the stamp duties office and at the Corporate Affairs Commission (CAC). The amounts are restricted for a period five (5) years, which is the contractual period of the RCF. These amounts are subject to legal restrictions and are therefore not available for general use by the Company. These amounts have therefore been excluded from cash and bank balances for the purposes of cash flow.

26 Share capital

26a Authorised and issued share capital

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Authorised ordinary share capital				
1,000,000,000 ordinary shares denominated in Naira of 50 kobo per share	500	500	3,335	3,335
Issued and fully paid				
568,497,025 (2017: 563,444,561) issued shares denominated in Naira of 50 kobo per share	286	283	1,834	1,826

The Company's issued and fully paid share capital as at the reporting date consists of 568,497,025 ordinary shares (excluding the additional shares held in trust) of ₦0.50k each, all with voting rights. Fully paid ordinary shares carry one vote per share and the right to dividends. There were no restrictions on the Company's share capital.

26b Movement in share related reserves

	Shares			₦ million
	Number of shares	Issued share capital	Share based payment reserve	Total
Opening balance as at 1 January 2018	563,444,561	283	4,332	4,615
Share based payments (note 26d)	–	–	2,969	2,969
Vested shares (note 26d)	5,052,464	3	(3)	–
Closing balance as at 31 December 2018	**568,497,025**	**286**	**7,298**	**7,584**

	Shares			US$ '000
	Number of shares	Issued share capital	Share based payment reserve	Total
Opening balance as at 1 January 2018	563,444,561	1,826	17,809	19,635
Share based payments (note 26d)	–	–	9,698	9,698
Vested shares (note 26d)	5,052,464	8	(8)	–
Closing balance as at 31 December 2018	**568,497,025**	**1,834**	**27,499**	**29,333**

25,000,000 additional shares were issued in furtherance of the Company's Long Term Incentive Plan, in February 2018. The additional issued shares, less 5,052,464 shares which vested in April 2018, are held by Stanbic IBTC Trustees Limited.

	Number of shares	2018 ₦ million	2018 US$ '000
Opening balance as at 1 January 2018	–	–	–
Issue of shares	25,000,000	13	41
Vested shares (note 26d)	(5,052,464)	(3)	(8)
Closing balance as at 31 December 2018	**19,947,736**	**10**	**(33)**

26c Share premium

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Share premium	82,080	82,080	497,457	497,457

Section 120.2 of the 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.

26 Share capital continued

26d Employee share based payment scheme

As at 31 December 2018, the Company had awarded 40,410,644 shares (2017: 33,697,792 shares) to certain employees and senior executives in line with its share based incentive scheme. Included in the share based incentive schemes are two additional schemes (2017 Deferred Bonus Scheme and 2018 LTIP Scheme) awarded during the reporting period. During the year ended 31 December 2018, 5,052,464 shares were vested under the 2015 LTIP and 2015 Deferred Bonus schemes (31 December 2017: No shares had vested).

The Company has made a number of share based awards under incentive plans since its IPO in 2014: IPO-related grants to Executive and Non-Executive Directors, 2014/2015/2016 deferred bonus awards and 2014/2015/2016/2017/2018 Long-term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015, 2016, 2017 and 2018 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Company.

i) Description of the awards valued

Seplat Deferred Bonus Award

25% of each Executive Director's 2014, 2015, 2016 and 2017 bonus (paid in 2015, 2016, 2017 and 2018 respectively) has been deferred into shares and released on 1 June 2017, 1 June 2018, 20 April 2019 and 31 December 2019 respectively subject to continued employment over the vesting period. No performance criteria are attached to this award. As a result the fair value of these awards is the share price at the actual date of grant.

Long Term Incentive Plan (LTIP) awards

Under the LTIP Plan, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after three years) based on the following conditions.

- 25% award vesting where the reserves growth was more than a 10% decrease.
- Straight-line basis between 25% and 100% where reserves growth was between a 10% decrease and a 10% increase.
- 100% award vesting where the reserves growth is equal to or greater than a 10% increase.
- If the Company outperforms the median TSR performance level with the LTIP exploration and production comparator group.

The LTIP awards have been approved by the NSE.

ii) Share based payment expenses

The expense recognised for employee services received during the year is shown in the following table:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Expense arising from equity-settled share based payment transactions	2,969	1,735	9,698	5,674

There were no cancellations to the awards in 2018 or 2017. The share awards granted to Executive Directors and confirmed employees are summarised below:

Scheme	Deemed grant date	Start of service period	End of service period	Number of awards
Global Bonus Offer	4 November 2015	9 April 2014	9 April 2015	6,472,138
Non- Executive Shares	4 November 2015	9 April 2014	9 April 2015	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	212,701
2014 Long Term Incentive Plan	14 December 2015	14 December 2015	09 April 2017	2,173,259
2015 Long Term Incentive Plan	31 December 2015	14 December 2015	21 April 2018	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	247,610
2016 Long Term Incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
2016 Deferred Bonus	24 November 2017	24 November 2017	20 April 2019	278,191
2017 Long Term Incentive Plan	24 November 2017	24 November 2017	20 April 2020	7,938,589
2017 Deferred Bonus	29 December 2017	29 December 2017	31 December 2019	193,830
2018 Long Term Incentive Plan	2 May 2018	2 May 2018	1 May 2021	6,519,022
				40,410,644

iii) Determination of diluted EPS

Share awards used in the calculation of diluted earnings per shares are based on the outstanding shares as at 31 December 2018.

Share award scheme (all awards)	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	8,205,773	251.64	1,540,024	205.87
Granted during the year	9,197,562	362.26	6,665,749	262.45
Exercised during the year	(5,052,464)	–	–	–
Outstanding at 31 December	12,350,871	435.94	8,205,773	251.64
Exercisable at 31 December	–	–	–	–

Share award scheme (all awards)	2018 Number	2018 WAEP US$	2017 Number	2017 WAEP US$
Outstanding at 1 January	8,205,773	0.82	1,540,024	0.67
Granted during the year	9,197,562	1.18	6,665,749	0.86
Exercised during the year	(5,052,464)	–	–	–
Outstanding at 31 December	12,350,871	1.42	8,205,773	0.82
Exercisable at 31 December	–	–	–	–

iv) Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in Deferred Bonus Scheme and Long Term Incentive Plan during the year for each available scheme.

Deferred Bonus Scheme	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	738,502	412.05	427,370	399.55
Granted during the year	193,830	589.04	311,132	428.69
Exercised during the year	(247,610)	–	–	–
Outstanding at 31 December	684,722	614.00	738,502	412.05
Exercisable at 31 December	–	–	–	–

Deferred Bonus Scheme	2018 Number	2018 WAEP US$	2017 Number	2017 WAEP US$
Outstanding at 1 January	738,502	1.35	427,370	1.31
Granted during the year	193,830	1.92	311,132	1.40
Exercised during the year	(247,610)	–	–	–
Outstanding at 31 December	684,722	2.00	738,502	1.35
Exercisable at 31 December	–	–	–	–

In 2017, the Company increased the number of shares attributable to the 2015 Deferred Bonus Scheme by 32,914 shares following a revaluation of the total number of share awards applicable to the scheme. The fair value per share of the additional shares at the date of the modification was determined to be ₦457.43 ($1.49). There were no incremental changes in the fair value per share and the vesting period did not change as the additional shares were assumed to have been issued in the same period and with the same terms as the original shares granted.

The fair value of the modified options was determined using the same models and principles as described in the table below on the inputs to the models used for the scheme.

Long Term Incentive Plan ('LTIP')	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	22,825,042	292.30	14,886,453	253.2
Granted during the year	6,519,022	593.27	7,938,589	367.45
Exercised during the year	(4,804,854)	–	–	–
Outstanding at 31 December	24,539,210	414.45	22,825,042	292.25
Exercisable at 31 December	–	–	–	–

Long Term Incentive Plan ('LTIP')	2018 Number	2018 WAEP US$	2017 Number	2017 WAEP US$
Outstanding at 1 January	22,825,042	0.96	14,886,453	0.83
Granted during the year	6,519,022	1.93	7,938,589	1.20
Exercised during the year	(4,804,854)	–	–	–
Outstanding at 31 December	24,539,210	1.35	22,825,042	0.96
Exercisable at 31 December	–	–	–	–

The shares are granted to the employees at no cost. The weighted average remaining contractual life for the share awards outstanding as at 31 December 2018 range from 0.3 to 1.3 years (2017: 0.3 to 2.3 years).

The weighted average fair value of awards granted during the year range from ₦459.15 to ₦590.77, 2017: ₦366.9 to ₦428.1 ($1.50 to $1.93, 2017: $1.20 to $1.40). There were no exercise prices for options outstanding at the end of the year (2017: ₦293.5 to ₦412.8, $0.96 to $1.35).

26 Share capital continued

The fair value at grant date is independently determined using the Monte Carlo model which takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

v) Inputs to the models

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2018:

	2017 Deferred Bonus	2017 LTIP	2018 LTIP
Weighted average fair values at the measurement date			
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	n/a	43%	41%
Risk-free interest rate (%)	n/a	0.44%	0.83%
Expected life of share options	1.66	2.40	3.00
Weighted average share price ($)	1.93	1.4	1.93
Weighted average share price (₦)	589.90	428.12	589.90
Model used	Black Scholes	Monte Carlo	Monte Carlo

27 Capital contribution

This represents M&P additional cash contribution to the Company. In accordance with the Shareholders' Agreement, the amount used by the Company for working capital was as required at the commencement of operations.

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Capital contribution	5,932	5,932	40,000	40,000

28 Foreign currency translation reserve

Cumulative foreign exchange differences arising from translation of the Company's results and financial position into the presentation currency and from the translation of foreign subsidiary are recognised in foreign currency translation reserve.

29 Interest bearing loans and borrowings

29a Net debt reconciliation

Below is the net debt reconciliation on non-current and current interest bearing loans and borrowings:

	Borrowings due within 1 year ₦ million	Borrowings due above 1 year ₦ million	Total ₦ million	Borrowings due within 1 year US$'000	Borrowings due above 1 year US$'000	Total US$'000
Balance as at 1 January 2018	81,159	93,170	174,329	265,400	304,677	570,077
Principal repayment	(81,237)	(126,295)	(207,532)	(265,400)	(412,600)	(678,000)
Interest repayment	(10,890)	–	(10,890)	(35,471)		(35,471)
Interest accrued	15,680	239	15,919	51,228	782	52,010
Effect of loan restructuring	–	2,425	2,425	–	7,923	7,923
Other financing charges	(1,802)	–	(1,802)	(5,885)		(5,885)
Proceeds from loan financing	–	163,775	163,775	–	535,045	535,045
Exchange differences	121	485	606	–	–	–
Carrying amount as at 31 December 2018	**3,031**	**133,799**	**136,830**	**9,872**	**435,827**	**445,699**

Interest bearing loans and borrowings include a revolving loan facility and senior notes. In the reporting period, the Company repaid its outstanding principal amount of ₦140 billion ($458 million) on its ₦215 billion ($700 million) seven-year term loan and ₦37 billion ($120 million) on its ₦92 billion ($300 million) four-year revolving loan facility. The amount recognised as effect of loan restructuring represents the transaction costs related to these facilities.

In the reporting period, the Company also issued ₦107 billion ($350 million) senior notes at a contractual interest rate of 9.25% with interest payable on 1 April and 1 October, and principal repayable at maturity. The notes are expected to mature in April 2023. The interest accrued at the reporting date is ₦8 billion ($27 million) using an effective interest rate of 10.4%. Transaction costs of ₦2.1 billion, 2017: nil ($7 million, 2017: nil) have been included in the amortised cost balance at the end of the reporting period.

An agreement for another four-year revolving loan facility was entered into by the Company to refinance its old four-year revolving loan facility with interest payable semi-annually and principal repayable on 31 December of each year. The new revolving loan has an initial contractual interest rate of 6% +LIBOR (7.7%) and a settlement date of June 2022.

The interest rate of the facility is variable. The Company made a drawdown of ₦61 billion ($200 million) in March 2018. The interest accrued at the reporting period is ₦8 billion ($25 million) using an effective interest rate of 9.77%. The interest paid was determined using three-month LIBOR rate + 6 % on the last business day of the reporting period. The amortised cost for the senior notes and the borrowings at the reporting period is ₦107 billion ($349 million) and ₦30 billion ($96 million) respectively.

In October 2018, the Company made principal repayments on the four-year revolving facility for a lump sum of ₦30.7 billion ($100 million). The repayment was accounted for as a prepayment of the outstanding loan facility. The gross carrying amount of the facility was recalculated as the present value of the estimated future contractual cash flows that are discounted using the effective interest rate at the last reporting period. Gain or loss at modification are recognised immediately as part of interest accrued on the facility. Transaction costs of ₦1.4 billion, 2017: nil ($4.5 million, 2017: nil) have been included in the amortised cost balance at the end of the reporting period.

The proceeds from the notes issue and new revolving loan facility were used to repay and cancel existing indebtedness, and for general corporate purposes.

29b Outstanding principal exposures

The following is the analysis of the principal outstanding showing the lenders of the facility as at the year end:

31 December 2018	Interest	Current ₦ million	Non-current ₦ million	Total ₦ million	Current US$'000	Non-current US$'000	Total US$'000
Senior notes	9.25%	–	107,450	107,450	–	350,000	350,000
Corporate loan:							
Stanbic IBTC Bank Plc	6.0% +LIBOR	–	3,684	3,684	–	12,000	12,000
The Standard Bank of South Africa	6.0% +LIBOR	–	2,456	2,456	–	8,000	8,000
Nedbank Limited, London Branch	6.0% +LIBOR	–	5,117	5,117	–	16,666	16,666
Standard Chartered Bank	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
Natixis	6.0% +LIBOR	–	3,582	3,582	–	11,667	11,667
FirstRand Bank Limited Acting	6.0% +LIBOR	–	3,582	3,582	–	11,667	11,667
Citibank N.A. London	6.0% +LIBOR	–	3,070	3,070	–	10,000	10,000
The Mauritius Commercial Bank Plc	6.0% +LIBOR	–	3,070	3,070	–	10,000	10,000
Nomura International Plc	6.0% +LIBOR	–	1,535	1,535	–	5,000	5,000
		–	30,701	30,701	–	100,000	100,000
		–	138,151	138,151	**–**	**450,000**	**450,000**

31 December 2017	Interest	Current ₦ million	Non-current ₦ million	Total ₦ million	Current US$'000	Non-current US$'000	Total US$'000
Term loan:							
SBSA	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
Stanbic	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
FBN	8.5% + LIBOR	10,070	21,651	31,721	32,931	70,800	103,731
UBA	8.5% + LIBOR	11,402	24,513	35,915	37,285	80,160	117,445
Zenith Bank	8.5% + LIBOR	18,243	39,221	57,464	59,656	128,256	187,912
Allan Gray	8.5% + LIBOR	1,331	2,862	4,193	4,353	9,359	13,712
		44,464	95,593	140,057	145,401	312,599	458,000
Corporate loan:							
Citibank Nigeria Limited	6% + LIBOR	4,280	–	4,280	14,000	–	14,000
FirstRand Bank Limited Acting	6% + LIBOR	3,668	–	3,668	12,000	–	12,000
JPMorgan Chase Bank N A London	6% + LIBOR	3,668	–	3,668	12,000	–	12,000
Nedbank Limited, London Branch	6% + LIBOR	3,668	–	3,668	12,000	–	12,000
The Mauritius Commercial Bank Plc	6% + LIBOR	3,668	–	3,668	12,000	–	12,000
Standard Chartered Bank	6% + LIBOR	5,503	–	5,503	18,000	–	18,000
Natixis	6% + LIBOR	5,503	–	5,503	18,000	–	18,000
Stanbic IBTC Bank Plc	6% + LIBOR	2,751	–	2,751	9,000	–	9,000
The Standard Bank of South Africa	6% + LIBOR	3,974	–	3,974	13,000	–	13,000
		36,683	–	36,683	120,000	–	120,000
		81,147	**95,593**	**176,740**	**265,401**	**312,599**	**578,000**

30 Provision for decommissioning obligation

	₦ million	US$ '000
At 1 January 2017	103	339
Unwinding of discount due to passage of time	17	54
Change in estimate	30,596	100,054
At 31 December 2017	**30,716**	**100,447**
At 1 January 2018	30,716	100,447
Unwinding of discount due to passage of time	843	2,753
Change in estimate	6,099	19,466
At 31 December 2018	**37,658**	**122,666**

The Company makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a "probable future sacrifice of economic benefits arising from a present obligation", and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred from 2027 to 2037 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2027 to 2037. These provisions were based on estimations carried out by Ryder Scott based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

Following the review of the current assumptions for the year ended 31 December 2018, the future value of the decommissioning liability was adjusted to reflect economic reality in the primary economic environment in which the Company operates.

As a result, the change in estimate in the current year for the Company amounted to ₦6.1 billion, 2017: ₦30.6 billion (US$19.5 million, 2017: US$100.1 million).

	Current estimated life span of reserves	
	2018 In years	2017 In years
Seplat Petroleum Development Company:	2027	2027
OML 4	2037	2034
OML 38	2027 – 2037	2027 – 2034
OML 41	2037	2034

31 Employee benefit obligation

31a Defined contribution plan

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an approved Pension Fund Administrator ('PFA') – a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Company. The Company's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2018 was ₦106 million, 2017: ₦59 million ($0.3 million, 2017: $0.2 million).

31b Defined benefit plan

i) Investment management strategy and policy

The Company operates a funded defined benefit pension plan in Nigeria under the regulation of the National Pension Commission. The plan provides benefits to all the employees (excluding Directors holding salaried employment in the Company) who have been employed by the Company for a continuous period of five years and whose employment has been confirmed. The employee's entitlement to the accrued benefits occurs on retirement from the Company. The level of benefits provided on severance depends on members' length of service and salary at retirement age.

The overall investment philosophy of the defined benefit plan fund is to ensure safety, optimum returns and liquidity in line with the regulation and guidelines of the Pension Reform Act 2014 or guidelines that may be issued from time to time by the National Pension Commission.

Plan assets are held in trust. Responsibility for supervision of the plan assets (including investment decisions and contributions schedules) lies jointly with the trustees and the pension fund managers. The trustees are made up of members of the Company's senior management appointed by Company's Board of Directors. The Company does not have an investment strategy of matching plan assets with the defined obligations as they fall due, however, the Company has an obligation to settle shortfalls in the plan assets upon annual actuarial valuations.

The provision for gratuity is based on an independent actuarial valuation performed by Logic Professional Services ('LPS') using the projected unit credit method. The provision is adjusted for inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

ii) Liability recognised in the financial position

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Defined benefit obligation	2,324	1,994	7,568	6,518
Fair value of plan assets	(505)	–	(1,645)	–
	1,819	**1,994**	**5,923**	**6,518**

iii) Amount recognised in profit or loss

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Present value of obligation				
Current service cost	500	444	1,633	1,451
Past service cost due to curtailment	–	(180)	–	(589)
Interest cost on benefit obligation	285	238	931	779
	785	502	2,564	1,641
Interest income on plan assets	(3)	–	(10)	–
Balance as at 31 December	**782**	**502**	**2,554**	**1,641**

The Company recognises a part of its defined benefit expenses in profit or loss and recharges the other part to its joint operations partners, this is recognised as a receivable from the partners. Below is the breakdown:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Balance as at 31 December	782	502	2,554	1,641
Charged to receivables	(442)	–	(1,443)	–
Charged to profit or loss	**340**	**502**	**1,111**	**1,641**

iv) Remeasurement (gains)/losses in other comprehensive income

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Remeasurement (gains)/losses due to changes in financial assumptions	408	(172)	1,331	(561)
Remeasurement losses/(gains) due to experience adjustment	(14)	82	(46)	267
Credited to other comprehensive income as at 31 December	**394**	**(90)**	**1,285**	**(294)**

The Company recognises a part of the remeasurement losses in other comprehensive income and credits the other part to its joint operations partners. Below is the breakdown:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Credited to other comprehensive income as at 31 December	394	(90)	1,285	(294)
Charged to receivables	(216)	–	(706)	–
Credited to comprehensive income	**178**	**(90)**	**579**	**(294)**

v) Deferred tax (expense)/credit on remeasurement (gains)/losses

The Company recognises deferred tax (expense)/credit on a part of the remeasurement losses in other comprehensive income. Below is the breakdown:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Deferred tax on remeasurement losses	(335)	76	(1,094)	250
Credited to receivables	255	–	833	–
Charged to comprehensive income	**(80)**	**76**	**(261)**	**250**

31 Employee benefit obligation continued

vi) The changes in the present value of the defined benefit obligation are as follows:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Defined benefit obligation as at 1 January	1,994	1,559	6,518	5,112
Current service cost	500	444	1,635	1,451
Past service cost due to curtailment	–	(180)	–	(589)
Interest cost on benefit obligation	285	238	931	779
Remeasurement losses	(394)	90	(1,285)	294
Contributions paid by the employer	(63)	(163)	(206)	(532)
Exchange differences	2	6	(25)	3
Defined benefit obligation at 31 December	**2,324**	**1,994**	**7,568**	**6,518**

vii) The changes in the fair value of plan assets are as follows:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Balance as at 1 January	–	–	–	–
Employer contributions	502	–	1,635	–
Contributions paid by the employer	63	–	206	–
Benefits paid by the employer	(63)	–	(206)	–
Interest income on plan assets	3		10	
Balance as at 31 December	**505**	**–**	**1,645**	**–**

The net liability disclosed above relates to funded plans as follows:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Present value of funded obligations	2,324	1,994	7,568	6,518
Fair value of plan assets	(505)	–	(1,645)	–
Deficit of funded plans	**1,819**	**1,994**	**5,923**	**6,518**

The fair value of the plan asset of the Company at the end of the reporting period was determined using the market values of the comprising assets as shown below:

	Quoted	Not quoted	2018 ₦ million	Quoted	Not quoted	2018 US$ '000
Money market	–	125	125	–	407	407
Treasury bills	379	–	379	1,234	–	1,234
Cash at bank	–	1	1	–	4	4
Total plan asset as at 31 December	**379**	**126**	**505**	**1,234**	**411**	**1,645**

viii) The principal assumptions used in determining defined benefit obligations for the Company's plans are shown below:

	2018 %	2017 %
Discount rate	15.50	14.00
Average future pay increase	12.00	12.00
Average future rate of inflation	12.00	12.00

a) Mortality in service

	Number of deaths in year out of 10,000 lives	
Sample age	2018	2017
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

b) Withdrawal from service

	Rates	
Age band	2018	2017
Less than or equal to 30	1.0%	1.0%
31 – 39	1.5%	1.5%
40 – 44	1.5%	1.5%
45 – 55	1.0%	1.0%
56 – 60	0.0%	0.0%

c) A quantitative sensitivity analysis for significant assumption as at 31 December 2018 is as shown below:

		Discount rate		Salary increases		Mortality	
Assumptions	Base	1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million
Sensitivity level: Impact on the net defined benefit obligation							
31 December 2018	2,324	(225)	262	280	(243)	3	(3)
31 December 2017	1,994	(215)	253	266	(229)	27	(28)

		Discount rate		Salary increases		Mortality	
Assumptions	Base	1% increase US$'000	1% decrease US$'000	1% increase US$'000	1% decrease US$'000	1% increase US$'000	1% decrease US$'000
Sensitivity level: Impact on the net defined benefit obligation							
31 December 2018	7,569	(735)	856	915	(794)	10	(10)
31 December 2017	6,518	(704)	828	869	(749)	88	(91)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The methods and assumptions used in preparing the sensitivity analysis did not change compared to prior period.

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

31 Employee benefit obligation continued

The expected maturity analysis of the undiscounted defined benefit plan obligation is as follows:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Within the next 12 months (next annual reporting period)	57	70	186	228
Between 2 and 5 years	1,335	926	4,361	3,028
Between 5 and 10 years	131,806	3,796	430,604	12,412
	133,198	**4,792**	**435,151**	**15,668**

The weighted average liability duration for the Plan is 11.95 years. The longest weighted duration for Nigerian Government bonds as at 31 December 2018 was about 5.96 years with a gross redemption yield of about 15.29%.

d) Risk exposure

Through its defined benefit pension plans, the Company is exposed to a number of risks, the most significant of which are detailed below:

i) Liquidity risk

The plan liabilities are not fully funded and as a result, there is a risk of the Company not having the required cash flow to fund future defined benefit obligations as they fall due.

ii) Inflation risk

This is the risk of an unexpected significant rise/fall of market interest rates. A rise leads to a fall in long-term asset values and a rise in liability values.

iii) Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant where inflationary increases result in higher sensitivity to changes in life expectancy.

iv) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to federal government bond yields. The majority of the plan assets are investments in fixed income securities. If plan assets underperform the federal government bond yields, it will result in a deficit in the plan assets.

32 Trade and other payables

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Trade payable	11,058	15,119	36,021	49,440
Accruals and other payables	44,884	30,758	146,202	100,580
Nigerian Petroleum Development Company (NPDC)	10,022	–	32,643	–
Pension payable	106	59	345	195
NDDC levy	7	2,364	22	7,728
Deferred revenue	–	41,970	–	137,248
Royalties	7,402	14,364	24,111	46,971
Intercompany payable	66,919	30,772	217,979	100,630
	140,398	**135,406**	**457,323**	**442,792**

Included in accruals and other payables are field-related accruals of ₦21 billion, 2017: ₦12 billion ($67 million, 2017: $38 million) and other vendor payables of ₦24 billion, 2017: ₦19 billion ($79 million, 2017: $63 million). Royalties include accruals in respect of crude and gas production for which payment is outstanding at the end of the year.

NPDC payables relate to cash calls paid in advance in line with the Company's Joint Operating Agreement (JOA) on OML 4, OML 38 and OML 41.

The outstanding NPDC receivable at the end of the reporting period was used to calculate the impairment losses for the year. The impairment losses were then netted against the outstanding receivables to arrive at a net receivables amount. At the end of the reporting period, this net receivables amount has been netted against payables to NPDC as the Company has a right to offset.

32a Net debt reconciliation

Included in accruals and other payables is advance payment on crude oil sales. Below is the net debt reconciliation on this amount.

	2018 ₦ million	2018 US$ '000
Balance as at 1 January 2018	23,723	77,499
Principal repayment	(23,193)	(75,769)
Interest repayment	(530)	(1,730)
Carrying amount as at 31 December 2018	–	–

33 Earnings per share (EPS)

Basic

Basic EPS is calculated on the Company's profit or loss after taxation attributable to the Company and on the basis of weighted average number of issued and fully paid ordinary shares at the end of the year.

Diluted

Diluted EPS is calculated by dividing the profit after taxation attributable to the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (arising from outstanding share awards in the share based payment scheme) into ordinary shares.

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Profit for the year	49,681	96,416	162,305	315,289
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	567,555	563,445	567,555	563,445
Outstanding share based payment (shares)	12,351	8,206	12,351	8,206
Weighted average number of ordinary shares adjusted for the effect of dilution	580,006	571,651	580,006	571,651
	₦	₦	US$	US$
Basic earnings/(loss) per share	87.52	171.12	0.29	0.56
Diluted earnings/(loss) per share	85.66	168.66	0.28	0.55
	₦ million	₦ million	US$ '000	US$ '000
Profit used in determining basic/diluted earnings per share	49,681	96,416	162,305	315,289

The shares were weighted for the proportion of the number of months they were in issue during the reporting period.

34 Dividends paid and proposed

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Cash dividends on ordinary shares declared and paid:				
Interim dividend for 2018: ₦30.7 ($0.10) per share, 568,497,025 shares in issue (2017: ₦ Nil, $Nil per share, 563,444,561 shares in issue)	18,036	–	58,888	–
Proposed dividend on ordinary shares:				
Final proposed dividend for the year: ₦15.35 ($0.05) per share	9,033	–	29,422	–

₦9 billion ($29.4 million) of the interim dividend was paid at ₦15.35 ($0.05) per share as at 31 March 2018 and the remaining dividend ($29.4 million, ₦9 billion) was paid at ₦15.35 ($0.05) as at 31 December 2018.

Financial statements

35 Related party relationships and transactions

The Company is owned 7.81% either directly or by entities controlled by A.B.C. Orjiako (SPDCL(BVI)) and members of his family and 12.04% either directly or by entities controlled by Austin Avuru (Professional Support Limited and Platform Petroleum Limited). The remaining shares in the parent Company are widely held.

35a Related party relationships

The services provided by the related parties:

Abbeycourt Trading Company Limited: The Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): Is owned by common shareholders with the parent company. The company provides drilling rigs and drilling services to Seplat.

Charismond Nigeria Limited: The sister to the CEO works as a General Manager. The company provides administrative services including stationery and other general supplies to the field locations.

Helko Nigeria Limited: The Chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The Chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

Stage Leasing (Ndosumili Ventures Limited): Is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The Chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

Nerine Support Services Limited: Is owned by common shareholders with the parent company. Seplat leases a warehouse from Nerine and the company provides agency and contract workers to Seplat.

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Petroleum Development Company Limited ('BVI'): The Chairman of Seplat is a director and shareholder of SPDCL (BVI). The company provided consulting services to Seplat.

The following transactions were carried by Seplat with related parties:

35b Related party transactions

Year-end balances arising from related party transactions

i) Purchases of goods and services

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Shareholders of the parent Company				
SPDCL (BVI)	333	413	1,088	1,350
Total	333	413	1,088	1,350
Entities controlled by key management personnel:				
Contracts > $1million in 2018				
Nerine Support Services Limited[1]	2,335	2,161	7,627	7,066
Cardinal Drilling Services Limited	621	1,001	2,029	3,272
Helko Nigeria Limited	–	444	–	1,453
Abbey Court Trading Company Limited	334	199	1,090	650
Stage Leasing Limited	434	171	1,419	560
	3,724	3,976	12,165	13,001
Contracts < $1million in 2018				
Montego Upstream Services Limited	24	131	79	427
Oriental Catering Services Limited	199	159	650	520
Keco Nigeria Enterprises	78	110	254	361
ResourcePro Inter Solutions Limited	3	9	9	31
Neimeth International Pharmaceutical Plc	–	1	–	2
Charismond Nigeria Limited	23	17	74	55
	327	427	1,066	1,396
	4,051	**4,403**	**13,231**	**14,397**

1 Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. The amounts shown above are gross i.e. it includes salaries and Nerine's mark-up. Total cost for agency and contracts during 2018 is ₦0.2 billion, 2017: ₦1.4 billion ($0.6 million, 2017: $4.6million).

All other transactions were made on normal commercial terms and conditions, and at market rates.

35c Balances

The following balances were receivable from or payable to related parties as at the end of the year:

i) Prepayments/receivables

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Entities controlled by key management personnel				
Cardinal Drilling Services Limited – current portion	1,495	1,681	4,869	5,498
Montego Upstream Services Limited	8	–	26	–
ResourcePro Inter Solutions Ltd	2	–	6	–
	1,505	**1,681**	**4,901**	**5,498**

ii) Payables

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Entities controlled by key management personnel				
Montego Upstream Services Limited	–	115	–	375
Nerine Support Services Limited	–	2	–	8
Keco Nigeria Enterprises	19	8	61	25
Oriental Catering Services Ltd	14	–	47	–
Cardinal Drilling Services Limited	–	292	–	954
Abbey Court Trading Company Limited	9	–	28	–
Charismond Nigeria Limited	–	–	1	–
Stage Leasing Limited	13	–	43	–
	55	**417**	**180**	**1,362**

The outstanding balances payable to/receivable from related parties are unsecured and are payable/receivable in cash.

36 Information relating to employees

36a Key management compensation

Key management includes executive and members of the leadership team. The compensation paid or payable to key management for employee services is shown below:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Salaries and other short-term employee benefits	793	617	2,590	2,017
Post-employment benefits	86	88	281	287
Share based payment expenses	146	87	476	283
	1,025	**792**	**3,347**	**2,587**

36b Chairman and Directors' emoluments

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Chairman (Non-executive)	342	342	1,118	1,118
Chief Executive Officer	445	476	1,453	1,557
Executive Directors	699	284	2,283	928
Non-Executive Directors	494	580	1,614	1,897
Bonus[1]	–	632	–	2,067
JOA Partner Share	–	(418)	–	(1,367)
Total	**1,980**	**1,896**	**6,468**	**6,200**

1 This relates to 2017 bonus paid in 2018. Out of this amount ₦231 million ($0.7 million) relates to 2016 bonus accrued and paid in 2017.

36c Highest paid Director

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Highest paid Director	483	476	1,577	1,557

Emoluments are inclusive of income taxes.

36d Number of Directors

	2018 Number	2017 Number
Zero – ₦19,896,500	–	–
₦19,896,501 – ₦115,705,800	8	8
₦115,705,801 – ₦157,947,600	–	1
Above ₦157,947,600	3	3
	11	**12**

	2018 Number	2017 Number
Zero – $65,000	–	–
$65,001 – $378,000	8	8
$378,001 – $516,000	–	1
Above $516,000	3	3
	11	**12**

36e Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,989,650 ($6,500), received remuneration (excluding pension contributions) in the following ranges:

	2018 Number	2017 Number
₦1,989,650 – ₦4,897,600	62	57
₦4,897,601– ₦9,795,200	170	176
₦9,795,201 – ₦14,692,800	69	49
Above ₦14,692,800	107	85
	408	**367**

	2018 Number	2017 Number
$6,500 – $16,000	62	57
$16,001 – $32,000	170	176
$32,001 – $48,000	69	49
Above $48,000	107	85
	408	**367**

36f Number of persons employed during the year

	2018 Number	2017 Number
Senior management	14	12
Managers	72	69
Senior staff	170	129
Junior staff	152	157
	408	**367**

36g Employee costs

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to the following:

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Salaries and wages	4,761	3,936	15,553	12,871
	4,761	**3,936**	**15,553**	**12,871**

37 Commitments and contingencies

37a Non-cancellable operating leases

The Company leases drilling rigs, buildings, land, boats and storage facilities. The lease terms are between one and five years. On renewal of a lease, the terms are renegotiated. Commitments for minimum operating lease payments in relation to non-cancellable operating leases are payable as follows:

Operating lease commitments	2018 ₦ million	2017 ₦ million	2018 US$'000	2017 US$'000
Not later than one year	589	728	1,918	2,382
Later than one year and not later than five years	7,379	565	24,036	1,846
	7,968	**1,293**	**25,954**	**4,228**

Rental expenses relating to operating leases are disclosed within general and administrative expenses. See note 10.

The Company entered into a five-year agreement from 1 January 2018 to 31 December 2023 for the lease of its new head office. The agreement had a Fit-Out period of four months from 1 September to 31 December 2018 in which the premises were made available for the Company's use and purpose. As a result, the non-cancellable lease commitment relating to this has been included in the table above. The Company has not early adopted IFRS 16 which will affect the accounting for this contract. See note 3.2 for further details.

37b Contingent assets

Seplat solely constructed Oben Gas plant to process gas extracted from OML 4, 38 and 41. Seplat has processed NPDC's 55% share of gas from 2015 till date and has not received payment for this service. Seplat did not recognise the related income or receivable for the service provided till date as the basis for determining the fees is yet to be concluded with NPDC.

To enable parties to close out this, in 2018, a Value For Money (VFM) audit was initiated by NPDC to determine whether to buy in to the gas processing operation or to pay tolling for the processing services provided in the past and to continue tolling. A contingent asset is highly probable but has not been recognised as a receivable as at 31 December 2018 as receipt of the amount is dependent on the outcome of the VFM audit and eventual negotiations.

Seplat entered into a non-contractual promise with PanOcean to allow PanOcean pass crude oil through its pipelines from a field just above Seplat's to the terminal for loading. Management has determined that the non-existence of an enforceable contract with PanOcean means that it may not be viewed as a valid contract with a customer in accordance with IFRS 15 which was adopted at the beginning of the year. However, parties are now in discussions and in the concluding stages of executing a contract.

Seplat has not recognised the related income or receivable for the service provided. It has therefore disclosed a contingent asset of ₦0.4 billion, 1 January 2018: ₦0.4 billion ($1.4 million, 1 January 2018: $1.4 million) as the amount that will be due to Seplat when an enforceable contract is agreed by both parties. No amount has been recognised in revenue in relation to the transaction.

37c Contingent liabilities

The Company is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2018 is ₦0.7 billion, 2017: ₦54 billion ($2.4 million, 2017: $176 million). The contingent liability for the year is determined based on possible occurrences, though unlikely to occur. No provision has been made for this potential liability in these financial statements. Management and the Company's solicitors are of the opinion that the Company will suffer no loss from these claims.

37d Capital commitments

As at the end of the reporting period, the Company had no capital commitments (2017: nil)

38 Events after the reporting period

Following a review of the Company's financial position and liquidity at 31 December 2018, the Board has proposed a final dividend of ₦15.35 ($0.05) per share. The total amount of this proposed dividend expected to be paid out of retained earnings but for which no liability has been recognised in the financial statements is ₦9 billion ($29.4 million).

Except for the dividends paid, there were no significant events after the statement of financial position date which could have a material effect on the state of affairs of the Company as at 31 December 2018 and on the profit or loss for the year ended on that date, which have not been adequately provided for or disclosed in these financial statements.

39 Transition disclosures

This note explains the impact of the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers (including the amendments to IFRS 15) on the Company's financial statements.

39.1 Impact on the financial statements

As explained in note 39.2 below, IFRS 9: Financial Instruments was adopted without restating comparative information. The adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of changes in equity on 1 January 2018. The Company has not elected to adopt practical expedients on adoption of IFRS 9.

The Company has also adopted IFRS 15: Revenue from Contracts with Customers using the modified retrospective method, with the effect of applying this standard recognised at the date of initial application (1 January 2018). The Company has elected to adopt the right to invoice as a practical expedient for gas sales on adoption of IFRS 15. Accordingly, the information presented for 2017 financial year has not been restated but is presented, as previously reported, under IAS 18 and related interpretations.

The following tables summarise the impact, net of tax, of transition to IFRS 9 and IFRS 15 for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. There was no impact on the statement of cash flows as a result of adopting the new standards.

Operating lease commitments	Notes	At 31 December 2017 ₦ million	Impact of IFRS 9 ₦ million	Impact of IFRS 15 ₦ million	As at 1 January 2018 ₦ million
Assets					
Non-current assets					
Deferred tax	13	–	3,805	–	3,805
Current assets					
Trade and other receivables	22	327,528	(4,397)	(4,217)	318,914
Contract assets	23	–	–	4,217	4,217
Cash and bank balances	25	117,220	(75)	–	117,145
Total assets		**833,934**	**(667)**	**–**	**833,267**
Equity and liabilities					
Equity					
Retained earnings		203,072	(667)	–	202,405
Total shareholders' equity		**490,225**	**(667)**	**–**	**489,558**

Operating lease commitments	Notes	At 31 December 2017 US$'000	Impact of IFRS 9 US$'000	Impact of IFRS 15 US$'000	As at 1 January 2018 US$'000
Assets					
Non-current assets					
Deferred tax	13	–	12,430	–	12,430
Current assets					
Trade and other receivables	22	1,071,044	(14,380)	(13,790)	1,042,874
Contract assets	23	–	–	13,790	13,790
Cash and bank balances	25	383,321	(244)	–	383,077
Total assets		**2,727,044**	**(2,194)**	**–**	**2,724,850**
Equity and liabilities					
Equity					
Retained earnings		1,045,985	(2,194)	–	1,031,361
Total shareholders' equity		**1,603,077**	**(2,194)**	**–**	**1,600,883**

39 Transition disclosures continued

39.2 IFRS 9 Financial Instruments – Impact of adoption

The new financial instruments standard, IFRS 9 replaces the provisions of IAS 39. The new standard presents a new model for classification and measurement of assets and liabilities, a new impairment model which replaces the incurred credit loss approach with an expected credit loss approach, and new hedging requirements.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in the notes below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated but the impact of adoption has been adjusted through opening retained earnings for the current reporting period.

39.2.1 Classification and measurement

a) Financial assets

On 1 January 2018 (the date of initial application of IFRS 9), the Company's management assessed the classification of its financial assets which is driven by the cash flow characteristics of the instrument and the business model in which the asset is held.

The Company's financial assets include cash and bank balances and trade and other receivables. The Company's business model is to hold these financial assets to collect contractual cash flows and to earn contractual interest. For cash and bank balances, interest is based on prevailing market rates of the respective bank accounts in which the cash and bank balances are domiciled. Interest on trade and other receivables is earned on defaulted payments in accordance with the Joint Operating Agreement (JOA). The contractual cash flows arising from these assets represent solely payments of principal and interest (SPPI).

Cash and bank balances and trade and other receivables that were previously classified as loans and receivables (L and R) are now classified as financial assets at amortised cost.

Since there was no change in the measurement basis except for nomenclature change, opening retained earnings was not impacted (no difference between the previous carrying amount and the revised carrying amount of these assets at 1 January 2018).

b) Financial liabilities

The adoption of IFRS 9 eliminates the policy choice on the treatment of gain or loss from the refinancing of a borrowing. Day one gain or loss can no longer be deferred over the remaining life of the borrowing but must now be recognised at once. No retrospective adjustments have been made in relation to this change as at 1 January 2018.

On the date of initial application, 1 January 2018, the financial instruments of the Company were classified as follows:

	Classification & Measurement category		Carrying amount	
	Original IAS 39	New IFRS 9	Original ₦ million	New ₦ million
Current financial assets				
Trade and other receivables:				
Trade receivables	L and R	Amortised cost	30,890	30,890
NPDC receivables	L and R	Amortised cost	34,453	34,453
Intercompany receivables	L and R	Amortised cost	231,348	231,348
Other receivables[1]	L and R	Amortised cost	9	9
Cash and bank balances	L and R	Amortised cost	117,220	117,220
Non-current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	93,170	93,170
Current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	81,159	81,159
Trade and other payables[2]	Amortised cost	Amortised cost	59,353	59,353

	Classification & Measurement category		Carrying amount	
	Original IAS 39	New IFRS 9	Original US$'000	New US$'000
Current financial assets				
Trade and other receivables:				
Trade receivables	L and R	Amortised cost	101,011	101,011
NPDC receivables	L and R	Amortised cost	112,664	112,664
Intercompany receivables	L and R	Amortised cost	756,532	756,532
Other receivables[1]	L and R	Amortised cost	28	28
Cash and bank balances	L and R	Amortised cost	383,321	383,321
Non-current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	304,677	304,677
Current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	265,400	265,400
Trade and other payables[2]	Amortised cost	Amortised cost	127,128	127,128

1 Other receivables exclude NGMC VAT receivables, cash advance and advance payments.

2 Trade and other payables exclude provisions (including provisions for bonus and royalties), VAT, Withholding tax, deferred revenue and royalties.

The new carrying amounts in the table above have been determined based on the measurement criteria specified in IFRS 9. However, the impact of IFRS 9 expected credit loss impairment and IFRS 15 reclassifications has also not been considered here. See the subsequent pages for the impact.

39.2.2 Impairment of financial assets

The Company has four types of financial assets that are subject to IFRS 9's new expected credit loss model. Contract assets are also subject to the new expected credit loss model, even though they are not financial assets, as they have substantially the same credit risk characteristics as trade receivables. Under IFRS 9, the Company is required to revise its previous impairment methodology under IAS 39 for each of these classes of assets. The impact of the change in impairment methodology on the Company's retained earnings is disclosed in the table below:

- Nigerian Petroleum Development Company (NPDC) receivables
- Trade receivables
- Contract assets
- Other receivables and
- Cash and bank balances

The total impact on the Company's retained earnings as at 1 January 2018 is as follows:

	Notes	₦ million	US$'000
Closing retained earnings as at 31 December 2017 – IAS 39		203,072	1,045,985
Increase in provision for Nigerian Petroleum Development Company (NPDC) receivables	(a)	(1,698)	(5,553)
Increase in provision for intercompany receivables	(b)	(2,230)	(7,292)
Increase in provision for Nigerian Gas Marketing Company (NGMC) receivables	(c)	(468)	(1,535)
Increase in provision for fixed deposits	(e)	(75)	(244)
Exchange difference		(1)	–
Total transition adjustments		(4,472)	(14,624)
Deferred tax impact on transition adjustments	(g)	3,805	12,430
Opening retained earnings as at 1 January 2018 on adoption of IFRS 9		**202,405**	**1,043,791**

39 Transition disclosures continued

The parameters used to determine impairment for NPDC receivables, intercompany receivables and fixed deposits are shown below. For all receivables presented in the table, the respective 12-month Probability of Default (PD) equates to the Lifetime PD for stage 2 as the maximum contractual period over which the Company is exposed to credit risk arising from the receivables is less than 12 months.

	Nigerian Petroleum Development Company (NPDC) receivables	Intercompany receivables	Fixed deposits
Probability of Default (PD)	The 12-month PD and lifetime PD for stage 1 and stage 2 is 3.9%. The PD for stage 3 is 99%.	The 12-month PD stage 1 and lifetime PD is 3.59%.	The 12-month PD and lifetime PD for stage 1 and stage 2 is 0.09%. The PD for stage 3 is 99%.
Loss Given Default (LGD)	The 12-month LGD and lifetime LGD were determined using the average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using the average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using the average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.
Exposure at Default (EAD)	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the fixed deposits to credit risk.
Macroeconomic indicators	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were the economic variables used to determine base, optimistic and downturn scenarios.	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were the economic variables used to determine base, optimistic and downturn scenarios.	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were the economic variables used to determine base, optimistic and downturn scenarios.
Probability weightings	75%, 8% and 17% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	89%, 2% and 9% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	78%, 12% and 10% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.

The Company considers both quantitative and qualitative indicators in classifying its receivables into the relevant stages for impairment calculation.

Impairment of financial assets are recognised in three stages on an individual or collective basis as shown below:

- Stage 1: This stage includes financial assets that are less than 30 days past due (Performing).
- Stage 2: This stage includes financial assets that have been assessed to have experienced a significant increase in credit risk using the days past due criteria (i.e. the outstanding receivables amounts are more than 30 days past due but less than 90 days past due) and other qualitative indicators such as the increase in political risk concerns or other micro-economic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance.
- Stage 3: This stage includes financial assets that have been assessed as being in default (i.e. receivables that are more than 90 days past due) or that have a clear indication that the imposition of financial or legal penalties and/or sanctions will make the full recovery of indebtedness highly improbable.

a) Nigerian Petroleum Development Company (NPDC) receivables
NPDC receivables represent the outstanding cash calls due to Seplat from its Joint Operating Arrangement (JOA) partner, Nigerian Petroleum Development Company. The Company applies the IFRS 9 general model for measuring expected credit losses (ECL). This requires a three-stage approach in recognising the expected loss allowance for NPDC receivables.

The ECL recognised for the period is a probability-weighted estimate of credit losses discounted at the effective interest rate of the financial asset. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The ECL was calculated based on actual credit loss experience from 2014, which is the date the Company initially became a party to the contract. The following analysis provides further detail about the calculation of ECLs related to these assets. The Company considers the model and the assumptions used in calculating these ECLs as key sources of estimation uncertainty. See notes 11 and 22 for further details.

	1 January 2018			
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	–	11,369	23,084	**34,453**
Loss allowance as at 1 January 2018	–	(32)	(1,666)	**(1,698)**
Net EAD	–	11,337	21,418	**32,755**

	31 December 2018			
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	–	–	14,871	**14,871**
Loss allowance as at 31 December 2018	–	–	(2,475)	**(2,475)**
Net EAD	–	–	12,396	**12,396**

1 Exposure at default

	1 January 2018			
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	–	37,179	75,485	**112,664**
Loss allowance as at 1 January 2018	–	(105)	(5,448)	**(5,553)**
Net EAD	–	37,074	70,037	**107,111**

	31 December 2018			
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	–	–	48,439	**48,439**
Loss allowance as at 31 December 2018	–	–	(8,086)	**(8,086)**
Net EAD	–	–	40,353	**40,353**

1 Exposure at default

The reconciliation of gross carrying amount for Nigerian Petroleum Development Company (NPDC) receivables is as follows:

	₦ million	US$'000
Gross carrying amount as at 1 January	34,453	112,664
Receipts for the year	(19,659)	(64,225)
Exchange differences	77	–
Gross carrying amount as at 31 December	**14,871**	**48,439**

The reconciliation of loss allowances for Nigerian Petroleum Development Company (NPDC) receivables as at 31 December 2017 and 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 31 December 2017 – calculated under IAS 39	–	–
Amounts adjusted through opening retained earnings	1,698	5,553
Loss allowance as at 1 January 2018 – calculated under IFRS 9	1,698	5,553
Unwinding of discount	19	62
Increase in provision for impairment loss on NPDC receivables	756	2,471
Exchange difference	2	–
Loss allowance as at 31 December 2018 – Under IFRS 9	**2,475**	**8,086**

39 Transition disclosures continued

b) Intercompany receivables

The Company applies the IFRS 9 general model for measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for intercompany receivables. Intercompany receivables represent the outstanding payments due to Seplat from its related entities. See notes 11 and 22 for further details.

				1 January 2018
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	228,439	–	–	**228,439**
Loss allowance as at 31 December 2018	(2,230)	–	–	**(2,230)**
Net EAD	226,209	–	–	**226,209**

				31 December 2018
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	258,795	–	–	**258,795**
Loss allowance as at 31 December 2018	(1,921)	–	–	**(1,921)**
Net EAD	256,874	–	–	**256,874**

				1 January 2018
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	747,021	–	–	**747,021**
Loss allowance as at 31 December 2018	(7,292)	–	–	**(7,292)**
Net EAD	739,729	–	–	**739,729**

				31 December 2018
	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	Total US$'000
Gross EAD[1]	843,001	–	–	**843,001**
Loss allowance as at 31 December 2018	(6,278)	–	–	**(6,278)**
Net EAD	836,723	–	–	**836,723**

The reconciliation of gross carrying amount for intercompany receivables is as follows:

	₦ million	US$'000
Gross carrying amount as at 1 January	228,439	747,021
Additions during the year	29,379	95,980
Exchange differences	977	–
Gross carrying amount as at 31 December	**258,795**	**843,001**

The reconciliation of loss allowances for intercompany receivables as at 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 31 December 2017 – calculated under IAS 39	–	–
Amounts adjusted through opening retained earnings	2,230	7,292
Loss allowance as at 1 January 2018 – calculated under IFRS 9	2,230	7,292
Unwinding of discount	10	33
Reversal of impairment loss on intercompany receivables	(319)	(1,047)
Exchange difference	–	–
Loss allowance as at 31 December 2018 – Under IFRS 9	**1,921**	**6278**

c) **Trade receivables and contract assets**

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due criterion. Contract assets relate to unbilled amounts for the delivery of gas supplies in which NGMC has taken delivery of but has not been invoiced as at the end of the reporting period. These assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Trade receivables and contract assets include amounts receivable from Nigerian Gas Marketing Company (NGMC) and Mercuria Energy Group. See notes 11 and 22 for further details.

i) Nigerian Gas Marketing Company (NGMC) receivables

NGMC receivables represents the amount receivable from NGMC for services rendered with respect to gas sales. The expected credit loss rate for this receivable is determined using a provision matrix. The provision matrix used is based on the Company's historical default rates observed over the expected life of the receivable and is adjusted for forward-looking estimates.

An expected loss rate was calculated as the percentage of the receivable that is deemed uncollectible during a particular period. The expected loss rates as at 31 December 2018 are as follows:

						1 January 2018
	Current ₦'million	1-30 days past due ₦'million	31-60 days past due ₦'million	61-90 days past due ₦'million	91 and 120 days past due ₦'million	More than 120 days past due ₦'million
Gross carrying amount	–	–	3,328	5,168	6,103	3,404
Expected loss rate	–	–	1.43%	1.56%	1.60%	7.13%
Lifetime ECL	–	–	(47)	(81)	(98)	(242)
Total	**–**	**–**	**3,281**	**5,087**	**6,005**	**3,162**

						31 December 2018
	Current ₦'million	1-30 days past due ₦'million	31-60 days past due ₦'million	61-90 days past due ₦'million	91 and 120 days past due ₦'million	More than 120 days past due ₦'million
Gross carrying amount	4,639	–	2,392	4,035	–	3,080
Expected loss rate	0.53%	–	0.53%	0.53%	–	2.04%
Lifetime ECL	(25)	–	(13)	(21)	–	(63)
Total	**4,614**	**–**	**2,379**	**4,014**	**–**	**3,017**

						1 January 2018
	Current US$'000	1-30 days past due US$'000	31-60 days past due US$'000	61-90 days past due US$'000	91 and 120 days past due US$'000	More than 120 days past due US$'000
Gross carrying amount	–	–	10,877	16,888	19,944	11,128
Expected loss rate	–	–	1.43%	1.56%	1.60%	7.13%
Lifetime ECL	–	–	(155)	(265)	(320)	(794)
Total	**–**	**–**	**10,722**	**16,623**	**19,624**	**10,334**

						31 December 2018
	Current US$'000	1-30 days past due US$'000	31-60 days past due US$'000	61-90 days past due US$'000	91 and 120 days past due US$'000	More than 120 days past due US$'000
Gross carrying amount	15,111	–	7,792	13,142	–	10,033
Expected loss rate	0.53%	–	0.53%	0.53%	–	2.04%
Lifetime ECL	(80)	–	(41)	(70)	–	(205)
Total	**15,031**	**–**	**7,751**	**13,072**	**–**	**9,828**

The reconciliation of gross carrying amount for NGMC is as follows:

	₦ million	US$'000
Gross carrying amount as at 1 January	18,003	58,837
Additions during the year	(3,903)	(12,750)
Exchange differences	46	–
Gross carrying amount as at 31 December	**14,146**	**46,077**

39 Transition disclosures continued

The reconciliation of loss allowances for NGMC as at 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 31 December 2017 – calculated under IAS 39	–	–
Amounts adjusted through opening retained earnings	468	1,535
Loss allowance as at 1 January 2018 – calculated under IFRS 9	468	1,535
Reversal of impairment loss on NGMC receivables	(347)	(1,138)
Exchange difference	1	–
Loss allowance as at 31 December 2018 – Under IFRS 9	**122**	**396**

ii) Mercuria Energy Group

Mercuria Energy Group receivables represents the amount receivable from oil sales. The expected credit loss rate was determined using provision matrix. The loss rate was calculated to be 0.05% for both 1 January 2018 and 31 December 2018 reporting periods. The impairment calculated was therefore assessed to be insignificant. These assets are classified as less than 30 days past due.

iii) Contract assets

The contract assets comprise mainly in unbilled gas invoices from the Company's sale of gas to NGMC. In determining the expected credit losses using a provision matrix, contract assets were grouped in the current 'ageing' bucket i.e. less than 30 days. This is based on the premise that the period between the delivery of gas and the date an invoice is raised is usually 30 days.

The estimated loss was calculated using the applicable loss rate of current NGMC receivables of 0.53% as the Company's exposure to credit risk on contract asset is similar to that of NGMC receivables. The loss was calculated for both 1 January 2018 and 31 December 2018 reporting periods. The impairment calculated was assessed as insignificant. See note 23.1 for reconciliation of gross carrying amounts.

d) Other receivables

The Company applies the IFRS 9 general approach to measuring expected credit losses for all financial assets that are classified within other receivables.

Other receivables relate to staff receivables. For impairment assessment, the Company uses the only borrower specific information available (days past due information) and employment status to assess whether credit risk has increased significantly since initial recognition. These assets are classified as less than 30 days past due (stage 1).

Impairment allowance on receivable amounts was assessed to be insignificant. This was on the basis that there has been no history of default on these assets as repayments are deducted directly from the staff's monthly salary. In addition, the outstanding balance as at 31 December 2018 and 31 December 2017 was deemed to be insignificant (₦223 million, 2017: ₦8.7 million) ($0.7 million, 2017: $28,349. The impairment loss was nil under the incurred loss model of IAS 39.

e) Cash and bank balances

i) Fixed deposits

The Company applies the IFRS 9 general model for measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for cash and bank balances. The ECL was calculated as the probability weighted estimate of the credit losses expected to occur over the contractual period of the facility after considering macroeconomic indicators. See notes 11 and 25 for further details.

				1 January 2018
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	29,658	–	–	**29,658**
Loss allowance as at 1 January 2018	(75)	–	–	**(75)**
Net EAD	29,583	–	–	**29,583**

				31 December 2018
	Stage 1 12-month ECL ₦'million	Stage 2 Lifetime ECL ₦'million	Stage 3 Lifetime ECL ₦'million	Total ₦'million
Gross EAD[1]	31,691	–	–	**31,691**
Loss allowance as at 31 December 2018	(28)	–	–	**(28)**
Net EAD	31,663	–	–	**31,663**

1 Exposure at default

	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	1 January 2018 Total US$'000
Gross EAD[1]	96,984	–	–	**96,984**
Loss allowance as at 1 January 2018	(244)	–	–	**(244)**
Net EAD	96,740	–	–	**96,740**

	Stage 1 12-month ECL US$'000	Stage 2 Lifetime ECL US$'000	Stage 3 Lifetime ECL US$'000	31 December 2018 Total US$'000
Gross EAD[1]	103,229	–	–	**103,229**
Loss allowance as at 31 December 2018	(91)	–	–	**(91)**
Net EAD	103,138	–	–	**103,138**

1 Exposure at default

The reconciliation of gross carrying amount for fixed deposits is as follows:

	₦ million	US$'000
Gross carrying amount as at 1 January	29,658	96,984
Additions during the year	1,912	6,245
Exchange differences	121	–
Gross carrying amount as at 31 December	**31,691**	**103,229**

The reconciliation of loss allowances for fixed deposits as at 31 December 2017 and 31 December 2018 is as follows:

	₦ million	US$'000
Loss allowance as at 31 December 2017 – calculated under IAS 39	–	–
Amounts adjusted through opening retained earnings	75	244
Loss allowance as at 1 January 2018 – calculated under IFRS 9	75	244
Reversal of impairment loss on fixed deposits	(47)	(153)
Exchange difference	–	–
Loss allowance as at 31 December 2018 – Under IFRS 9	**28**	**91**

The impact of unwinding of discount on impairments of fixed deposits is rounded up to zero.

ii) Other cash and bank balances

The Company also assessed the other cash and bank balances to determine its expected credit losses. Based on this assessment, it identified the expected losses as at 1 January 2018 and 31 December 2018 to be insignificant as the loss rate is deemed to be immaterial. The assets are assessed to be in stage 1.

iii) Credit quality of cash and bank balances

The credit quality of the Company's cash and bank balances is assessed on the basis of external credit ratings (Fitch's national long-term rating) as shown below:

	2018 ₦ million	2017 ₦ million	2018 US$'000	2017 US$'000
Non-rated	2	59,153	5	193,437
B-	–	16,019	–	52,384
B	–	14,937	–	48,845
B+	–	2,647	–	8,655
BB+	–	–	–	–
BBB+	36	–	117	–
BBB	584	–	1,902	–
A+	94,242	24,464	306,979	80,000
AA	31,658	–	103,123	–
AA-	25,755	–	83,893	–
AAA	1,286	–	4,188	–
	153,563	117,220	500,207	383,321
Allowance for impairment recognised during the year	(28)	–	(91)	–
Net cash and bank balances	**153,535**	**117,220**	**500,116**	**383,321**

iv. Deferred tax impact on transition adjustment.

The deferred tax assets recognised were as a result of the expected credit losses recognised on initial adoption of IFRS 9.

39 Transition disclosures continued

f) Reconciliation of impairment loss on financial assets

Movements in the provision for impairment of trade and other receivables that are assessed for impairment are as follows:

	2018 ₦ million	2017 ₦ million	2018 US$'000	2017 US$'000
At 1 January	–	3,129	–	10,260
Impact on initial application of IFRS 9	4,472	–	14,423	–
Adjusted balance at 1 January	4,472	–	14,423	
Allowance for impairment recognised during the year	775	–	2,533	–
Reversal of previously recognised impairment losses	(703)	(3,138)	(2,306)	(10,260)
Exchange differences	(3)	9	–	–
At 31 December	**4,541**	**–**	**14,650**	**–**

39.2.3 Hedge accounting

The Company entered agreements to sell put options for crude oil in Brent at a strike price of ₦12,280 ($40) per barrel to NedBank Limited for 600,000 barrels within a period of six months from 1 January 2018 to 30 June 2018.

It also entered into agreements to sell put options for crude oil in Brent at a strike price of ₦15,350 ($50) per barrel to Natixis for 500,000 barrels within a period of six months from 1 July 2018 to 31 December 2018.

The purpose of these is to hedge its cash flows against oil price risk. The contracts provide for a no loss position for Seplat, in that Seplat makes a gain if the price of oil falls below the strike price; and if the price of oil is above the strike price, there is no loss i.e. no payment is made by Seplat except for the mutually agreed monthly premium which is paid in arrears and is settled net of any gain on settlement date.

As at the reporting periods ended 31 December 2017 and 31 December 2018, the Company had derivative assets and no derivative liabilities. The derivative assets are measured and recognised at fair value. The Company has not formally designated any of these instruments for hedge accounting.

39.3 IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules using the modified retrospective approach and has not restated comparatives for the 2017 financial year. There was no impact on the Company's retained earnings at the date of initial application (i.e. 1 January 2018). The reclassification adjustments resulting from the adoption of IFRS 15 are shown in note 39.1 and detailed below:

39.3.1 Impact on statement of financial position

a) Trade and other receivables

The Company introduced the presentation of contract assets in the balance sheet to reflect the guidance of IFRS 15. Contract assets of ₦4.3 billion, 1 January 2018: ₦4.2 billion ($14.1 million, 1 January 2018: $13.8 million) recognised in relation to unbilled amounts from Nigerian Gas Marketing Company (NGMC) were previously presented as part of trade and other receivables. See notes 22 and 23 for further details.

39.3.2 Impact on statement of profit or loss and other comprehensive income

a) Reclassification of underlifts to other income

In some instances, Joint Operating Arrangement (JOA) partners lift the share of production of other partners. Under IAS 18, overlifts and underlifts were recognised net in revenue using entitlement accounting. They are settled at a later period through future liftings and not in cash (non-monetary settlements). This is referred to as the entitlement method. IFRS 15 excludes transactions arising from arrangements where the parties are participating in an activity together and share the risks and benefits of that activity as the counterparty is not a customer. To reflect the change in policy, the Company has reclassified underlifts to other income. Revenue has therefore been recognised net of underlifts of ₦1.5 billion ($4.8 million) for the reporting period. Under IAS 18, revenue recognised and other income, without reclassifying underlifts to other income, would have been ₦218.6 billion ($714.2 million). See note 9 for further details.

b) Reclassification of demurrage from costs of sales

Seplat pays demurrage to Mercuria for delays caused by incomplete cargoes delivered at the port. These are referred to as price adjustments and Seplat is billed subsequently by Mercuria. Under IFRS 15, these are considerations payable to customers and should be recognised net of revenue. Revenue has therefore been recognised net of demurrage costs of ₦64.6 million ($211,160). This had no tax impact. In the current period, there was a refund of demurrage which has been added to revenue. In prior reporting periods, demurrage costs were included as part of operations and maintenance costs for the reporting period. Under IAS 18, revenue recognised without reclassifying demurrage costs to revenue would have been ₦217.1 billion ($709.3 million). See note 8 for further details.

c) Reclassification of barging costs from cost of sales

Seplat refunds to Mercuria barging costs incurred on crude oil barrels delivered. Seplat does not enjoy a separate service which it would have to pay another party for. This has been determined to be a consideration payable to a customer and is accounted for as a direct deduction from revenue. Revenue is therefore recognised net of barging costs. In the current period, there were no barging costs. In prior periods, barging costs were shown separately in cost of sales. See note 8 for further details.

Separate statement of value added

For the year ended 31 December 2018

	2018 ₦ million	%	2017 ₦ million	%	2018 US$'000	%	2017 US$'000	%
Revenue	217,174		127,655		709,493		417,428	
Other income	1,757		334		5,739		1,092	
Finance income	2,874		11,924		9,388		38,992	
Cost of goods and other services:								
Local	(45,742)		(34,421)		(149,431)		(112,548)	
Foreign	(30,494)		(22,948)		(99,621)		(75,032)	
Valued added	145,569	100	82,544	100	475,568	100	269,932	100

Applied as follows:

	2018 ₦ million	%	2017 ₦ million	%	2018 US$'000	%	2017 US$'000	%
To employees: – as salaries and labour related expenses	8,618	6	6,407	8	28,154	6	20,951	8
To external providers of capital: – as interest	14,788	10	22,236	27	48,311	10	72,710	27
To government: – as Company taxes	7,693	5	687	1	25,134	6	2,248	1
Retained for the Company's future: – For asset replacement, depreciation, depletion & amortisation	36,734	25	25,142	30	120,010	25	82,215	30
Deferred tax (charges)/credit	28,055	20	(68,344)	(83)	91,654	19	(223,481)	(83)
Profit for the year	49,681	34	96,416	117	162,305	34	315,289	117
Valued added	145,569	100	82,544	100	475,568	100	269,932	100

The value added represents the additional wealth which the Company has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for the creation of future wealth.

Financial statements

Separate five-year financial summary

As at 31 December 2018

	2018 ₦ million	2017 ₦ million	2016 ₦ million	2015 ₦ million	2014 ₦ million
Revenue	217,174	127,655	51,995	98,593	121,246
Profit/(loss) before taxation	85,429	28,759	(29,261)	15,159	43,529
Income tax (expense)/credit	(35,748)	67,657	4,421	(3,245)	–
Profit/(loss) for the year	49,681	96,416	(24,840)	11,914	43,529

	2018 ₦ million	2017 ₦ million	2016 ₦ million	2015 ₦ million	2014 ₦ million
Capital employed:					
Issued share capital	286	283	283	282	277
Share premium	82,080	82,080	82,080	82,080	82,080
Share based payment reserve	7,298	4,332	2,597	1,729	–
Capital contribution	5,932	5,932	5,932	5,932	5,932
Foreign translation reserve	196,552	194,526	193,499	45,618	36,086
Retained earnings	234,148	203,072	106,670	136,456	138,768
Total equity	526,296	490,225	391,061	272,097	263,143
Represented by:					
Non-current assets	338,578	359,097	277,618	167,517	152,396
Current assets	513,408	474,837	404,274	348,199	293,558
Non-current liabilities	(173,276)	(125,880)	(137,722)	(115,850)	(45,994)
Current liabilities	(152,414)	(217,829)	(153,109)	(127,769)	(136,817)
Net assets	526,296	490,225	391,061	272,097	263,143

	2018 US$ '000	2017 US$ '000	2016 US$ '000	2015 US$ '000	2014 US$ '000
Revenue	709,493	417,428	202,446	497,867	755,508
Profit/(loss) before taxation	279,093	94,056	(138,911)	76,549	271,236
Income tax (expense)/credit	(116,788)	221,233	14,499	(16,384)	–
Profit/(loss) for the year	162,305	315,289	(124,412)	60,165	271,236

	2018 US$ '000	2017 US$ '000	2016 US$ '000	2015 US$ '000	2014 US$ '000
Capital employed:					
Issued share capital	1,834	1,826	1,826	1,821	1,798
Share premium	497,457	497,457	497,457	497,457	497,457
Share based payment reserve	27,499	17,809	12,135	8,734	–
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	1,147,526	1,045,985	730,740	877,123	888,798
Total equity	1,714,316	1,603,077	1,282,158	1,425,135	1,428,053
Represented by:					
Non-current assets	1,102,856	1,174,286	910,221	899,186	827,042
Current assets	1,672,338	1,552,758	1,325,488	1,751,151	1,593,114
Non-current liabilities	(564,416)	(411,642)	(451,549)	(642,575)	(742,498)
Current liabilities	(496,462)	(712,325)	(502,002)	(582,627)	(249,605)
Net assets	1,714,316	1,603,077	1,282,158	1,425,135	1,428,053

Separate supplementary financial information (unaudited)

For the year ended 31 December 2018

40 Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural gas Bscf	Oil equivalent MMboe
At 31 December 2017	226.2	1,455.8	477.2
Revisions	10.7	70.2	22.8
Discoveries and extensions	–	–	–
Acquisitions	–	–	–
Production	(10.3)	(53)	(19.4)
At 31 December 2018	**226.6**	**1,473**	**(480.6)**

Reserves are those quantities of crude oil, natural gas and natural gas liquid that, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions.

As additional information becomes available or conditions change, estimates are revised.

41 Capitalised costs related to oil producing activities

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Capitalised costs:				
Unproved properties	–	–	–	–
Proved properties	422,404	389,766	1,375,907	1,274,580
Total capitalised costs	422,404	389,766	1,375,907	1,274,580
Accumulated depreciation	(147,319)	(110,925)	(479,867)	(362,741)
Net capitalised costs	**275,085**	**278,841**	**896,040**	**911,839**

Capitalised costs include the cost of equipment and facilities for oil producing activities. Unproved properties include capitalised costs for oil leaseholds under exploration, and uncompleted exploratory well costs, including exploratory wells under evaluation. Proved properties include capitalised costs for oil leaseholds holding proved reserves, development wells and related equipment and facilities (including uncompleted development well costs) and support equipment.

42 Concessions

The original, expired and unexpired terms of concessions granted to the Company as at 31 December 2018 are:

		Expiry date
Seplat	OMLs 4, 38 & 41	October 2038

On 15 November 2018 Seplat announced the President and Honourable Minister of Petroleum Resources had given consent for the renewal of OMLs 4, 38 and 41 to a new expiry date of 21 October 2038. Seplat holds a 45% working interest in OMLs 4, 38 and 41. In connection with the license renewal Seplat has paid in full a Renewal Bonus of ₦7.8 billion, 2017: nil ($25.9 million, 2017: nil), thus ensuring all conditions for license renewal have been met. The Company is working with the Department of Petroleum Resources to obtain the updated title deeds in connection with the renewal.

43 Results of operations for oil producing activities

	2018 ₦ million	2017 ₦ million	2018 US$ '000	2017 US$ '000
Revenue	169,534	89,742	553,856	293,455
Other income – net	1,757	334	5,739	1,092
Production and administrative expenses	(95,682)	(62,054)	(298,426)	(202,893)
Depreciation & amortisation	(26,610)	(21,622)	(101,090)	(70,705)
Profit before taxation	48,999	6,400	160,079	20,949
Taxation	(35,748)	67,657	(116,788)	221,233
Profit after taxation	**13,251**	**74,057**	**43,291**	**242,182**

44 Reclassification

Certain comparative figures have been reclassified in line with the current year's presentation.

45 Exchange rates used in translating the accounts to Naira

The table below shows the exchange rates used in translating the accounts into Naira

	Basis	31 December 2018 ₦/$	31 December 2017 ₦/$
Fixed assets – opening balances	Historical rate	Historical	Historical
Fixed assets – additions	Average rate	306.10	305.80
Fixed assets – closing balances	Closing rate	307.00	305.81
Current assets	Closing rate	307.00	305.81
Current liabilities	Closing rate	307.00	305.81
Equity	Historical rate	Historical	Historical
Income and Expenses	Overall Average rate	306.10	305.81

271–
274

Additional information

Report on payments to governments (unaudited)

For the year ended 31 December 2018

Introduction

The following information is included to comply with the Disclosure and Transparency Rules of the Financial Conduct Authority in the United Kingdom and it is prepared in accordance with Directive 2013/34/EU (the EU Accounting Directive (2013)).

Reporting entities
This Report includes payments to governments made by Seplat Petroleum Development Company and its subsidiaries (Seplat). All payments to governments arise from operations within Nigeria.

Activities
Payments made by Seplat to governments arising from activities involving the exploration, prospection, discovery, development and extraction of minerals, gas processing, oil and natural gas deposits or other materials (extractive activities) are disclosed in this Report. It excludes payments related to refining, natural gas liquefaction or gas-to-liquids activities. When payments cover both extractive and processing activities and cannot be split, the payments have been disclosed in full.

Government
Government includes any national, regional or local authority of a country to which Seplat has made payment related to these regulations, and includes any department, agency or entity that is controlled by such authority.

Project
Payments are reported at project level except for payments that are not attributable to a specific project, which are reported at entity level. A project is defined as an operational activity which is governed by a single contract, licence, lease, concession or similar legal agreement, and forms the basis for payment to government. However, if multiple agreements are substantially interconnected, this shall be considered as a project. Indicators of integration include, but are not limited to, geographic proximity, the use of shared infrastructure and common operational management.

Payments
The information is reported under the following payment types.

Production entitlements
These represent the government's share of production in the reporting period arising from projects operated by Seplat. It comprises crude oil and gas attributable to the Nigerian government by virtue of its participation as an equity holder in projects within its sovereign jurisdiction (Nigeria).

Production entitlements to the government are lifted independently by the relevant government agency.

Royalties
These are payments for the rights to extract oil and gas resources, typically at a set percentage of revenue less any deductions that may be taken.

Licence fees, rental fees, entry fees and other considerations for licences and/or concessions
These are fees and other sums paid as consideration for acquiring a licence for gaining access to an area where extractive activities are performed. Administrative government fees that are not specifically related to the extractive sector, or to obtain access to extractive resources, are excluded. Also excluded are payments made in return for services provided by a government.

Other types of payments that are required to be disclosed in accordance with the Regulations are the following:

- Taxes levied on the income, production or profits
- Dividends
- Signature, discovery and production bonuses
- Infrastructure improvements

However, for the year ended 31 December 2018, there were no such reportable payments made by Seplat to government that were above the materiality threshold as determined below.

Materiality
For each payment type, total payments below £88,611 (€100,000, $117,919) whether made as a single payment or as a series of related payments, to a government agency are excluded from this Report.

Reporting currency
Payments in this report have been disclosed in US Dollars. Where actual payments have been recorded in a currency other than US Dollars, they have been translated using the annual average exchange rate.

Government and Expense Report (In USD)	Production Entitlement	Royalties	Fees	Total
Governments				
Nigerian National Petroleum Corporation	738,688,290[1]	–	–	738,688,290
Department of Petroleum Resources	–	138,022,757	26,652,529	164,675,286
Central Bank of Nigeria[2]	–	–	920,461	920,461
Niger Delta Development Commission	–	–	19,363,515	19,363,515
Nigerian Content Development and Monitoring Board	–	–	2,642,818	2,642,818
Total	**738,688,290**	**138,022,757**	**49,579,323**	**926,290,370**

1 Payment in kind of 738,688,290 for 10,830,857bbl at market prices.

2 Payment to Central Bank of Nigeria represents Nigerian Export Supervision Scheme (NESS) fee paid on crude oil exported.

Project and Expense Report (In USD)	Production Entitlement	Royalties	Fees	Total
Projects				
OML 4, 38 and 41	703,460,806[3]	132,625,930	47,772,535	883,859,271
OML 53	35,227,484[4]	4,734,920	1,806,788	41,769,192
OML 56	–	661,907		661,907
Total	**738,688,290**	**138,022,757**	**49,579,323**	**926,290,370**

3 Payment in kind of 703,460,806 for 10,325,857bbl at market prices.

4 Payment in kind of 35,227,484 for 505,000bbl at market prices.

Notice of 6th Annual General Meeting of Seplat Petroleum Development Company Plc

(Registered with the Corporate Affairs Commission of Nigeria with RC Number: 824838)

NOTICE is hereby given that the 6th Annual General Meeting of Seplat Petroleum Development Company Plc (the **"Company"**) will be held at the Civic Centre, Ozumba Mbadiwe Road, Victoria Island, Lagos, Nigeria at 11:00am on Thursday, 16 May 2019 to transact the following business:

To consider and, if thought fit, to transact the following Ordinary Business, which will be proposed as Ordinary Resolutions:

1. To receive the Annual Accounts, Directors' Report, Auditors' Report for the year ended 31 December 2018 and the Audit Committee Report.
2. To declare a final dividend recommended by the Board of Directors of the Company in respect of the financial year ended 31 December 2018.
3. To re-appoint Ernst & Young Nigeria as Auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which the Company's Annual Accounts are laid.
4. To authorise the Board of Directors of the Company to determine the Auditors' remuneration.
5. To re-elect those Directors of the Company who are eligible for retirement by rotation.
6. To elect members of the Audit Committee.

To consider and, if thought fit, to transact the following Special Business, which will be proposed as an Ordinary Resolution:

7. To approve the Remuneration Section of the Directors' Remuneration Report set out in the Annual Report and Accounts for the year ended 31 December 2018[1].

Copies of the Annual Report and Accounts for Seplat Petroleum Development Company Plc for the financial year ended 31 December 2018 will be mailed to the shareholders and will be available on our website: www.seplatpetroleum.com. Printed versions can also be obtained by contacting DataMax Registrars in Nigeria at 2C Gbagada Expressway, by Beko Ransome Kuti Park, Gbagada, Lagos/+ 234 1 7120012; or Computershare in the UK on +44 (0) 370 703 6101.

By order of the Board.

Dr. Mirian Kene Kachikwu
FRC/2015/NBA/00000010739
General Counsel/Company Secretary

Dated 6 March 2019

1 This is set out on pages 103 to 108 of the Annual Report and Accounts for the year ended 31 December 2018. In accordance with UK remuneration reporting rules, this is an advisory vote.

Notes:

1. PROXY:
A member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his/her/its place. A proxy need not be a member of the Company. For the appointment to be valid for the purposes of the meeting, a completed and duly stamped proxy form must be deposited at the office of the Registrar, DataMax Registrars Limited, 2C Gbagada Express Way, by Beko Ransome Kuti Park, Gbagada, Lagos or at the head office of the Company, marked for the attention of the "Company Secretary" or by email to proxy@seplatpetroleum.com, not less than 48 hours before the time fixed for the meeting. For convenience purposes, a blank proxy form is attached to the 2018 Annual Report and Accounts, both of which are available at the Company's website: www.seplatpetroleum.com and at the Company's head office: 25a Lugard Avenue, Ikoyi, Lagos.

2. CLOSURE OF REGISTER:
The Register of Members and Transfer Books of the Company (Nigeria & UK) will be closed on 21 March 2019 in accordance with the provisions of section 89 of CAMA, to enable the Registrars to prepare for the Annual General Meeting.

3. PAYMENT OF DIVIDENDS:
If the Dividend recommended by the Directors is approved by members at the Annual General Meeting, dividend will be paid on or around 23rd May 2019, to shareholders whose names appear in the Company's Register of Members at the close of business on 20 March 2019.

4. E-DIVIDEND MANDATE:
Shareholders are kindly requested to advise DataMax Registrars Limited of their updated records and relevant bank accounts, by completing the e-mandate form. The e-mandate form can be downloaded from DataMax Registrars Limited's website at http://www.datamaxregistrars.com. The duly completed form(s) should be returned to DataMax Registrars Limited, No, 2c Gbagada Expressway, by Beko Ransome Kuti Park, Gbagada Phase 1, Lagos.

5. NOMINATION FOR AUDIT COMMITTEE:
In accordance with section 359(4) & (5) of the Companies and Allied Matters Act 2004, the Audit Committee shall consist of an equal number of Directors and representatives of the shareholders of the Company (subject to a maximum number of six (6) members). Any shareholder may nominate a shareholder as a member of the Audit Committee. Such nomination should be in writing and should reach the Company Secretary at least twenty-one (21) days before the Annual General Meeting.

6. RE-ELECTION OF DIRECTORS:
The following two Independent Non-Executive Directors who are scheduled for retirement by rotation and are eligible for re-election, have indicated their willingness to continue as Directors on the Board of the Company:

i. Mrs. Ifueko Marina Omoigui Okauru; and

ii. Mr. Damian Dinshiya Dodo, SAN.

The profiles of these Directors are available on pages 74 and 75 respectively, of the 2018 Annual Report and Accounts.

7. RIGHT OF SECURITIES' HOLDERS TO ASK QUESTIONS:
In line with Rule 19.12(c) of the Listing Rules of the Nigerian Stock Exchange, Securities' Holders have a right to ask questions not only at the Meeting, but also in writing prior to the Meeting. Questions submitted prior to the Meeting should be addressed to the Company Secretary and must reach the head office of the Company no later than 7 days before the date of the Meeting (being16 May 2019).

General information

Board of directors:

Ambrosie Bryant Chukwueloka Orjiako	Chairman	Nigerian
Ojunekwu Augustine Avuru	Managing Director and Chief Executive Officer	Nigerian
Roger Thompson Brown	Chief Financial Officer (Executive Director)	British
Effiong Okon	Operations Director (Executive Director)	Nigerian
Michel Hochard[1]	Non-Executive Director	French
Macaulay Agbada Ofurhie	Non-Executive Director	Nigerian
Michael Richard Alexander	Senior Independent Non-Executive Director	British
Ifueko M. Omoigui Okauru	Independent Non-Executive Director	Nigerian
Basil Omiyi	Independent Non-Executive Director	Nigerian
Charles Okeahalam	Independent Non-Executive Director	Nigerian
Lord Mark Malloch-Brown	Independent Non-Executive Director	British
Damian Dinshiya Dodo, SAN	Independent Non-Executive Director	Nigerian

1 Madame Nathalie Delapalme acts as alternate Director to Michel Hochard

Company Secretary
Mirian Kachikwu

Registered office and business address of Directors
25a Lugard Avenue
Ikoyi
Lagos
Nigeria

Registered number
RC No. 824838

FRC number
FRC/2015/NBA/00000010739

Auditor
Ernst & Young
(10th & 13th Floors), UBA House
57 Marina Lagos, Nigeria

Registrar
DataMax Registrars Limited
2C Gbagada Express Way,
by Beko Ransome Kuti Park,
Gbagada,
Lagos
Nigeria

Solicitors
Olaniwun Ajayi LP
Adepetun Caxton-Martins Agbor & Segun ("ACAS-Law")
Banwo & Ighodalo
Templars Law
White & Case LLP
Whitehall Solicitors
Bracewell (UK) LLP
Herbert Smith Freehills LLP
Chief J.A. Ororho & Co.
Ogaga Ovrawah & Co.
Consolex LP
J.E. Okodaso & Company
V.E. Akpoguma & Co.
Thompson Okpoko & Partners
G.C. Arubayi & Co.
Streamsowers & Kohn

Bankers
First Bank of Nigeria Limited
Stanbic IBTC Bank Plc
United Bank for Africa Plc
Zenith Bank Plc
Citibank Nigeria Limited
Standard Chartered Bank
HSBC Bank

Glossary of terms

AEPS
Amukpe Escravos Pipeline System

AG
Associated Gas

AGPC
ANOH Gas Processing Company

ALR
Amended Listing Rules

ANOH
Assa North Ohaji South

BTU
British Thermal Unit

CAMA
Companies and Allied Matters Act

CBI
Convention on Business Integrity

CBN
Central Bank of Nigeria

CGRS
Corporate Governance Rating System

DD&A
Depreciation, Depletion & Amortization

DSO
Domestic Supply Obligation

E&A
Exploration and Appraisal

EBIT
Earnings Before Interest Tax

EPF
Early Production Facility

EPS
Earnings Per Share

ERGP
Economic Recovery & Growth Plan

ERM
Enterprise Risk Management

ESIA
Environmental Social Impact Assessment

FID
Final Investment Decision

FTSE
Financial Times Stock Exchange Index

GDP
Gross Domestic Product

GGFR
Global Gas Flaring Reduction

GHDI
Global Human Development Initiative

GMOU
Global Memorandum of Understanding

GMP
Gas Master Plan

GSA
Gas Supply Agreement

GTL
Gas To Liquids

GW
Giga Watt

IEFX
Investors, Exporters Foreign Exchange window

IOC
International Oil Company

IOGP
International Association of Oil & Gas Producers

IPP
Independent Power Plants

ISO
International Standards Organisation

KPI
Key Performance Indicator

KWH
KiloWatt Hour

LNG
Liquefied Natural Gas

LPS
Loss Per Share

LTF
Liquid Treatment Facility

LTIF
Lost Time Incident Frequency

LTIP
Long Term Incentive Plan

MCP
Multiple Currency Practices

MOPU
Mobile Offshore Production Unit

NAPIMS
National Petroleum Investment Management Service

NBS
National Bureau of Statistics

NED
Non Executive Director

NGC
Nigerian Gas Company

NGMC
Nigerian Gas Marketing Company

NGMP
Nigeria Gas Master Plan

NGO
Non Governmental Organisation

NGPTC
Nigerian Gas Processing and Transportation Company

NIIMP
Nigerian Integrated Infrastructure Master Plan

NNPC
Nigerian National Petroleum Company

NOGICD
Nigeria Oil and Gas Industry Content Development

NPC
National Population Commission

NPDC
Nigerian Petroleum Development Company

O&G
Oil & Gas

OB3
Obiafu-Obrikom-Oben gas pipeline

OPEC
Organisation of Petroleum Exporting Countries

PIB
Petroleum Industry Bill

PIFB
Petroleum Industry Fiscal Bill

PIGB
Petroleum Industry Governance Bill

PPP
Public Private Partnership

PSC
Production Sharing Contracts

RCF
Revolving Credit Facility

SDG
Sustainable Development Goals

SEC
Securities Exchange Commission

SID
Senior Independent Director

SPDC
Shell Petroleum Development Company

TRIR
Total Recordable Incident Rate

TSR
Total Shareholder Return

WEF
World Economic Forum

WRPC
Warri Refinery Petrochemical Company

Notes

Forward-looking statements

This document may include statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Company’s control and all of which are based on the Company’s current beliefs and expectations about future events. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements reflect the Company’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Company’s business, results of operations, financial position, liquidity, prospects, growth, strategies and the oil and gas business. Forward-looking statements speak only as of the date they are made and cannot be relied upon as a guide to future performance.

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