Notes to the financial statements

1. Corporate information and business

Seplat Petroleum Development Company Plc ("Seplat" or the "Company"), the parent of the Group, was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2013, under the Company and Allied Matters Act 2004. The Company commenced operations on 1 August 2010. The Company is principally engaged in oil and gas exploration and production.

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

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was $340 million paid at the completion of the acquisition on 31 July 2010 and a contingent payment of $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 $80 per barrel. $358.6 million was allocated to the producing assets including $18.6 million as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of $33 million was paid on 22 October 2012.

During 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"). The total purchase price for these assets was $50 million paid at the completion of the acquisition in June 2013 and a contingent payment of $10 million payable upon reaching certain production milestones.

$57.7 million was allocated to the producing assets including $7.7 million as the fair value of the contingent consideration as calculated on acquisition date.

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

The Company together with its subsidiary, Newton Energy, and four wholly owned subsidiaries, namely, Seplat Petroleum Development Company UK Limited ("Seplat UK"), which was incorporated on 21 August 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 2013, and Seplat Gas Company Limited ("Seplat Gas"), which was incorporated on 12 December 2013, is referred to as the Group.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial information has been prepared under the going concern assumption and historical cost convention, except for contingent consideration, borrowings on initial recognition and financial instruments – derivatives not designated as hedges that have been measured at fair value. The historical financial information is presented in US Dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial information consolidates the financial information of the Company and its subsidiaries drawn up to 31 December each year. 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.

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

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

Notes to the financial statements continued

2. Basis of preparation and significant accounting policies continued

All intra-group balances, transactions and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. 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.

2.3 Summary of significant accounting policies

The following are the significant accounting policies applied by the Company in preparing its financial statements.

2.3.1 Foreign currencies

Functional and presentation currency

The Group's financial statements are presented in United States Dollars, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income within the line item gain/(loss) on foreign exchange, net.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into $ at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.3.2 Oil and gas exploration, evaluation and development expenditure

i) Pre-licence costs

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

ii) Exploration licence costs

Exploration licence costs are capitalised within intangible assets. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

Licence costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing 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 does 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. If the acquisition is determined to be a business combination, then the acquisition is treated as an acquisition of a business and the excess of purchase price over fair value of the assets is recorded as goodwill.

Exploration and evaluation expenditures
Geological and geophysical exploration costs are charged against income 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 against income. 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; and
- 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.

iv) 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 out of revenue to be derived from the sale of production from the relevant development property.

v) Joint operations
Seplat is the operator of the assets relating to OML 4, OML 38 and OML 41. The Nigerian Petroleum Development Company Limited ("NPDC"), a subsidiary of the Nigerian National Petroleum Corporation ("NNPC"), is the other venturer. Seplat holds a 45% interest, while NPDC hold 55% interest in the jointly controlled assets.

The Group also holds a 40% interest in the joint operations relating to OPL 283/OML 56 (the Umuseti/Igbuku Fields). Pillar Oil is the other venturer and the operator.

The accounting method specified for a joint operation apportions to each venturer its share of revenues, expenses, assets and liabilities. The Group recognises its share in its own accounting records as follows:

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

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

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

Notes to the financial statements continued

2. Basis of preparation and significant accounting policies continued

Overlift and underlift

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

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

2.3.4 Borrowing costs

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

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

2.3.5 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/amortised on a unit-of-production basis over the estimated proved developed reserves. 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:

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

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

2.3.6 Impairment of non-financial assets

The entity assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset 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. 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.

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 groups 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.

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.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss after such a reversal and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2.3.7 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

2.3.8 Inventories

Inventories represent the value of tubulars, casing and wellheads. These are stated at the lower of cost and net realisable value. Cost is determined using the invoice value and all other directly attributable costs to bringing the inventory to the point of use determined on first in first out basis.

2.3.9 Financial instruments

i) Financial assets

Financial assets' initial recognition and measurement

Financial assets in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through the statement of profit or loss, loans and receivables, held to maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through the statement of profit or loss, which do not include transaction costs.

The Group's financial assets include cash and short-term deposits, trade and other receivables and loans and other receivables.

Subsequent measurement

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

Trade receivables, loans and other receivables

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

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

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

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

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

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.

(ii) Financial liabilities

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

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

Notes to the financial statements continued

2. Basis of preparation and significant accounting policies continued

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

Subsequent measurement

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

Trade payables, loans and borrowings

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

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

Borrowings

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the associated obligation 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 in the statement of profit or loss and other comprehensive income.

Derivative financial instruments

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

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 18 Financial instruments.

2.3.10 Fair value of financial instruments

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

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

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

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

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

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

2.3.11 Contingent consideration

A contingent consideration is recognised where payment is dependent on future events. On initial recognition, the fair value of the contingent consideration is calculated. The fair value is recognised as a liability and also capitalised to the producing facilities. Subsequently, the liability is tested for changes in fair value and the differences recorded in liability and in the statement of profit or loss and other comprehensive income.

2.3.12 Earnings and dividends per share

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.

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Dividends on ordinary shares are recognised as a liability in the period in which they are approved.

2.3.13 Employee 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 2004. 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 schemes are charged to the profit and loss account in the year to which they relate.

A defined contribution plan is a pension plan under which the Group pays fixed contributions. Contribution to the scheme is 15% of each employee's annual basic salary, housing and transport allowances, which is paid wholly by the employer. The contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

2.3.14 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 effect of the time value of money is considered to be material;
- when discounting is used, the increase of the provision over time is recognised as an 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 possible 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 fair value of the expenditures expected to be required to settle the obligation using a pre-tax rate, updated at each reporting date that reflects current market assessments of the time value of money and the risks specific to the obligation. The corresponding amount is capitalised as part of the oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalised, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance charges.

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

2.3.15 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.

Notes to the financial statements continued

2. Basis of preparation and significant accounting policies continued

2.3.16 Income taxation

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 the 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.

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.

2.3.17 New tax regime

Effective 1 January 2013, the Company was granted the pioneer tax status incentive by the Nigerian Investment Promotion Commission for a five-year period. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2015), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. Newton Energy was also granted pioneer tax status for a five-year term effective 1 June 2013. Accordingly, the new incentives form the basis of the reported nil current and deferred taxation in the financial statements.

2.3.18 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.

Operating lease payments and capitalised prepaid operating leases are recognised as an operating expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

2.4 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.

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) Acquisition of a 40% participating interest in producing assets (note 11a)

The acquisition of a 40% participating interest in OPL 283 (the Umuseti/Igbuku Fields), in 2013, has been accounted for as an acquisition of assets, with the exception of adopting IFRS 3, Business combination, when accounting for the contingent consideration. This is on the basis that the assets do not constitute a business.

(ii) NPDC receivable (note 16)

NPDC continues to demonstrate its commitment to repay outstanding debts. After significant payments during 2014, the amount owed by NPDC as at 31 December 2014 was $463 million (2013: $284 million), of which $256 million (2013: $248 million) is overdue. The Group considers that the current receivable balance remains fully recoverable as cash payments continue to be received and, as at 5 February 2014, solely the amounts relating to 2013 and 2014 are overdue.

(iii) Deposit for investment (note 16)

The Group considers that the deposit for investment of $453 million in relation to the acquisition of additional assets is fully recoverable in accordance with the terms of the deposit.

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) Contingent consideration (note 23)

In 2013, the Group recognised the contingent consideration in relation to its acquisition of a participating interest in assets within OPL 283 (the Umuseti/Igbuku Fields). The contingency criteria are the achievement of certain production milestones. The Group expects these to be met in 2015. At inception, the present value was capitalised to the cost of the asset and a corresponding liability was recorded. The liability is carried at fair value through profit or loss.

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 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.

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.

iii) Provision for decommissioning (note 24)

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.

iv) Recoverability of assets carrying amount (note 11a)

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.

Such indicators include changes in the Group's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

Notes to the financial statements continued

2. Basis of preparation and significant accounting policies continued

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

In 2014, in response to the significant fall in commodity prices, the Group executed an impairment assessment. The Group used the fair value less costs of disposal method in determining the recoverable amount of the cash-generating unit. The assessment did not result in an impairment charge. In determining the fair value, the Group used a recent forward curve for three years, reverting to the Group's long-term price assumption for impairment testing of $72 per barrel from 1 January 2018. The Group used a post-tax discount rate of 12% based on the Group weighted average cost of capital.

v) Contingencies (note 30c)

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.

vi) Income taxes (note 8)

The Group is subject to income taxes only by the Nigerian tax authority, which does not require much judgement in terms of provision for income taxes, but a certain level of judgement is required for recognition of the 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.

2.5 Changes in accounting policies and disclosures

New and amended standards and interpretations

There were a number of new standards and interpretations, effective from 1 January 2014, that the Group applied for the first time in the current year. The nature and the impact of each new standard and amendment that may have an impact on the Group now or in the future, is described below. Several other amendments apply for the first time in 2014, however, they do not impact the annual financial statements of the Group.

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

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 consistent with the requirements of IFRIC 21 in prior years.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

The amendment clarifies the disclosures required in relation to the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment to IAS 36 only resulted in certain disclosures being updated.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately, and thus for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

2.6 Standards issued but not effective

The following pronouncements from the IASB will become effective for future financial reporting periods and have not yet been adopted by the Group.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 reflects the IASB's work on the replacement of IAS 39 and was done in several phases from 2009. The final version of IFRS 9 was issued in May 2014 and applies to classification and measurement of financial assets and financial liabilities, impairment of financial assets as well as hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The adoption of IFRS 9 will have an effect on the classification and measurement of financial assets but not on financial liabilities.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. Existing IFRS preparers are prohibited from applying this standard. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first time application of IFRS. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. The Company does not expect that IFRS 14 will have a material financial impact in future financial statements.

IFRS 15 Revenue from Contracts with Customers
The IASB intends to replace all existing IFRS revenue requirements with IFRS 15. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. Application is required for annual periods beginning on or after 1 January 2017. The Company is currently assessing the impact of the standard on its revenue recognition.

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. The Company is currently assessing the impact of the standard on its joint arrangement.

Amendments to IAS 27 Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively.

A first-time adopter of IFRS electing to use the equity method in its separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

The Company is currently assessing the impact of the standard in its separate financial statements.

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

This amendment is effective for annual periods beginning on or after 1 January 2016. It is not expected that this amendment would be relevant to the Company.

Notes to the financial statements continued

2. Basis of preparation and significant accounting policies continued

IAS 1 Disclosure Initiative – Amendments to IAS 1

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements.

The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

This amendment is effective for annual periods beginning on or after 1 January 2016. The Company is currently assessing the impact of the standard on the presentation of its financial statements.

2.7 Segment reporting

The Group operates one segment, being the exploration, development and production of oil and gas related projects located in Nigeria. Therefore, no segment reporting has been prepared.

3. Revenue

		The Group		The Company
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Crude oil sale	777,601	815,354	764,346	801,636
Changes in lifting	(29,942)	46,795	(36,198)	50,268
	747,659	862,149	728,148	851,904
Gas sales	27,360	18,078	27,360	18,078
	775,019	**880,227**	**755,508**	**869,982**

4. Cost of sales

		The Group		The Company
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Royalties	149,748	191,856	149,245	191,500
Depletion, depreciation and amortisation	41,249	27,898	39,499	26,990
Crude handling fee	22,056	31,968	20,923	31,968
Ness fee	822	952	803	952
Niger Delta development commission levy	10,236	12,690	10,236	12,690
Rig related costs	29,910	27,037	29,910	27,037
Other field expenses	61,569	38,542	60,099	37,231
	315,590	**330,943**	**310,715**	**328,368**

Other field expenses includes costs of inventory charged to profit & loss, cost relating to operational expenditures that do not specifically relate to rigs such as minor clean-up cost, repair and maintenance of field equipment and field insurance.

5. Other operating income

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Sale of scrap (note 5a)	–	320	–	320
Profit on disposal of plant & equipment		84	–	84
	–	**404**	–	**404**

5a. Sale of scrap

This represents the sale value of scrapped tubings from work-over wells.

6. Other general and administrative expenses

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Depreciation and amortisation	4,052	3,069	3,675	3,055
Auditor's remuneration	716	630	604	562
Professional and consulting fees	40,691	24,839	39,947	24,757
Directors' emoluments	7,740	7,518	7,480	5,798
Donations	179	10	179	10
Employee benefits (note 6a)	18,205	13,219	17,046	13,219
Business development	20	53	20	53
Flights and other travel costs	8,956	6,856	8,849	6,772
Other general expenses	44,954	15,783	40,843	13,354
Aborted acquisition costs	26,056	–	–	–
	151,569	**71,977**	**118,643**	**67,580**

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs and logistics costs.

6a. Salaries and employee related costs include the following:

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Basic salary	6,733	5,718	5,574	5,718
Housing allowance	2,203	2,570	2,203	2,570
Other allowances	9,269	4,931	9,269	4,931
Total salaries and employee related costs	**18,205**	**13,219**	**17,046**	**13,219**

7. Finance income/cost

7a. Interest income

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Interest income	11,996	658	14,784	3,375

7b. Finance cost

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Finance cost				
Interest on shareholders' loan	–	4,206	–	4,206
Interest on bank loans	47,375	15,845	47,375	15,845
Unwinding of discount on provision for decommissioning (note 24)	1,944	1,754	1,944	1,754
	49,319	**21,805**	**49,319**	**21,805**

Notes to the financial statements continued

8. Taxation

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

8a. Tax on profit

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Current tax				
Current tax charge for the year	–	–	–	9
Under-provision from prior year	–	617	–	617
	–	617	–	617
Deferred tax:				
Net deferred tax in profit or loss	–	(93,362)	–	(93,362)
Total tax charge/(credit) in statement of profit or loss	–	(92,745)	–	(92,745)
Effective tax rate	**0%**	**20%**	**0%**	**20%**

Under-provision in 2013 relates to additional tax paid arising from 13th instalment payment of taxes.

8b. Reconciliation of effective tax rate

The applicable tax rate for 2014 was 0% (2013: 20%).

During 2013, applications were made by Seplat and its wholly owned subsidiary, Newton Energy, for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Newton Energy was also granted similar incentives in respect of the tax treatment of OPL 283/OML 56. Under these incentives, the companies' profits are subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years for Seplat and 1 June 2013 to 31 May 2015 in the first instance and then for an additional two years for Newton Energy if the two companies meet certain conditions included in the NIPC pioneer status award document.

The new incentives form the basis of the Group's current and deferred taxation in the financial statements.

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

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Profit before taxation	252,253	457,523	271,236	457,477
Under-provision from prior year	–	617	–	617
Adjustment in respect of prior periods	–	617	–	617
Impact of tax incentive on deferred tax balances	–	(93,362)	–	(93,362)
	–	**(92,745)**	–	**(92,745)**

The movement in the current tax (prepayment)/liability is as follows:

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
As at 1 January	(28,749)	77,218	(28,749)	77,218
Under-provision from prior year	–	617	–	617
Tax paid	(2,874)	(106,584)	(2,874)	(106,584)
Tax prepayment	**(31,623)**	**(28,749)**	**(31,623)**	**(28,749)**

9. Deferred income tax

Deferred tax has not been recognised on deductible temporary differences of $7.79 million as management does not consider there to be sufficient evidence to support the recoverability of these assets.

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

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Deferred tax assets to be recovered after more than 12 months	10,787	13,605	8,362	12,392
Deferred tax liabilities to be recovered after more than 12 months	(2,996)	(9,955)	(3,923)	(9,955)
Net deferred tax assets	**7,791**	**3,650**	**4,439**	**2,437**

The Group has $7.79 million (the Company: $4.44 million) deferred tax assets as at 31 December 2014 (2013: the Group: $3.65 million; the Company: $2.44 million) in respect of unutilised losses and capital allowances. These deferred tax assets have not been included in these financial statements as management does not consider there to be sufficient evidence to support the recoverability of these assets.

9a. The Group

Deferred tax assets	Fixed asset $'000	Decommissioning provision $'000	Total $'000
At 1 January 2013	(119,405)	10,340	(109,065)
Credited to profit or loss	110,155	2,560	112,715
At 31 December 2013	(9,250)	12,900	3,650
Credited/(charged) to profit or loss	6,254	(2,113)	4,141
At 31 December 2014	**(2,996)**	**10,787**	**7,791**

9b. The Company

Deferred tax assets	Fixed asset $'000	Decommissioning provision $'000	Total $'000
At 1 January 2013	(119,405)	10,340	109,065
Credited to profit or loss	109,450	2,052	111,502
At 31 December 2013	(9,955)	12,392	2,437
Credited/(charged) to profit or loss	6,032	(4,030)	2,002
At 31 December 2014	**(3,923)**	**8,362**	**4,439**

Net deferred tax liability at 31 December 2014 is nil (2013: Nil).

10. Computation of cash generated from operations

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Profit before tax	252,253	457,523	271,236	457,477
Adjusted for:				
Depreciation and amortisation	45,306	30,967	43,181	30,044
Finance income	(11,996)	(658)	(14,784)	(3,375)
Finance cost	49,319	21,805	49,319	21,805
Fair value movement on contingent consideration	1,132	514	–	–
Gain on disposal of property, plant and equipment	–	(84)	–	(84)
Foreign exchange loss/(gain)	17,184	(1,473)	20,380	(1,470)
Aborted acquisition costs	26,056	–	–	–
Changes in working capital:				
Trade and other receivables	99,222	(116,128)	(289,178)	(177,490)
Trade and other payable	(239,001)	20,441	159,291	10,934
Prepayments	–	3,047	–	(3,047)
Inventories	(11,304)	(18,162)	(11,074)	(14,559)
	(24,082)	(59,730)	(42,865)	(137,781)
Net cash from operating activities	**228,171**	**397,793**	**228,370**	**319,696**

Notes to the financial statements continued

11. Property, plant and equipment
11a. Oil and gas properties
The Group

Cost	Production & field facilities $'000	Assets under construction $'000	Total $'000
At 1 January 2014	376,173	114,229	490,402
Write-off	–	(147)	(147)
Addition	58,329	170,548	228,877
Changes in decommissioning	(2,902)		(2,902)
Transfer from asset under construction	49,347	(49,347)	–
At 31 December 2013	**480,947**	**235,283**	**716,230**
Depreciation			
At 1 January 2013	110,471	–	110,471
Disposal	–	–	–
Charged for the year	27,805	–	27,805
At 31 December 2013	**138,276**	**–**	**138,276**
NBV			
At 31 December 2013	**342,671**	**235,283**	**577,954**

Cost	Production & field facilities $'000	Assets under construction $'000	Total $'000
At 1 January 2014	480,947	235,283	716,230
Addition	–	311,328	311,328
Changes in decommissioning	(4,430)		(4,430)
Transfer from asset under construction	114,031	(114,031)	–
At 31 December 2014	590,548	432,580	1,023,128
Depreciation			
At 1 January 2014	**138,276**	**–**	**138,276**
Disposal	–	–	–
Charged for the year	41,249	–	41,249
At 31 December 2014	**179,525**	–	**179,525**
NBV			
At 31 December 2014	**411,023**	**432,580**	**843,603**

11a. Oil and gas properties

The Company

Cost	Production & field facilities $'000	Assets under construction $'000	Total $'000
At 1 January 2013	376,173	114,229	490,402
Write-off	–	(147)	(147)
Addition	–	162,845	162,845
Changes in decommissioning	(2,902)		(2,902)
Transfer from asset under construction	**49,347**	**(49,347)**	**–**
At 31 December 2013	422,618	227,580	650,198
Depreciation			
At 1 January 2013	110,471		110,471
Disposal			
Charged for the year	26,990		26,990
At 31 December 2013	137,461		137,461
NBV			
At 31 December 2013	**285,157**	**227,580**	**512,737**

Cost	Production & field facilities $'000	Assets under construction $'000	Total $'000
At 1 January	422,618	227,580	650,198
Addition	–	302,778	302,778
Changes in decommissioning	(6,684)	–	(6,684)
Transfer from asset under construction	114,031	(114,031)	–
At 31 December	529,965	416,327	946,292
Depreciation:			
At 1 January	137,461	–	137,461
Disposal	–	–	–
Charged for the year	39,500	–	39,500
At 31 December	176, 961	–	176, 961
NBV			
At 31 December 2014	**353,004**	**416,327**	**769,331**

The Group's present and future assets (except jointly owned with NNPC/NPDC) are pledged as security for the revolving credit facilities of $100 million from First Bank of Nigeria, while all equipment, machinery and immovable property of the Group situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (note 22).

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

The change in estimate in the decommissioning provision, of $4.4 million, is included in the 2014 movement in "production and field facilities".

Notes to the financial statements continued

11. Property, plant and equipment continued

11b. Property, plant and equipment

The Group

Cost	Plant & machinery $'000	Motor vehicle $'000	Office furniture & IT equipment $'000	Leasehold improvements $'000	Total $'000
At 1 January 2013	1,263	2,206	5,250	1,063	9,782
Addition	752	752	2,902	86	4,492
Disposal	–	(142)	–	–	(142)
At 31 December 2013	2,015	2,816	8,152	1,149	14,132
Depreciation					
At 1 January 2013	136	848	2,353	261	3,598
Charged for the year	382	582	1,920	184	3,069
Disposal	–	(88)	–	–	(88)
At 31 December 2013	518	1,343	4,273	445	6,579
NBV:					
At 31 December 2013	**1,497**	**1,473**	**3,879**	**704**	**7,553**

Cost	Plant & machinery $'000	Motor vehicle $'000	Office furniture & IT equipment $'000	Leasehold improvements $'000	Total $'000
At 1 January 2014	2,015	2,816	8,152	1,149	14,132
Addition	2,699	2,540	3,317	1,314	9,870
At 31 December 2014	4,714	5,356	11,469	2,463	24,002
Depreciation					
At 1 January 2014	518	1,343	4,273	445	6,579
Charged for the year	573	828	2,163	400	3,964
At 31 December	1,091	2,171	6,436	845	10,544
NBV:					
At 31 December 2014	3,623	3,185	5,033	1,618	13,459
At 31 December 2013	**1,497**	**1,473**	**3,879**	**704**	**7,553**

Property, plant and equipment

The Company

Cost	Plant & machinery $'000	Motor vehicle $'000	Office furniture & IT equipment $'000	Leasehold improvements $'000	Total $'000
At 1 January 2013	1,263	2,206	5,250	1,063	9,782
Addition	567	753	2,125	85	3,530
Disposal	–	(142)	–	–	(142)
At 31 December 2013	1,830	2,817	7,375	1,148	13,170
Depreciation					
At 1 January 2013	136	848	2,353	261	3,598
Charged for the year	368	583	1,920	184	3,055
Disposal	–	(88)	–	–	(88)
At 31 December 2013	504	1,343	4,273	445	6,565
NBV:					
At 31 December 2013	**1,326**	**1,474**	**3,102**	**703**	**6,605**
At 1 January	1,830	2,817	7,375	1,148	13,170
Addition	**1,492**	**2,540**	**3,164**	**1, 314**	**8,510**
At 31 December	3,322	5,357	10,539	2,462	21,680
Depreciation					
At 1 January	**504**	**1,343**	**4,273**	**445**	**6,565**
Charged for the year	478	828	1,882	400	3,588
At 31 December	**982**	**2,171**	**6,155**	**845**	**10,153**
NBV:					
At 31 December 2014	**2,340**	**3,185**	**4,384**	**1,618**	**11,527**

12. Intangible assets

	The Group $'000	The Company $'000
Cost:		
At 1 January 2014	414	414
At 31 December 2014	414	414
Accumulated amortisation:		
At 1 January 2014	273	273
Charge for the year	93	93
At 31 December 2014	366	366
NBV:		
At 31 December 2014	**48**	**48**
At 31 December 2013	**141**	**141**

Intangible assets relate to an oil mining licence granted to the Group that is expected to expire in 2019.

13. Prepayment

	The Group		The Company	
	31 Dec 2014 $'000	31 Dec 2013 $'000	31 Dec 2014 $'000	31 Dec 2013 $'000
Deposit for oil mining licence	86,362	69,000	–	69,000
Tax paid in advance	31,623	28,749	31,623	28,748
Rent	2,614	1,828	2,614	1,829
Drilling services	5,333	9,333	5,333	9,333
Prepaid fees – NIPC	5,519	–	5,519	–
Prepaid others	15	–	15	–
	131,466	108,910	45,104	108,910

Included in prepayments are the following:

Deposit for oil mining licence:

During 2013, Seplat executed a sale and purchase agreement with Chevron Nigeria Limited ("CNL") in relation to producing assets in OML 53, subject to conditions precedent being met (the "CNL Assets SPA").

During 2014, an additional $17.4 million was advanced to Belemaoil in relation to OML 55. Please see note 34.

Tax paid in advance

In 2014, Seplat Petroleum Development Company paid a $2.9 million petroleum profit tax instalment in addition to the total instalment sum of $28 million paid in 2013. These payments relate to 2013 and were made prior to obtaining the pioneer status. This was accounted for as a tax credit under non-current prepayment until a future date when the Company will be expected to offset it against its tax liability.

Rent

As at 31 December 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies in Lagos and Delta states. The Group has prepaid the rent. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2019 and 2018 respectively. The lease on the building in Delta state is also non-cancellable and it expires in 2016.

Drilling services

In 2012, Seplat signed an agreement with Cardinal Drilling Limited with respect to the exclusive use of two rigs for five years. Seplat agreed to pay a $20m advance in relation to the exclusive use of these rigs. This $20m has been recognised as a prepayment and amortised over the life of the agreement (five years). The long-term portion as at 31 December 2014 is $5 million.

Prepaid fees – NIPC

This relates to fees for the pioneer period prepaid to Nigerian Investment Promotion Commission (NIPC).

Notes to the financial statements continued

14. Investment in subsidiaries

	The Group		The Company	
	31 Dec 2014 $'000	31 Dec 2013 $'000	31 Dec 2014 $'000	31 Dec 2013 $'000
Newton Energy Limited	–	–	950	950
Seplat Petroleum Development UK	–	–	50	50
Seplat East Onshore Ltd	–	–	32	–
	–	–	**1,032**	**1,000**

Subsidiary	Location	Shareholding %
Newton Energy Limited	Nigeria	100
Seplat Petroleum Development UK	United Kingdom	100
Seplat East Onshore Limited	Nigeria	100
Seplat East Swamp Company Limited	Nigeria	100
Seplat Gas Company	Nigeria	100

15. Inventories

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Tubulars, casings and wellheads	54,416	43,112	50,582	39,508

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is $1.034 million representing inventory charged to profit or loss during the year.

16. Trade and other receivables

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Trade receivables	119,588	68,747	115,116	63,619
Nigerian Petroleum Development Company (NPDC) receivables	463,118	283,628	463,118	283,628
Intercompany receivables	–	–	643,912	67,648
Deposit for investments	453,190	–	–	–
Advances to related parties	10,924	10,159	10,924	6,159
Prepayments	14,224	6,079	13,304	8,967
Underlift	2,783	26,387	–	26,387
Advances to suppliers	10,934	14,917	10,934	14,917
Other receivables	317	513	271	467
	1,075,078	**410,430**	**1,257,579**	**471,792**

Deposit for investment

By a consortium agreement made amongst parties, Newton Energy Limited (a subsidiary of Seplat) agreed to make payments of $453 million towards an investment in 2014. As at year end, the investment was not consummated. Subsequent to the year end, in accordance with agreements signed, Newton is now entitled to the repayment of the full costs with accrued interests and these sums are subsequently due to be paid.

Trade receivables/NPDC receivables

Trade receivables are non-interest bearing and are generally on 30-day terms.

The amount due from NPDC includes $256 million that is overdue as at 31 December 2014 (Dec 2013: $248 million). The overdue cash calls are not considered impaired based on the creditworthiness of the counterparty and previous experience whereby certain amounts are paid but not in line with the terms as NPDC is required to follow due process.

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

The Group	Total $'000	Neither past due nor impaired $'000	Past due but not impaired <30 days $'000	30–60 days $'000	60–90 days $'000	90–120 days $'000	>120 days $'000
Trade receivables							
31 December 2013	119,558	89,027	6,230	2,015	6,503	1,556	14,256
31 December 2014	**68,747**	**51,670**	**6,983**	**1,247**	**903**	**1,283**	**6,661**
NPDC receivables							
31 December 2013	463,118	207,495	68,097	120,743	36,491	–	30,292
31 December 2014	**283,628**	**31,843**	**38,137**	**46,466**	**18,127**	**7,842**	**141,213**

The Company	Total $'000	Neither past due nor impaired $'000	Past due but not impaired <30 days $'000	30–60 days $'000	60–90 days $'000	90–120 days $'000	>120 days $'000
Trade receivables							
31 December 2013	115,116	89,027	1,759	2,015	6,503	1,556	14,256
31 December 2014	**63,619**	**46,542**	**6,983**	**1,247**	**903**	**1,283**	**6,661**
NPDC receivables							
31 December 2013	463,118	207,495	68,097	120,743	36,491	0	30,292
31 December 2014	**283,628**	**31,843**	**38,137**	**46,466**	**18,127**	**7,842**	**141,213**

Shell Western Supply has subsequently settled the outstanding balance of $89.1 million in January 2015. NPDC has paid a total of $36.5 million from the outstanding balance. The remaining balance is expected to be fully paid during 2015.

17. Cash and short-term deposits

Company	The Group 31 Dec 2014 $'000	The Group 31 Dec 2013 $'000	The Company 31 Dec 2014 $'000	The Company 31 Dec 2013 $'000
Cash on hand	62	38	60	38
Cash at bank	285,236	119,423	278,603	100,134
Short-term deposits	–	50,000	–	50,000
Cash and cash equivalents	285,298	169,461	278,663	150,172

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

At 31 December 2014, cash at bank included the debt service reserve of $46.5 million (2013: $22.3 million) deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal payment dates and dates for the payment of interest on the loans.

18. Financial instruments

Value	The Group 31 Dec 2014 $'000	The Group 31 Dec 2013 $'000	The Company 31 Dec 2014 $'000	The Company 31 Dec 2013 $'000
Derivatives not designated as hedges	5,432	–	5,432	–

During 2014, management entered into two funded currency forward contracts with Stanbic ITBC Bank (Stanbic) to hedge any exchange rate volatility on the funds raised by the IPO, which were denominated in Naira and required government approval to convert into either USD or GBP. In accordance with IAS 39, these funded currency forward contracts need to be fair valued as at 31 December 2014. Management has obtained a counterparty valuation of the two forward contracts from Stanbic, which resulted in a gain of $5.4 million.

Notes to the financial statements continued

19. Share capital and premium
19a. Share capital

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Authorised ordinary share capital				
1,000,000,000 ordinary shares denominated in Nigerian Naira of 50 kobo per share	3,335	3,335	3,335	3,335
Issued and fully paid				
553,310,313 (2013: 400,000,000) issued shares denominated in Nigerian Naira of 50 kobo per share	1,798	1,334	1,798	1,334

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

During the year, the Group issued and allotted 153,310,313 through an initial public offering, resulting in an increase in number of issued and fully paid ordinary shares of 50 kobo each from 400 million to 553 million shares.

19b. Share premium

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Gross proceeds	534,987	–	534,987	–
Share issue	(464)	–	(464)	–
Share premium	534,523	–	534,523	–
Issue costs	(37,066)	–	(37,066)	–
Issued share capital proceeds	497,457	–	497,457	–

During the year, the net proceeds of $497.9 million were received from the initial public offering. 153,310,313 shares of 50k each totalling $464,000 were transferred to share capital.

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

21. Foreign translation reserve
Cumulative exchange difference arising from translation of foreign subsidiary is taken to foreign translation reserve through other comprehensive income. The Group foreign subsidiary was incorporated in 2013.

22. Interest bearing loans and borrowings
22a. Non-current

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Non-current				
Bank borrowings	239,767	120,850	239,767	120,850

22b. Current

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Current				
Shareholder loan	–	48,041	–	48,041
Bank borrowings	348,389	141,712	348,389	141,712
	348,389	**189,753**	**348,389**	**189,753**

Shareholder loan

The shareholder loan represents the remaining amount (principal plus interest less repayment) due on the $153 million shareholder loan obtained from MPI. Interest accrues monthly on the principal amount outstanding at the higher of 5% above LIBOR or the interest rate incurred by MPI on its borrowings and is repayable from the oil revenues generated from OMLs 4, 38 and 41 after deductions of operational and capital expenditures. The principal and interest outstanding as at 31 December 2013 was paid in June 2014 after the initial public offering of Seplat's shares on the London and Nigerian Stock Exchanges.

Bank loan

Syndicate credit facility

The long-term bank loan represents a five-year senior, secured credit facility obtained from a syndicate of lenders led by Afrexim. Seplat has a facility to draw down up to $550 million until 2016. As at 31 December 2013, Seplat had drawn down $335 million of this facility and made principal repayments in 2011, 2012 and 2013. Interest accrues monthly on the principal amount outstanding at LIBOR plus a margin ranging from 5% to 7.5% depending on the bank, subject to an interest rate floor of 8% with one of the banks. In 2014, the balance of $215 million was drawn for the purpose of securing new oil mining licences. The outstanding amount as of 31 December 2014 is $291 million. As at 31 December 2014, the Company has undrawn facilities of $0 million (31 December 2013: $215 million). The loan is due to be fully repaid by August 2016.

Syndicated loan	Current $'000	Non-current $'000	Total $'000
Skye Bank	36,241	25,301	61,542
Uba	29,683	16,802	46,485
First Bank	78,103	34,603	112,706
Afrexim	54,362	15,145	69,507
	198,389	**91,850**	**290,239**

Revolving working capital facility

The short-term bank borrowings includes $69 million drawn down from $100 million revolving facility obtained from First Bank of Nigeria. Interest accrues monthly at LIBOR plus 8%. The Company has undrawn facilities of $0 million as at 31 December 2014.

	Current $'000	Non-current $'000	Total $'000
First Bank loan	100,000	–	100,000

Zenith Bank loan

The long-term bank loan represents a five-year senior, secured credit facility obtained from Zenith Bank in February 2014. As at 31 December 2014 Seplat had drawn down the full amount of the $200 million facility. The facility has a one-year moratorium on principal repayments. Interest accrues monthly on the principal amount outstanding at LIBOR plus a margin of 7.5% payable quarterly.

	Current $'000	Non-current $'000	Total $'000
Zenith Bank loan	50,000	147,917	197,917

23. Contingent consideration

	The Group $'000	The Company $'000
At 1 January 2013	–	–
Additions	7,731	–
Fair value movement	514	–
At 1 January 2014	8,245	–
Fair value movement	1,132	–
At 31 December 2014	**9,377**	**–**

In 2013, the Group entered into an agreement with Pillar Oil to acquire a 40% participating interest in the Umuseti/Isbuku marginal field area in OML 56. The total consideration payable is $50 million upon signing of the agreement and $10 million payable upon reaching certain production milestones ($5 million when average daily production of 10,500 bopd of liquid hydrocarbon sustained over a period of one month is achieved and another $5 million when cumulative production of 10 million barrels of liquid hydrocarbons from all fields within OML 56 is achieved). The fair value of $7.731 million was capitalised to the cost of the asset and a corresponding liability recorded based on the probability.

Notes to the financial statements continued

24. Provision for decommissioning obligation

	The Group	The Company
	$'000	$'000
At 1 January 2014	15,176	14,578
Unwinding of discount due to passage of time	1,944	1,944
Change in estimate	(4,431)	(6,684)
At 31 December 2014	**12,690**	**9,838**

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. It 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 in 2036 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 in 2036. These provisions were based on estimates carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believe to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

The discount rate used in the calculation of unwinding of the provision as at 31 December 2014 was 14.64% (the year ended 31 December 2013: 12.4%). As of 31 December 2014, management has estimated decommissioning expenditure to occur in 2036 (31 December 2013: 2027). The change in estimate, a decrease of $4.4 million, is included in the 2014 movement in 'production and field facilities'.

25. Trade and other payables

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Trade payable	75,443	68,924	75,409	70,860
Accruals and other payables	267,579	109,511	260,026	109,325
Overlift	9,811	3,473	9,811	–
NDDC levy	11,327	9,328	11,327	9,328
Deferred revenue	1,420	1,420	1,420	1,420
Royalties	24,745	58,682	24,413	41,656
Intercompany payable	–	–	11,703	1,000
	390,325	**251,338**	**394,109**	**233,589**

The 2014 accruals balance is mainly composed of other field-related accruals of $219.9m (2013: $95.23m).

26. Earnings per share

Basic

Basic earnings per share is calculated on the Company's profit after taxation and on the basis of weighted average of issued and fully paid ordinary shares at the end of the year.

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Profit for the year attributable to shareholders	252,221	550,326	271,236	550,222
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	508,120	400,000	508,120	400,000
	$	$	$	$
Basic earnings per share	0.50	1.38	0.53	1.38
Earnings	$'000	$'000	$'000	$'000
Profit attributable to equity holders of the Group	252,221	550,326	271,236	550,222
Profit used in determining diluted earnings per share	252,221	550,326	271,236	550,222

27. Dividends paid and proposed

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Cash dividends on ordinary shares declared and paid:				
Interim dividend for 2014: $0.06 per share (553,310,313 shares in issue)	33,199	–	33,199	–
Final dividend for 2013: $0.10 per share (400,000,000 shares in issue)	40,000	–	40,000	–
	73,199	–	73,199	
Proposed dividends on ordinary shares:				
Final cash dividend for 2014: $0.09 per share	**49,800**		**49,800**	

Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognised as a liability as at 31 December 2014.

28. Related party relationships and transactions

The following companies are common control entities as the companies are controlled by close family members:

- Abbeycourt Petroleum Company Limited
- Abbeycourt Trading Company Limited
- Abtrust Integrated Services
- Berwick Nigeria Limited
- Cardinal Drilling Nigeria Limited
- Charismond Nigeria Limited
- D. D. Dodo & Co
- Helko Nigeria Limited
- Keco Nigeria Enterprises
- Montego Upstream Services Limited
- Nabila Resources & Investment Limited
- Ndosumili Ventures Limited
- Neimeth International Pharmaceutical Plc
- Nerine Support Services Limited
- Oriental Catering Services Limited
- Platform Petroleum Limited
- ResourcePro Inter Solutions Limited
- Shebah Exploration and Production Company Limited (SEPCOL)

Notes to the financial statements continued

28. Related party relationships and transactions continued

Services provided by the related parties:

Abbeycourt Petroleum Company Limited: The Chairman of Seplat is a director and shareholder. The company provides consultancy services to Seplat in relation to business development opportunities and new acquisitions.

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.

Abtrust Integrated Services: The Chief Executive Officer of Seplat's wife is a shareholder and director. The company provides bespoke gift hampers to Seplat.

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

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): is a company under common control. The company provides drilling rigs and drilling services to Seplat.

Charismond Nigeria Limited: The Chief Executive Officer's sister works at Charismond as a general manager. The company provides bespoke gift hampers to Seplat.

D. D. Dodo & Co: The owner is an Independent Non-Executive Director of Seplat and also a partner of the law firm that provided legal services of $0.59 million to the Company (2013: nil).

Helko Nigeria Limited: The Chairman of Seplat is a 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 a 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 a shareholder and director. The company provides drilling and engineering services to Seplat.

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

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

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

Nerine Support Services Limited: is a company under common control. The company provides agency and contract workers to Seplat.

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

Platform Petroleum Limited: The Chief Executive Officer of Seplat is a director and shareholder of this company. The Chief Executive Officer, his secretary and driver were originally employees of Platform Petroleum Limited in 2010 when Seplat was formed. Their salaries are currently paid by Platform Petroleum Limited, with Seplat then wholly reimbursing Platform Petroleum Limited.

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

Shebah Exploration and Production Company Limited (SEPCOL): The Chairman of Seplat is a director and shareholder of SEPCOL. SEPCOL and Seplat entered into an agreement in 2010 as a commitment deposit to guarantee the Company an exclusive option to lease or purchase a floating production, storage and offloading unit, the 'Trinity Spirit', and as a result Seplat prepaid $15 million. In 2012, the agreement was nullified and $3 million was paid in 2012 while the balance of $12 million was paid in 2013. In addition, SEPCOL seconds certain personnel to Seplat.

The following transactions were carried out by related parties on behalf of Seplat:

a) Transactions:

i) Purchases of goods and services

	The Group		The Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Shareholders:				
MPI	299	217	299	217
Shebah	1,936	1,174	1,936	1,174
Platform Petroleum Limited	201	1,222	201	1,221
	2,436	**2,613**	**2,436**	**2,613**
Entities under common control:				
Abbeycourt Trading Company Limited	4,329	2,408	4,329	2,408
Abbeycourt Petroleum Company Limited	–	–	–	–
Abtrust Integrated Services	50	–	50	–
Charismond Nigeria Limited	176	161	176	161
Cardinal Drilling Services Limited	36,612	32,225	36,612	32,225
Keco Nigeria Enterprises	3,596	1,931	3,596	1,931
Ndosumili Ventures Limited	2,759	897	2,759	897
Oriental Catering Services Limited	598	629	598	629
ResourcePro Inter Solutions Limited	2,913	867	2,913	867
Berwick Nigeria Limited	950	870	950	870
Montego Upstream Services Limited	17,328	8,878	17,328	8,878
Neimeth International Pharmaceutical Plc	28	–	28	–
Nerine Support Services Limited	31,277	12,180	31,277	12,180
SEPCOL	–	–	–	–
Nabila Resources & Investment Ltd	455	377	455	377
Helko Nigeria Limited	2,379	255	2,379	255
D.D Dodo & Co	590	–	590	–
	104,040	**61,678**	**104,040**	**61,678**

ii) Interest expense

	2014 $'000	2013 $'000
Shareholders:		
MPI	960	4,206

Notes to the financial statements continued

28. Related party relationships and transactions continued

b) Balances:

Year-end balances arising from related party transactions:

i) Prepayments/receivables

	2014 $'000	2013 $'000
Under common control:		
Cardinal Drilling Services Limited – current portion	10,934	10,159
Cardinal Drilling Services Limited – non-current portion	5,333	9,333
Abbeycourt Petroleum Company Limited	–	76
	16,267	19,568

ii) Payables

	2014 $'000	2013 $'000
Shareholders:		
Loan from MPI	–	47,040
Other payables to MPI	1,223	1,000
	1,223	48,040

c) Key management compensation:

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

	31 December 2014 $'000	31 December 2013 $'000
Salaries and other short-term employee benefits	5,372	3,347
	5,372	3,347

29. Employee benefits – Defined contribution

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2004. 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 2014 was $331,958 (2013: $406,026).

30. Commitments and contingencies

30a. Operating lease commitments – Group as lessee

The Group has entered into operating leases for the use of drilling rigs.
Future minimum rentals payable under non-cancellable operating leases as at each reporting date are as follows:

	31 December 2014 $'000	31 December 2013 $'000
Within one year	30,249	31,741
After one year but not more than five years	–	500
	30,249	32,241

30b. Commitments

The Group has commitments to OML 53 and 55. See note 34.

30c. Contingent liabilities

The Group is involved in a number of legal suits as defendant. The possible liabilities arising from these court proceedings amount to $23,229,745 (31 December 2013: $650,200). 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.

31. Financial risk management

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 Group'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.

31.1 Liquidity risk

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

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

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

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

31 December 2014	Effective interest rate %	Less than 1 year $'000	1–2 years $'000	2–3 years $'000	3–5 years $'000	After 5 years $'000	Total $'000
Variable interest rate borrowings:							
Bank loans:							
Skye Bank Plc	8.00%	68,623	50,616	–	–	–	119,239
United Bank for Africa Plc	7.5% + LIBOR	56,431	39,052	–	–	–	95,483
First Bank of Nigeria Plc	7.5% + LIBOR	147,759	87,389	–	–	–	235,148
First Bank of Nigeria Plc	8% + LIBOR	106,269	0	–	–	–	106,269
Africa Export-Import Bank	7.5% + LIBOR	101,029	91,732				192,761
Zenith loan	7.50%	65,455	61,186	56,594	52,955	–	236,190
Trade, other payables	–	389,103	0	–	–	–	389,103
Contingent consideration	–	–	9,377	–	–	–	9,377
		934,669	**339,352**	**56,594**	**52,955**	–	**1,383,570**

Notes to the financial statements continued

31. Financial risk management continued

31-Dec-13	Effective interest rate %	Less than 1 year $'000	1–2 years $'000	2–3 years $'000	3–5 years $'000	After 5 years $'000	Total $'000
Variable interest rate borrowings:							
Shareholder loan	7.13%	48,041	–	–	–	–	48,041
Bank loans:							
Skye Bank Plc	8.00%	11,971	15,025	13,118	–	–	40,114
United Bank for Africa Plc	7.5% + LIBOR	14,310	17,965	16,271	–	–	48,546
First Bank of Nigeria Plc	7.5% + LIBOR	95,113	26,265	22,295	–	–	143,673
Africa Export-Import Bank	7.5% + LIBOR	16,857	21,600	19,339	–	–	57,796
Trade, other payables	–	136,934	–	–	–	–	136,934
Contingent consideration		–	–	8,245	–	–	8,245
		323,226	80,855	79,268	–	–	483,349

31.2 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.

Commodity price risk

The Group is exposed to the risk of fluctuations in crude oil prices. The Group does not hedge against this risk but currently sells all oil that it produces to Shell Trading at market prices calculated in accordance with the terms of the off-take agreement.

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

	Effect on profit before tax for the year ended 31 December 2014 Increase/(Decrease) $'000	Effect on profit before tax for the year ended 31 December 2013 Increase/(Decrease) $'000
+10%	76,418	88,180
-10%	(76,418)	(88,180)

Interest rate risk

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

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

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

	Change in interest rate	Effect on profit before tax $'000
2014	1%	526
2013	1%	4,525

Foreign exchange risk

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

The Group holds the majority of its cash and cash equivalents in US Dollars. However, the Group does maintain deposits in Naira in order to fund ongoing general and administrative activity and other expenditure incurred in this currency.

As at 31 December 2014, the Group held $181.4 million equivalent in Nigerian Naira (31 December 2013: $1.9 million).

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

Change in foreign exchange rate	Effect on profit before tax 31 December 2014 $'000	Effect on profit before tax 31 December 2013 $'000
+5%	(9,990)	2,353
-5%	9,990	(2,353)

31.3 Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Company. Credit risk arises from the Company's cash at banks and accounts receivable balances.

The Company's trade with Shell Western Supply and Trading Limited is as specified within the terms of the crude off-take agreement and will run for five years until 31 December 2016 with 30 day payment terms. In addition, the Company is exposed to credit risk in relation to its trade with Nigerian Gas Company Limited, a subsidiary of NNPC, the sole customer during the period. The Company monitors receivable balances on an ongoing basis and there has been no significant history of late collections.

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

The accounts receivable balance includes the following related party receivables:

Related party	Payment terms	Percentage of total receivables 2014	2013
NPDC	14 days	72%	69%
SEPCOL	Receivables relates to deposits that are expected to be utilised or refunded	0%	0%
CardinaL Drilling Services Limited	Receivables relates to deposits that are expected to be utilised or refunded	3%	5%

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

	31 December 2014 $'000	31 December 2013 $'000
Trade and other receivables	1,075,078	410,430
Cash and cash at bank	285,298	169,461
	1,360,376	**579,871**

Notes to the financial statements continued

31. Financial risk management continued

31.4 Fair value

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

	Carrying amount		Fair value	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Financial liabilities				
Borrowings – Shareholder loan	–	48,041	–	48,041
Borrowings – Bank loans	588,156	262,562	588,156	262,562
Contingent consideration	9,377	8,245	9,377	8,245
	597,533	**318,848**	**597,533**	**318,848**

The loans are all LIBOR loans which are re-priced on a pre-determined basis as defined in the loan agreement. As a result, the loans are always carried at market rate and there is no indication of credit spread change or change in credit risk for Seplat.

Trade and other payables have not been included in the analysis as the carrying amount per the financial statements approximates fair values.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rate curves of the underlying commodity. All derivative contracts are fully cash-funded, thereby eliminating both counterparty and the Group's own non-performance risk. As at 31 December 2014, the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value. The fair values of derivative financial instruments are disclosed in note 18.

Fair value hierarchy as at 31 December 2014

Liabilities	Level 1 $'000	Level 2 $'000	Level 3 $'000
Borrowings – Shareholder loan	–	–	–
Borrowings – Bank loans	–	588,156	–
Contingent consideration	–	–	9,377
Derivatives not designated as hedges	–	5,432	–

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.
  - There were no transfers between fair value levels during the period.
  - The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- The following methods and assumptions were used to estimate the fair values:
  - Fair values of the Group's interest-bearing loans and borrowings are determined by using discounted cash flow models that use effective interest rates that reflect the borrowing rate as at the end of the reporting period.
  - The fair value of the Group's contingent consideration is determined using the discounted cash flow model. The estimated future cash flow was discounted to present value.

Reconciliation of fair value measurements of Level 3 financial instruments

Contingent consideration	$'000
At 1 January 2013	–
Additions	7,731
Fair value movement (profit or loss)	514
At 31 December 2013	8,245
Additions	–
Fair value movement (profit or loss)	1,132
At 31 December 2014	9,377

Contingent consideration sensitivity

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

	Effect on profit before tax for the year ended 31 December 2014 Increase/(Decrease) $'000	Effect on profit before tax for the year ended 31 December 2013 Increase/(Decrease) $'000
+10%	56	147
-10%	(57)	(152)

32. Capital 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. The net debt ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

	31 December 2014 $'000	31 December 2013 $'000
Borrowings:	588,156	312,383
Less: cash and cash equivalents	(285,298)	(169,461)
Net debt	302,858	142,922
Total equity	1,409,142	732,199
Total capital	1,712,000	875,121
Net debt (net debt/total capital) ratio	18%	16%

As at 31 December 2014, the Company's net debt ratio was 18% in accordance with its policy of maintaining a debt to equity ratio of less than 1.2 to 1.

Notes to the financial statements continued

33. Information relating to employees

a. Chairman and Directors' emoluments:

	2014 $'000	2013 $'000
Fees	2,254	774
Chairman	1,092	1,203
Chief Executive Officer	1,572	1,053
Executive Directors	3,073	1,272
Non-Executive Directors	203	98
JV Partner Share	(3,276)	(1,455)
Bonus	1,890	2,356
Total	**6,808**	**5,301**

b. Highest paid Director

	2014 $'000	2013 $'000
Highest paid Director	1,572	1,203

Emoluments are inclusive of income taxes. Subsequent to the year end, the Remuneration Committee approved payment of 25% of the bonus of $1.89 million to the CEO and Executive Directors in shares in the Company.

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

	2014 Number	2013 Number
Zero – $65,000	4	5
$65,001 – $378,000	–	3
$378,001 – $516,000	–	–
$516,000 and above	6	3
	10	11

d. Employees:

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

	2014 Number	2013 Number
$6,500 – $16,000	–	1
$16,001 – $32,000	1	6
$32,001 – $48,000	39	75
Above $48,000	300	216
	340	297

e. The average number of persons (excluding Directors) employed by the Company during the year was as follows:

	2014 Number	2013 Number
Management	72	49
Senior staff	93	91
Junior staff	175	157
	340	297

f. Employee costs:

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to $21.485 million (2013: $16.989 million) as follows:

	2014 $'000	2013 $'000
Salaries & wages	18,205	13,219
Bonus	3,280	3,770
	21,485	16,989

34. Events after the reporting period

Investments

By a consortium agreement made amongst parties, Newton Energy Limited (a subsidiary of Seplat) agreed to make payments towards the acquisition of additional assets in 2014. As at year end, the investment had not been consummated, as such, and subsequent to year end in accordance with agreements signed, Newton is now entitled to the repayment of the full costs with accrued interests and these sums are subsequently due to be paid.

OML 53

On 5 February 2015, Seplat announced the completion of the acquisition of a 40% working interest in OML 53, onshore north eastern Niger Delta, from Chevron Nigeria Limited. The up-front acquisition cost to Seplat, after adjustments, is $259.4 million, of which $69.0 million had previously been paid as a deposit in 2013 and $190.4 million paid at completion. The adjustments to the up-front acquisition cost include a deferred payment of $18.75 million contingent on oil prices averaging $90/bbl or above for 12 consecutive months over the next five years.

OML 55

On 5 February 2015, Seplat announced the conclusion of negotiations to purchase 56.25% of the share capital of Belemaoil, a Nigerian special purpose vehicle that has completed the acquisition of a 40% interest in the producing OML 55, located in the swamp to coastal zone of south eastern Niger Delta, from Chevron Nigeria Limited. Seplat's effective working interest in OML 55 is 22.5% for a consideration of $132.2 million after adjustments. The adjustments to the consideration include a deferred payment of $11.6 million net to Seplat contingent on oil prices averaging $90/bbl or above for 12 consecutive months over the next five years. The Company has also advanced certain loans of $80.0 million to the other shareholders of Belemaoil to meet their share of investments and costs associated with Belemaoil. In addition, discussions are underway to determine repayment terms for the initial deposit against the acquisition of $52.5 million that Belemaoil funded with bank debt. This amount may subsequently be added to the total amount loaned to Belemaoil by Seplat. Under the agreed terms Seplat will recover the loaned amounts, together with an uplift premium of up to $20.6 million and annual interest of 10%, from 80% of the other shareholder oil lifting entitlements.