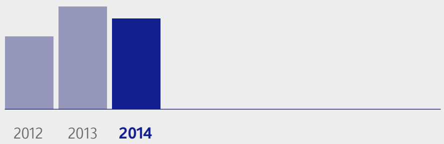
Financial review

Investing in our future

The Group has invested significantly in new wells and surface facilities during the year to increase oil and gas production, and processing capacity. In 2015, we will continue to invest in our portfolio, allocating our capital to the opportunities that offer the greatest returns to deliver shareholder value.

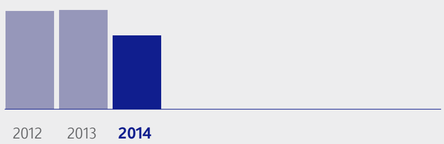
Revenue

US$775m



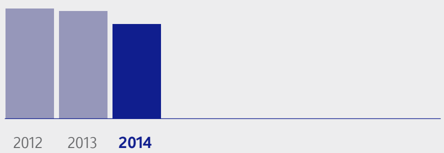
Cash from operations before working capital

US$379m



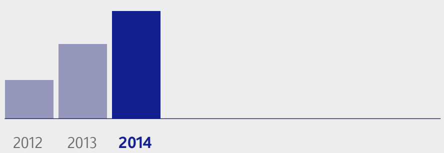
Realised oil price

US$97bbl



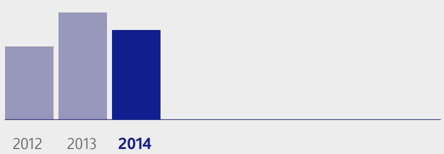
Capital expenditure

US$321m



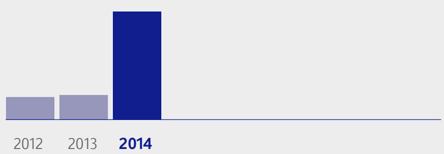
Gross profit

US$459m



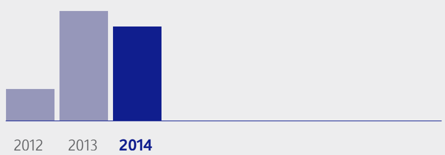
Cash position including refundable deposits

US$739m



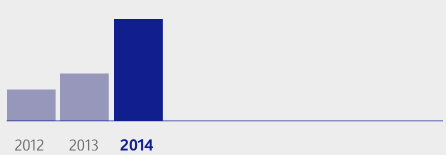
Underlying net profit adjusted for one-off items

US$322m



Net debt (excluding refundable deposits)

US$304m



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Financial statements (NGN) more on page 150

Revenue

Despite reaching record levels of peak oil production on OMLs 4, 38 & 41 in December 2014 of over 76,000 bopd, the full effect has not been reflected in the revenues due to significant downtime on the third party operated Trans Forcados System. In addition, revenues have declined as a result of the impact of the reduction of the global oil price in the second half of 2014. Revenue for 2014 was US$775 million, a decrease of 12% from 2013 (2013: US$880 million).

Oil revenues (after stock movements) of US$748 million continued to account for the majority of revenues in 2014 (2013: US$862 million). Average working interest production for the year was 32,295 boepd compared to 31,219 boepd in 2013. In 2013, barrels sold includes the 0.7 million barrels returned under the Memorandum of Understanding relating to prior year volumes of oil delivered to the Forcados Terminal but not recognised by Shell. The one off payment was US$82 million, which did not reoccur in 2014.

The global oil price decline has negatively impacted the Group's realised oil price with an achieved average price of US$97.2/bbl (2013: US$110.2/bbl) before royalties. The average premium to Brent achieved in 2014 was US$2.4/bbl (2013: US$3.9/bbl). In order to reduce the impact of volatility of oil prices in the future, the Board is considering various possible hedging strategies that could be employed in the coming years.

The closure of the Trans Forcados System resulted in production down time of 75 days (2013: 29 days). This shutdown, together with the associated time required to re-establish full production levels, resulted in deferred liquids production of approximately 1.7 million barrels assuming all other factors constant. To assist in minimising the impact of future pipeline shut downs, the Group installed and commissioned an alternative export route to the Warri Refinery in 2014.

Gas revenues increased by 51% to US$27.4 million (2013: US$18.1 million) due to both a 15% increase in the average gas price to US$1.90/MMscf (2013: 1.70/MMscf) and an increase in volumes produced. Working interest production for the year was 14.4 Bscf compared to 10.7 Bscf in 2013. The Group took delivery of a new 150 MMscfd gas processing facility in 2014. Installation is ongoing and commissioning is planned to begin at the end of the first quarter of 2015. Management remains in active negotiations with new gas offtake customers.

Gross profit

Gross profit for the year was US$459 million, a decrease of 16% on the prior year (2013: US$549 million). This principally reflects the decline in revenue, primarily attributed to the oil price and also the increased field activity together with the increase in the rate of DD&A. Direct operating costs, being crude handling fees, rig related costs and other field expenses, increased to US$9.67/boe in 2014 (2013: US$8.60/boe), principally reflecting the increased levels of field expenditures and well workovers, offset slightly by lower crude handling fees. Management is aware of the need to operate as efficiently as possible in the current low oil price environment whilst maximising the production and cash flows from existing assets. The DD&A charge for oil and gas assets has increased during 2014 to US$41 million (2013: US$28 million) reflecting the increased levels of field investment, forecast levels of production and estimates of future capital commitments. These increases were partly offset by the reduction in the level of royalties in 2014 which, despite the increased level of production to US$150 million (2013: US$192 million), declined due to the fall in realised oil prices.

Financial review continued

> Underlying profit for the year adjusting for a number of one-off items was US$322 million (2013: US$375 million).

Operating profit

Operating profit for the year was US$290 million, a decrease of 39% on the prior year (2013: US$479 million). Having undertaken an Initial Public Offering as well as refinancing the business during the year, the Group incurred several expenses of approximately US$70 million that are not expected to reoccur going forward. They include costs for the IPO, bank commitments and arrangements, regulatory obligations, new accounting and procurement systems and other costs for new venture prospects.

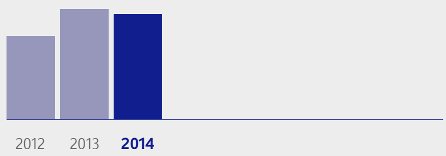
The increase in recurring G&A expenses of 62% from US$45 million in 2013 to US$72 million in 2014 is primarily driven by the growth in staff costs and investment in office spaces as Seplat strengthened its team.

Tax

The Group continued to benefit from pioneer tax status in 2014 which resulted in the effective tax rate remaining consistent with 2013 (2014 and 2013: nil%). There was a tax credit in the prior year relating to the reversal of the deferred tax balance as a result of being granted pioneer tax status. Post period end the Nigeria Investment Promotion Council (NIPC) notified oil and gas companies that are in receipt of the pioneer tax incentive of its intention to test compliance with the conditions under which the pioneer tax status was awarded to all companies, including Seplat, in order that the final two out of five years of the incentive be received. The Group is currently in its third year of the scheme and considers that it has met or exceeded these requirements, as evidenced by the investments it has made to develop its blocks and in particular accelerate the expansion of its gas business to supply the domestic market.

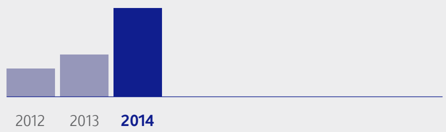
Cost of sales

US$315.6m



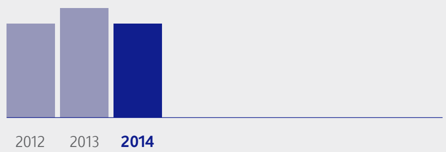
G&A

US$151.6m

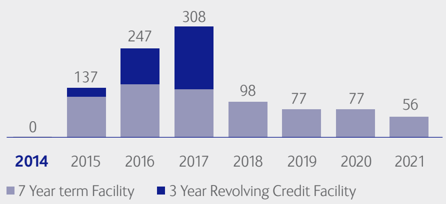


Gearing (total debt/total assets)

24%



Debt Maturity Profile



Profit for the year

Profit for the year was US$252 million, a decrease of 54% on the prior year (2013: US$550 million). The resultant EPS for 2014 was US$0.5 (2013: US$1.37). The Group's results include a number of one-off items which by their nature would not be expected to reoccur. After adjusting for these items, underlying profit from the year was US$322 million (2013: US$375 million). In 2014, adjustments have been made in respect of IPO costs of US$11 million, including one off bonus payments to staff of approximately US$8 million, regulatory payments of US$14 million, payments made for the Group's new debt facilities of US$12 million and other costs of US$7 million which include new accounting and procurement systems and business development costs for new venture prospects. In addition, aborted acquisition costs of US$26 million have been adjusted to arrive at our underlying profit. In 2013, adjustments have been made in respect of Shell MoU revenues and the release of deferred tax in relation to pioneer tax status.

US$ million	2014	2013
IFRS Profit	252	550
Shell MoU	–	82
IPO costs	(11)	–
Debt refinancing	(12)	–
BD costs for new prospects & new accounting and procurement systems	(7)	–
Regulatory payments	(14)	–
Aborted acquisition costs	(26)	–
Prior year tax adjustment	–	93
Underlying profit	322	375

Dividends

The Board has decided to recommend a final dividend of US$0.09 per share (2013: N/A) bringing total dividends for the year to US$0.15 per share (2013: N/A).

Cash flows and liquidity

Cash flows from operating activities

Operating cash flow before movements in working capital was US$379 million (2013: US$509 million). The outstanding NPDC receivable at the year end was US$463 million (2013: US$283 million). Receipts from NPDC amounted to US$362 million as against agreed payments of US$542 million which has led to an increase in the receivable of US$180 million during the year. There continues to be constructive dialogue with NPDC and management are confident that this will not become an inhibitor to future investment. The Group are investigating possible strategies and commercial arrangements with NPDC to return the cash to Seplat in a mutually agreeable time frame. Due to increased drilling activities in Q4 and indeed at year end, accruals and other payables increased by US$158 million over 2013.

Cash flows from investing activities

Total cash flows from investing activities were US$780 million (2013: US$220 million), including deposits and advances made against investments of US$497 million. Post the year end, the Group will no longer proceed with its US$453 million deposit for investment and is in the process of cancelling the option agreement and recovering its deposit and refundable costs.

Subsequent to the year end, in February 2015, Seplat acquired a 40% interest in OML 53 from Chevron Nigeria Limited for an upfront consideration of US$259 million, less the US$69 million deposit paid previously. At the same time the Company also acquired a 56.25% stake in Belemaoil Producing Limited ("Belemaoil") for US$132.2 million. Belemaoil holds a 40% interest in OML 55.

Capital expenditure (capex) attributed to oil and gas assets amounted to US$ 311million (2013: US$229 million). These expenditures include drilling costs in relation to 21 development and appraisal wells, one pilot, and one exploration and one water disposal well; and facility costs, which included the new natural gas facilities, new flow lines, and alternative crude storage facilities. Other non drilling and facility related capex of US$10 million (2013: US$4.5 million) includes expenditures for crude oil pumps, generators, motor vehicles, office and IT equipment and other leasehold improvements.

Cash flows from financing activities

Net debt at the year end was US$303 million, compared to US$141 million at December 2013. Total cash inflows from financing activities were US$671 million (2013: US$42 million). These principally reflect the refinancing of the business during the year through both equity and debt markets. In January 2015, the Group successfully refinanced its existing debt facilities with a new US$700 million seven year secured term facility and US$300 million three year secured revolving credit facility. The seven year facility also includes an option for the Group to upsize the facility by up to an additional US$700 million for qualifying acquisition opportunities.

Outlook

Having secured appropriate funding through our equity and debt refinancing, our financial strategy continues to be to maintain the flexibility required to realise the value of our growing asset base. The Group will continue to use the cash generated from its growing production base to support the significant appraisal and development activities in Nigeria.

Roger Brown
Chief Financial Officer