Principal risks and uncertainties

Monitoring and mitigating risks to the business

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

Key risk	Description
Operational risks	
Field operations and well deliverability	Failure to manage operational activities in line with budgeted expectations can lead to production misses, project delays and cost over-runs, high production costs and earlier than expected field decommissioning.
Third party infrastructure downtime	An over-reliance on third party operated transportation infrastructure can expose the Company to extended period of production being shut-in.
HSSE risks	As activity levels continue to increase there is a strong focus on preventing major environmental, health and safety incidents.
Sustained E&A programme failure	Exploration and appraisal activities carry significant levels of subsurface risk. Sustained E&A drilling failure will impact the Company's ability to organically replace reserves and production.
External risks	
Security incidents	The Company operates in a region where security incidents such as kidnappings and criminal attacks can occur.
Failure to manage stakeholder relationships	The Company prioritises the effective management of relationships with all stakeholders including government, host communities, regulatory bodies and shareholders.
Geo-political risk	Nigeria has at times in its history faced political uncertainties and threats such as terrorism aimed at de-stabilising and undermining the orderly and effective rule of central government.

Strategic pillars

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

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Mitigation	KPI/Performance metric	Strategic pillars
Drilling Smart wells to improve recovery. Manage contracting process and improved JV partner and regulatory authority engagement to mitigate protracted rig start-up. Improved rig performance monitoring and spares management. Better integration of oil and gas development plans to allocate capital spend.	Net working interest production; operating costs per boe.	1 2 3
Develop alternative routes for crude evacuation to reduce dependency on major export route. Explore alternative arrangements for direct supply for in-country consumption versus exportation.	Net working interest production; EBIT; Days downtime.	1 3
Monitoring and reporting of HSSE Scorecard at management leadership level at Board level. Focus on HSSE training and deployment of new initiatives for HSSE prevention. Emergency Response plan set for any eventuality.	HSSE scorecards. Focus on LTIR; TRIR.	1 2 5
Strict compliance with reservoir management guidelines. Building internal capacity with skilled sub-surface expertise.	Reserve replacement ratio.	1 2 3
Continuous security monitoring and intelligence. Quick mechanism for security advisory to staff and movement restriction for high alert situations.	LTIR; TRIR; Net working interest production.	1 2 5
Identified 'Seplat way' in host communities engagement with periodic feedback forums. Tailored CSR programmes and community partnerships to foster working relationship. Organisational focus and clear strategy to deliver shareholder value pursued by the Board and management.	Net working interest production; LTIR; TRIR.	1 3 5
Scenarios and response options plan set. Crisis management team over the high alert political periods. Business continuity plans actioned in light of current geo-political situation.	Occurrences of civil unrest and terrorism.	1 3 5

Principal risks and uncertainties continued

Key risk	Description
Financial risks	
Oil price volatility	Oil prices have exhibited a history of volatility and can move sharply up or down.
Changes to tax status and legislation	If the tax regime and legislation under which the Company operates its assets were to change profitability may be impacted, either positively in the event of tax incentives or negatively in the event of tax increases or removal of incentives.
Availability of capital	The oil and gas industry is highly capital intensive. Significant amounts of capital may be required to continue the development of existing and new fields and fund the cost of acquiring and farming-in to new blocks.
Ineffective cost control	Increasing operating cost and ineffective capital cost control reducing operating cash flows and profitability.
Strategic risks	
Portfolio concentration risk	High dependency on a concentrated portfolio of producing blocks, limited number of wells or single transportation system can leave the Company more susceptible to interruptions or field under-performance.
Bribery and corruption risk	Bribery and corruption presents a risk throughout the global oil and gas industry and represents an ongoing risk to any oil and gas company.
Loss of key employees	The oil and gas industry is very specialised in certain areas and there is a requirement for highly skilled and experienced personnel in core areas to ensure effective delivery of projects and financial and commercial management. There is also increasing competition within the industry to secure talent.
Fraudulent activity risk	Fraudulent activity presents a risk throughout the global oil and gas industry and represents an ongoing risk to any oil and gas company.
Information security risk	Potential cyber attacks, database corruption and information security breaches could result in loss of sensitive proprietary information, communication disruption across operations and business continuity disruption.

Strategic pillars

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Mitigation	KPI/Performance metric	Strategic pillars
Price sensitisation on business plan and project economics used for capital projects sanctioning with increased focus on cost reduction. Hedging strategies under consideration for future price volatility management.	Realised oil price; EBIT; Operating cash flow.	1
Evaluation of business plan and performance metrics exclusive of any tax benefits. Project economics determined exclusive of tax impact to mitigate impact of any potential tax status change. Impact assessment of potential tax legislature monitored at Board level.	Net working interest production; Operating cash flow.	1 3
Board review and approval of financial strategy and debt refinancing arrangements with strong banking relationships.	Capital expenditures; Net working interest production; Reserves replacement ratio; New acquisitions and farm-ins.	1 3 4
Comprehensive budgeting process approved by the Joint Venture partner and the Board. Clear cost management targets. Grading of portfolio opportunities and project ranking for capital allocation. Lower well cost campaign. Focus on effective contracting strategies for cost reduction.	Operating cost per boe; EBIT; Capital expenditure; Well costs.	1 3 5
Focus on acquisition strategy from the Board level to diversify current portfolio. Integrated long-term planning on crude oil and gas business.	Portfolio expansion through the successful execution of new acquisition and farm-in opportunities.	1 3
Extensive training on anti-bribery and corruption. Embedding corporate governance principles with key focus on all stages of the contracting and procurement process with supplier due diligence.	Whistleblowing reports; Number of disciplinary cases.	1 2 3 4 5
Annual benchmark reviews to ensure competitiveness in reward and recruitment. Succession planning in place as part of business continuity. Focus on training as a key differentiating factor in the operating environment.	Staff turnover.	1 3 4
Extensive whistleblowing campaign. Continuous monitoring of internal controls systems by all lines of defence with strong internal audit activity.	Number of reported cases.	1 2 3 4 5
Ongoing monitoring and regular upgrading of the Company's information technology and security systems. A clearly defined employee user policy and control of access rights.	Cyber attack identification and containment reports.	5