Performance review

Performance review

Operational overview

Asset overview

Stuart Connal
Chief Operating Officer

Since inception, Seplat has acquired an attractive portfolio of assets in the prolific Niger Delta region and consistently grown reserves and production year-on-year. We have done this through good reservoir management, production optimisation, the efficient development of new reservoirs and the expansion of our surface facilities.

Overview

Since inception, Seplat has acquired an attractive portfolio of assets in the prolific Niger Delta region. The Company's portfolio provides a robust platform of oil and natural gas reserves and production together with material upside opportunities through 2C to 2P conversion and exploration and appraisal drilling. Seplat's initial focus has been on securing assets in the onshore regions of the Niger Delta, but the Company also views the shallow water offshore areas of the Niger Delta as an appealing opportunity set and one it aims to access in the future.

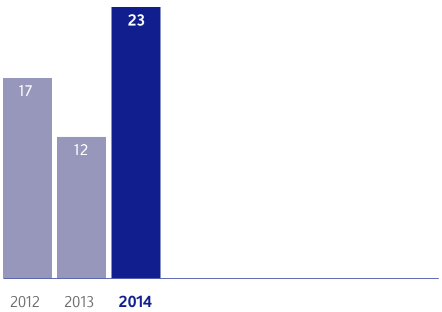
In 2014, Seplat achieved full year average working interest production as measured at the LACT unit of 24,25 bopd and 39.4 MMscfd (total 30,822 boepd), in line with full year 2014 guidance of 29,000 - 33,000 boepd. The Company achieved a new production record when gross daily liquids production at OMLs 4, 38 and 41 exceeded 76,000 bopd in December 2014. At its capital projects, the Company made good progress on fabrication and installation of new 150 MMscfd gas processing plant at the Oben field to allow commissioning work to take place during the first quarter of 2015, making additional gas volumes available to the domestic market. The gas lift project at Amukpe, targeting the Ovhor field, was completed and became operational around year end. High levels of rig based activity continued throughout 2014 at OMLs 4, 38 and 41 where up to seven rigs were operating at any one time. During the year we drilled and completed 23 wells and workovers.

Working interest 2P reserves as assessed independently by DeGolyer and MacNaughton were 281 MMboe at 31 December 2014, split equally between oil and gas. This represents an overall increase of 24% year on year and since 2010 a compound annual growth rate of 18% for oil and 19% for gas.

In 2014 Seplat also completed its first exploration well, the results of which have provided encouraging indications of additional potential in a new deeper play on OML 38 that is considered to be prospective beneath current well locations in surrounding fields. The exploration potential of the newly acquired OML 53 and OML 55 is also being assessed.

In 2015 we will continue to actively develop our portfolio, high grading our inventory of opportunities and maximising value by focusing on those that offer the best cash returns. We have entered an exciting phase in Seplat's journey, and remain on track to further establish ourselves as a leading indigenous independent E&P operator in Nigeria over the coming years, underpinned by a substantial and high quality reserves and production base from which we can go from strength to strength.

High levels of rig based activity
(Number of wells)



Block summary and production overview

Block	Seplat %	Operator	Major fields	Average gross 2014 production boepd	Average net 2014 production boepd
OML 4	45%	Seplat	Oben	21,871	9,842
OML 38	45%	Seplat	Ovhor, Amukpe Okporhuru	34,522	15,535
OML 41	45%	Seplat	Sapele, Ovhor	10,665	4,799
OPL 283	40%	Pillar	Umuseti, Igbuku	1,617	647
OML 53*	40%	Seplat	Jisike, Ohaji South	n/a	n/a
OML 55*	22.5%	Seplat	Robertkiri, Idama, Inda	n/a	n/a
Total				68,675	30,823

* The acquisition of an interest in OML 53 and OML 55 was completed post period end.

Operational overview continued

OMLs 4, 38 and 41

OMLs 4, 38 and 41

Seplat has a 45% working interest in OMLs 4, 38 and 41 which are located in Edo (OML 4) and Delta (OMLs 38 and 41) States onshore Nigeria. Seplat is operator of the three blocks on behalf of the NPDC/Seplat Joint Venture and, to date, is the only company that has secured NPDC approval for operatorship over blocks acquired as part of recent divestment programmes by the major IOCs. As operator, Seplat is empowered with running the day-to-day operations activities and is able to set production and operational improvement goals and lead exploration activities, subject to the approval of its partner. Production is predominantly from six fields, namely Amukpe, Oben, Okporhuru, Ovhor, Orogho and Sapele, and the partners aim to bring additional fields onstream in the future.

Since acquiring the blocks in July 2010, the Company has consistently grown oil production, primarily through the drilling of new wells and employing advanced and proven technologies to increase production in mature fields. The Company also became the first operator in the Niger Delta to install a LACT unit, enabling significantly improved measurement of produced oil prior to injection into the Trans Forcados Pipeline system. This has greatly reduced the reconciliation losses applied to the Company's oil production to a level of approximately 10%, compared to an average of approximately 18% prior to installation of the LACT unit. The installation and commissioning of a new liquids pipeline in 2014, linking the Company's fields directly to the Warri Refinery, will mitigate sole reliance on one export pipeline system and offer scope to further reduce losses in the future.

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

OML 4

Operator	Seplat
Working interest	45.0%
Partner	NPDC
Main fields	Oben (producing)
2014 gross liquids production (bopd)	10,105
2014 gross gas production (MMscfd)	70.6
Gross remaining 2P oil reserves	61 MMbbls
Gross remaining 2P gas reserves	1,240 Bscf
2015 activities	Production and development

"Seplat's development of its gas business will help meet the growing domestic demand and diversify the Company's revenue streams."

Background

OML 4 covers an area of 267km^2 and is located 78km north east of Warri, Delta State. The Oben field is located in OML 4 and is the main producing field on the block. Facilities on the block include a 60,000 bpd capacity flow station and a 90 MMscfd capacity non-associated gas plant. The gas plant exports gas to the Nigerian gas network via the ELPS. The Company expects to complete installation and commissioning of a new 150 MMscfd gas processing plant in Oben by early 2015. Oil exports from the Oben flow station are routed via the Oben – Amukpe pipeline to the Amukpe facilities and onwards to either the Forcados terminal or Warri Refinery. Also expected for installation and commissioning in the first quarter of 2015 is a new 30 MMscfd associated MMscfd gas processing and compressor station to eliminate and monetise currently flared associated gas from the Oben flow station. Production operations and facilities are supported by the Oben Field Logistics Base. The Oben field in particular is central to the Company's future gas expansion plans and is strategically located as an important gas hub with access to Nigeria's main gas demand centres. The licence was renewed in 1989 for a further 30 years and is due to expire on 30 June 2019.

2014 activity

In 2014, fabrication work was completed and the Company took delivery of the new 150 MMscfd gas processing facility and commenced installation work at the Oben field location. This represents the first phase of a programme designed to expand gas processing capacity, at the Oben field to 300 MMscfd in 2015 and at least 450 MMscfd by 2017. Installation work was ongoing at year end with commissioning work underway in the first quarter of 2015 that will make additional gas volumes available to the domestic market. Also in 2014, three units of 10 MMscfd capacity associated gas compressors and ancillary equipment were delivered to the Oben field in the fourth quarter for the purpose of building the new compressor station that will provide an associated gas solution for the Oben flow station. Installation is ongoing and commissioning is planned to begin at the end of the first quarter of 2015. During the year, the partners drilled two appraisal wells, eight development wells and two workover wells on the block.

OML 38

Operator	Seplat
Working interest	45.0%
Partner	NPDC
Main fields	Amukpe, Ovhor, Okporhuru (producing); Mosogar, Orogho, Jesse (discoveries)
2014 gross liquids production (bopd)	34,522
2014 gross gas production (MMscfd)	n/a
Gross remaining 2P oil reserves	104 MMbbls
Gross remaining 2P gas reserves	129 Bscf
2015 activities	Production, development, appraisal and exploration

Background

OML 38 covers an area of 2,094 km^2 and is located 48km north of Warri, Delta State. The Amukpe field is one of the three producing fields in the block. The second producing field, Ovhor, straddles OML 38 and OML 41. The Company commenced production from the third producing field, Okporhuru, in May 2013. There are three further discoveries on OML 38 that have not been brought into production, the Mosogar, Orogho and Jesse discoveries. Facilities on the block include a 45,000 bpd capacity flow station located at Amukpe. The licence was renewed in 1989 for a further 30 years expiring on 30 June 2019.

2014 activity

In 2014, the Company commissioned a new liquid treatment facility ('LTF') which is located adjacent to the flow station and has a 100,000 bpd capacity. The LTF has been designed and located to receive and de-water liquids production for the Oben, Amukpe and Sapele flow stations. The produced oil is then exported via the existing Amukpe – Rapele pipeline and onwards to either the Forcados terminal or Warri Refinery. Modification work is ongoing to address issues with the composition of separated water to enable full continuous injection.

During the year, the partners drilled two appraisal wells and three development wells on the block and one exploration well on the Ogegere prospect. The Ogegere-1 exploration well encountered oil bearing sands at depths below the primary target, indicating potential for a new exploration play on the block. The well was suspended for further evaluation. Work also commenced and good progress was made on the construction and installation of two new 50,000 barrel oil storage tanks at the Amukpe field, the completion and commissioning of which will occur in 2015. The integrated Amukpe Associated gas flare-out and Ovhor gas-lift project became operational towards the end of the period. The project will provide artificial lift in the Ovhor field for improved oil recovery by re-injecting the associated gas produced at Amukpe.

OML 41

Operator	Seplat
Working interest	45.0%
Partner	NPDC
Main fields	Sapele, Ovhor (producing); Sapele Shallow, Ubaleme, Okoporo (discoveries)
2014 gross liquids production (bopd)	7,830
2014 gross gas production (MMscfd)	17.0
Gross remaining 2P oil reserves	118 MMbbls
Gross remaining 2P gas reserves	272 Bscf
2015 activities	Production, development, appraisal

Background

OML 41 covers an area of 291 km^2 and is located 50 km from Warri, Delta State. The block contains two producing fields, Sapele and Ovhor (which straddles OML 41 and OML 38), and two discoveries with contingent resources, Ubaleme and Okoporo. Overlying the main productive reservoirs in the Sapele field is the Sapele Shallow discovery, a significant accumulation of oil that has remained largely undeveloped due to the heavier nature of the oil (21° API) relative to that in neighbouring blocks. The Company believes that full development of Sapele Shallow represents a material upside opportunity and intends to pursue this in the near term. Facilities on the block include a flow station with 60,000 bpd capacity, a 60 MMscfd capacity non associated gas plant and a 26 MMscfd NGC owned compressor station. Produced oil is exported via the Sapele – Amukpe delivery line to the Amukpe facilities and onwards to either the Forcados terminal or Warri Refinery. The condensate stream is combined with the oil for export and produced gas is exported via the NGC owned Oben-Sapele pipeline system which feeds into the Sapele power plant. The licence was renewed in 1989 for a further 30 years expiring on 30 June 2019.

2014 activity

The integrated Amukpe Associated gas flare-out and Ovhor gas-lift project became operational towards the end of the period. The project will provide artificial lift in the Ovhor field, which straddles OMLs 41 and 38, for improved oil recovery by re-injecting the associated gas produced at Amukpe. During the year, the partners drilled two appraisal wells, three development wells and three workover wells on the block.

Strategic report
Performance review
Governance
Financial statements

Operational overview continued

OPL 283 Marginal Field Area (Pillar)

OPL 283

Operator	Pillar Oil/OPGC
Working interest	40.0%
Partner	Pillar Oil
Main fields	Umuseti and Igbuku
2014 gross liquids production (bopd)	1,617
2014 gross gas production (MMscfd)	n/a
Gross remaining 2P oil reserves	23 MMbbls
Gross remaining 2P gas reserves	199 Bscf
2015 activities	Production

Background

Seplat has a 40% non-operated working interest in OPL 283 Marginal Field Area. The block is located in the northern onshore depo-belt of the Niger Delta and contains the Umuseti and Igbuku fields. The block is operated by Pillar Oil. The Umuseti field came onstream in May 2012 and is currently producing from three development wells. There are 14 identified oil bearing reservoirs in Umuseti with an average sand thickness of 30 feet. Production currently comes from four of these reservoirs and more wells will be needed to drain the remaining reservoirs. The Igbuku field that contains predominantly gas and condensate is currently undergoing appraisal prior to development.

The block also contains two satellite exploration leads, Igbuku North and Umuseti East, that the operating partners intend to further evaluate. Facilities on the block include a 5,000 bopd Early Production Facility ("EPF") and Crude Storage Tanks. The operator plans to install additional production handling facilities and increase storage capacity as new wells are drilled and additional production is brought onstream. Umuseti production is evacuated to a Group Gathering Facility ("GGF") where it is metered and thereafter exported via Agip's Kwale facilities to Brass terminal and NPDC's pipeline to Forcados.

2014 activity

Activity in 2014 focused on running production operations at the existing oil wells in the Umuseti field and ongoing studies to define the optimal development strategy to access additional oil reservoirs in the Umuseti field and monetisation of the Igbuku gas reserves. During the year the partners completed one development well that was spudded in 2013 and drilled one new development well. The completion and commissioning of two new 20,000 bbls crude storage tanks in the last quarter of the year brought about a significant reduction in down-time. As a result of this, the daily oil production rate was optimised, averaging 3,000 bopd in December.

Acquisition of new blocks post period-end

In February 2015, the Company announced that it had acquired a 40% working interest in OML 53 and an effective 22.5% working interest in OML 55.

OML 53

Operator	Seplat
Working interest	40.0%
Partner	NNPC
Main fields	Jisike (Producing); Ohaji South (discovery)

OML 53 covers an area of approximately 1,585km^2 and is located onshore in the north eastern Niger Delta. The Jisike oil field, located in the north western area of the block, is currently the only producing field on OML 53. Gross production from Jisike at the time of acquisition was approximately 2,000 bopd (approximately 800 bopd on a working interest basis). Existing infrastructure on OML 53 at Jisike comprises flow-lines, phase one separation facilities and a flow station with a design capacity of 12,000 bopd and 8 MMscfd. Oil production is then sent for further processing at the nearby Izombe facilities on OML 124 from where it is exported via pipeline to the Brass oil terminal. The block also contains the large undeveloped Ohaji South gas and condensate field, the development of which will be coordinated with the SPDC operated Assa North field on adjacent OML 21, together referred to as the ANOS project. The expectation is that future gas production from the ANOS project will supply the domestic market, for which significant work on commercialisation terms and development concepts has been undertaken. There is also shallow oil development potential at Ohaji South that could be pursued as a separate standalone project in the near term. Prior to initiating development of the ANOS project, Seplat expects to focus efforts on increasing oil production at the Jisike field and development of the shallow oil reservoirs in Ohaji South.

The Company estimates net recoverable hydrocarbon volumes attributable to its 40.0% working interest to be approximately 51 MMbbls of oil and condensate and 611 Bscf of gas (total 151 MMboe).

Seplat is designated operator of OML 53. Seplat's partner on the block is NNPC (60%).

OML 55

Operator	Seplat
Working interest	22.5%
Partners	NNPC , Belemaoil
Main fields	Robertkiri, Idama, Inda (producing)

OML 55 covers an area of approximately 840km^2 and is located in the swamp to shallow water offshore areas in the south eastern Niger Delta. The block contains five producing fields (Robertkiri, Inda, Belema North, Idama and Jokka). Gross production at the time of acquisition was approximately 8,000 bopd (1,800 bopd on a working interest basis). The majority of production on the block is from the Robertkiri, Idama and Inda fields. The Robertkiri field is located in swamp at a water depth of five metres and has a production platform and utility platform installed. Production capacity at the Robertkiri facilities is 20,000 bpd and 10 MMscfd. Production facilities at the Idama field comprise a jack-up mobile offshore production unit ('MOPU') and riser platform that have a capacity of 30,000 bpd of total fluids and 34 MMscfd. The Jokka field is produced through a manifold tied-back to the Idama facilities. Production facilities at the Inda field comprise a MOPU with a capacity of 30,000 bpd of total liquids and 34 MMscfd.

Overall, the infrastructure on OML 55 comprises four flow stations, a network of flow-lines and two eight-inch pipelines that connect to third party operated infrastructure. The Belema field is unitised with OML 25 and is produced via a flow station on that block. All produced liquids from OML 55 are delivered via third-party infrastructure to the Bonny terminal for processing and shipping. In addition to the oil potential on the block there is also an opportunity to develop the significant gas resources that have also been identified.

The Company estimates net recoverable hydrocarbon volumes attributable to its 22.5% working interest to be approximately 20 MMbbls of oil and condensate and 156 Bscf of gas (total 46 MMboe).

Seplat is designated operator of OML 55. Seplat's partners on the block are NNPC (60%) and Belemaoil (17.5%).

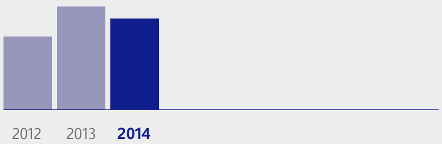
Financial review

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.

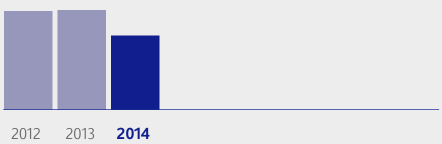
Revenue

US$775m



Cash from operations before working capital

US$379m



Realised oil price

US$97bbl

Capital expenditure

US$321m

Gross profit

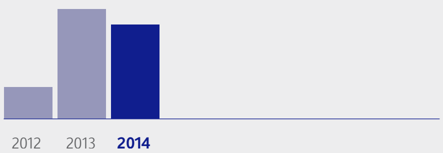
US$459m

Cash position including refundable deposits

US$739m

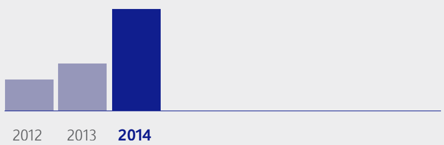
Underlying net profit adjusted for one-off items

US$322m



Net debt (excluding refundable deposits)

US$304m



Financial statements (USD)
more on page 105

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.

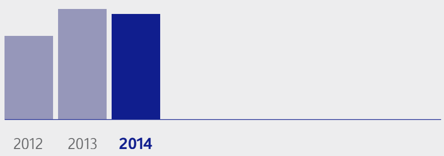
The increase in recurring G&A expenses of 62% from US$45 million in 2013 to US$72 million in 2014 is primarily driven by the growth in staff costs and investment in office spaces as Seplat strengthened its team.

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.

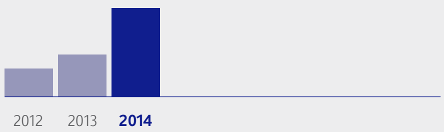
Cost of sales

US$315.6m



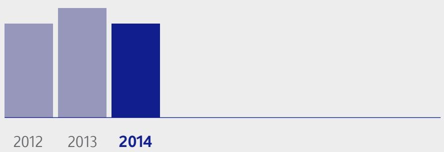
G&A

US$151.6m

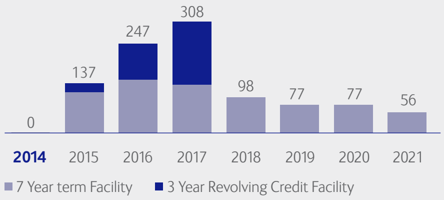


Gearing (total debt/total assets)

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

Risk management

Protecting our business

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

Introduction

Risk management is an integral part of all business activities of Seplat. The Company's risk management policy is focused on the early identification of risks and future risks that are central to achieving its strategy, annual business plan and objectives, their possible impact on the business and measures that can be implemented to mitigate the identified risks so that Seplat can continue to operate safely and effectively. At the same time, the Company continually maps out its response and plans should events go wrong and learnings from past incidence reviews. Seplat recognises that risk management is a continuous journey of improvement and not a destination and will continue to develop its risk management processes to ensure that the Company is fully equipped to deal with the constantly evolving operating and business environment of the upstream oil and gas industry.

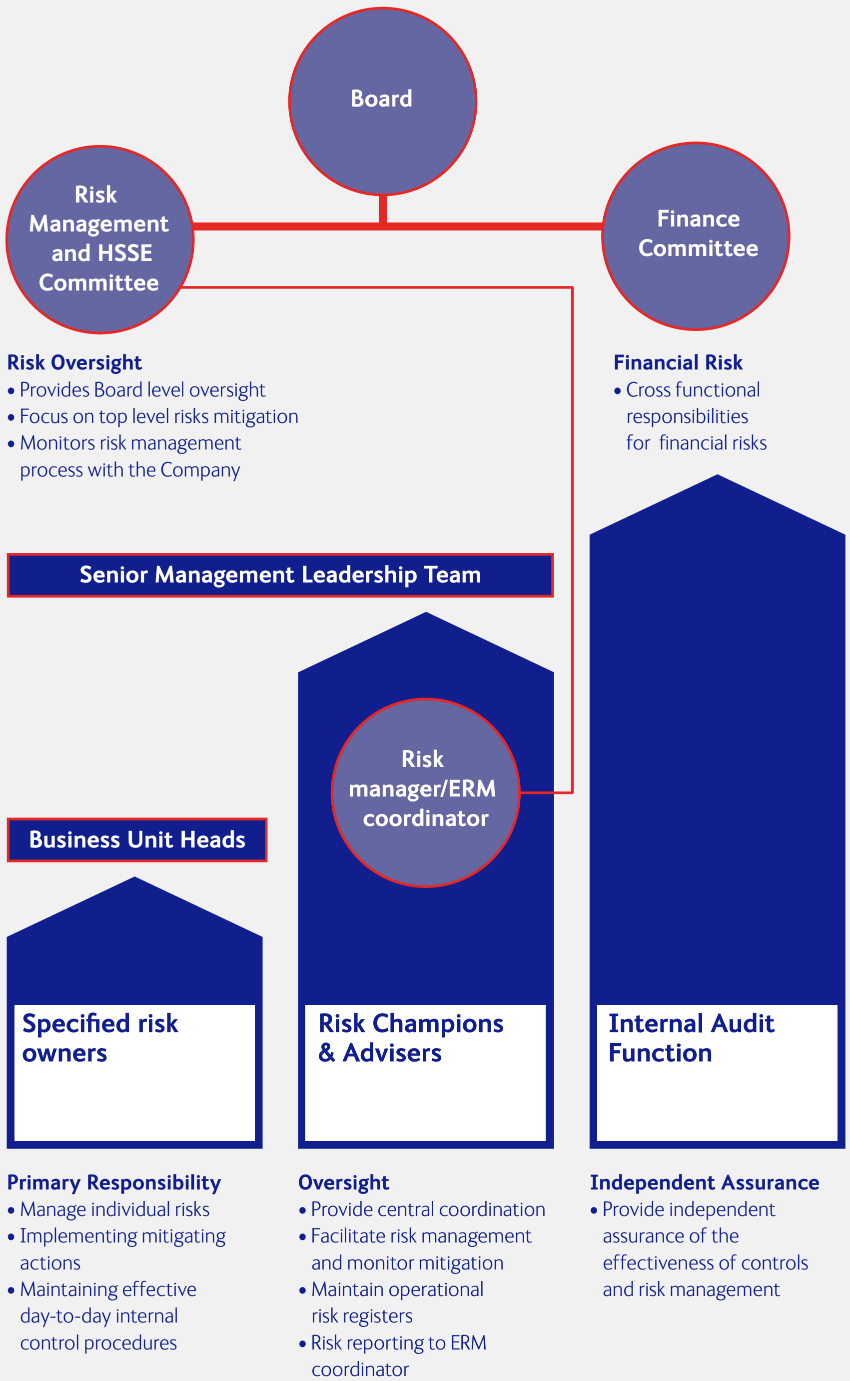
Roles and responsibilities

The Board of Directors is responsible for setting the overall risk management strategy of the Company and the determination of what level of risk is acceptable for Seplat to bear. The HSSE and Risk Committee assists the Board of Directors and has oversight of the Company's risk management framework, profile and the risk/reward strategy as determined by the Board. The Risk Management and HSSE Committee includes two Independent Non-Executive Directors and the Chairman of the Committee, with the CEO, COO and CFO in attendance. The head of the Company's internal audit unit may attend the meetings of the Committee. Specialists with appropriate technical expertise may also be invited to attend meetings of the Committee when necessary. The Committee meets at least four times each year when it analyses and evaluates Seplat's total risk exposure and ways to streamline processes throughout the business to promote a unified and standardised approach to risk management.

Reports on the Company's risk exposure and reviews of its risk management are compiled and presented to the Company's senior management and Board of Directors. The main risk factors identified in this risk review and reporting process then become the main focus of the Committee over the coming year. For internal control purposes the Company has policies and procedures in place that aim to improve internal business processes and strengthen control systems across the Company. The Company has an internal audit unit that undertakes periodic audits of the various business units including the Company's corporate governance systems and risk management processes.

Cross functional dependencies exist with the Finance Committee, which also monitors the controls and activities to mitigate identified financial risks. The Board also focuses on risk management in discharging its role over strategic matters and oversight over key business activities. These include approving the Company's annual budget and five year business plan and potential risk to the achievement of the plan and defining key operational and non-operational targets in monitoring business performance and growth.

Risk management framework



Key principles that underpin risk management within Seplat:

- Strong focus on safety throughout the organisation
- Close oversight by senior management in day to day business operations
- "Risk owners" throughout business
- Accountability of staff and/or key personnel
- Regular and timely reporting
- Independent reviews of risk management processes
- Clear system of delegation of authority

Main initiatives in 2014

Our 2014 focus centred on developing an improved risk culture based on Enterprise Risk Management. We focused on:

- Developing risk management capabilities and appointed Risk Advisers and Risk Champions across the organisation
- Risk reporting and evaluation – improvement in assessment models and risk dashboard
- HSSE initiatives and field staff training
- Bribery and corruption and mitigation against fraud within the Company's processes and procedures
- Scenario risk evaluation and responses for social/geo-political risks

Basil Omiyi
Chairman, Risk Management and HSSE Committee

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

Strategy
more on page 20

Risk Management and HSSE Committee report
more on page 75

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

Strategic report
Performance review
Governance
Financial statements

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

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

Strategy
more on page 20

Risk Management and HSSE Committee report
more on page 75

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

Strategic report
Performance review
Governance
Financial statements

Corporate social responsibility

Empowering our communities

Seplat's commitment to being a best practice operator as well as a responsible and accountable corporate citizen is reflected in our above-ground approach to our operations. This is illustrated by the strong relationships we have built with our local stakeholders to create both a stable operating environment and positive social and economic outcomes for our host communities.

Our approach

Our Corporate Social Responsibility strategy extends across all aspects of the business from our own operations and subsidiaries to our supply chain. The Company's commitment to its strong social and environmental values is reflected in its rigorous approach to performance assessment, measurement and evaluation across its four core CSR pillars: local stakeholder engagement, health, safety and environmental rigour, employee effectiveness, and our business and ethics conduct.

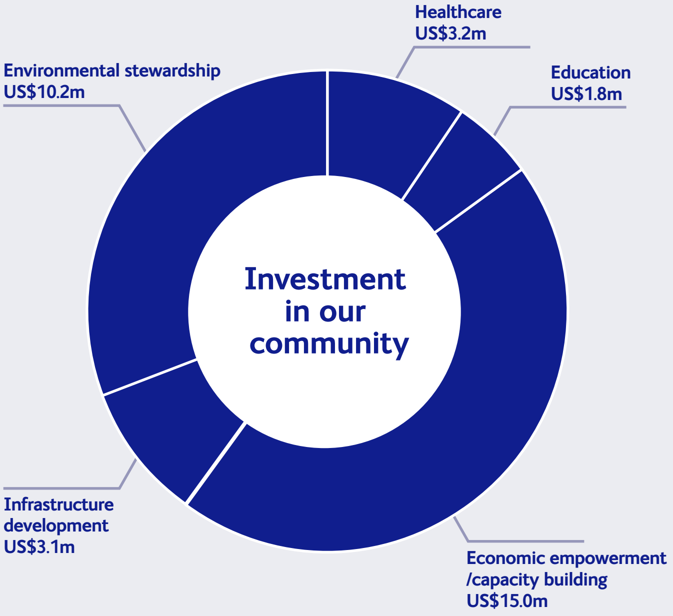
Skills acquisition training: 2013/14 graduates

PEARLS quiz secondary schools competition – Edo and Delta States

Corporate social responsibility continued

Social investment programmes

The social investment programmes aim to target immediate impact projects at the community level, identified following the completion of all Environmental and Social Impact Assessment ("ESIA") studies. These include healthcare, education, economic empowerment/capacity building, infrastructure development and environmental stewardship initiatives as shown below.



Strong relationships with local stakeholders

Our strong local ties and commitment to the Company's host communities have been intrinsically important to our success as one of Nigeria's leading indigenous oil and gas companies. Since inception, we have prioritised sustainable community development through creating shared value for our local communities which has been critical in not only achieving operational success but also protecting the Company's social licence to operate. Without such inclusion there could have been operational disruptions, increased costs and reduced value for our shareholders.

The Global Memorandum of Understanding ("GMoU") Seplat entered into with the local communities that host its operations within OMLs 4, 38 and 41 was the Company's first community development agreement signed between the Company and its local stakeholders. This set the standard for all of Seplat's subsequent engagements with local stakeholders as the Company has grown and acquired additional licences. The GMoU provides a framework within which the Company and its host communities can work together to support wider sustainable community development.

Under the terms of the GMoU, a Community Development Committee ("CDC"), also referred to as the Host Communities Forum ("HCF"), has been established and is comprised of representatives from each host community. The CDC/HCF is responsible for coordinating the implementation of the social investment programmes funded by Seplat and identified by the CDC/HCF, with a view to invest in areas that align Seplat's business objectives with local priorities whilst addressing broader development objectives. This process involves transparent communication with all local stakeholders and ensures multi-party engagement between the Company, community, civil-society groups and government.

Local content policy

Seplat's commitment to creating shared value and achieving positive social and economic outcomes for its host communities is further embodied in the Company's comprehensive local content policy. Seplat seeks to ensure there is a positive multiplier effect on the local economy through significant local content spend, enhancing the Company's local supply chain and contributing to a thriving and competitive local market. Seeking to use local business partners can simultaneously reduce operating costs and project risks by developing a mutually-beneficial relationship with the Company's local partners.

Seplat remains committed to Nigeria's economic and social development and will continue to work collaboratively with local partners to ensure a competitive local services market to stimulate local employment opportunities within a diversified market.

Health, safety, security and environment

If managed carelessly, the oil and gas industry can pose significant environmental and safety risks to all its stakeholders. As such, upstream oil and gas companies now operate within the context of increasing regulatory and legislative pressure, highlighting the importance of effective risk oversight and management to safeguard a company's operations. Health, safety, security and environment ("HSSE") is a vital component of our CSR and broader sustainability strategy which ensures a safe and secure working environment for all of our employees, whilst simultaneously minimising the environmental impact of our operations.

Capacity building

In partnership with NPDC, Seplat has been running a training scheme since its inception within its host communities to promote the development of vocational skills where there is a significant skills gaps relating to the oil and gas industry as well as other industries. In line with Seplat's commitment to create positive social and economic outcomes for its local communities, the Company has provided skills training in building and construction, fashion design and clothes manufacturing as well as media and communications.

917

Secondary schools in Delta and Edo States involved in PEARLS Quiz Programme

Corporate social responsibility continued

The health and safety of our employees remains a top priority. We have continued to raise our performance in safety awareness with the implementation of new health and safety measures, to go beyond best practice standards to ensure as a company that we are optimising our operations on all fronts. At Seplat, all employees are committed to conducting operations beyond international best practice standards and the Company works to manage and mitigate HSSE risks through the implementation of the Company's HSSE Policy.

Employee effectiveness

Our people are at the centre of delivering our business goals, which is why we are committed to building a mutually beneficial, sustainable relationship with all of our employees. The success of our employees translates into the success of our business, and as such Seplat prides itself on creating a conducive environment for employee development and growth.

2014 Performance Review

Environmental Performance Metrics

Flaring – million tonnes of oil equivalent (mmboes)	9,465.33 MMscf
Volume of oil spilled through own operations (thousand tonnes)	2.7 bbls
Volume of oil spilled through sabotage (thousand tonnes)	10 bbls
Groundwater contamination	Nil
Freshwater consumption	1,18 MMbbls

Health and Safety Performance Metrics

Fatality	0
LTIF (per million man-hours)	0.4
TRIR (per million man-hours)	0.67
Occupational health/safety training for employees	Safe Systems of Work, First Aid at Work, Radiation Safety, BOSIET, etc
Fines or sanctions	Nil

2015 Performance Targets

Environmental Performance Targets

Flaring – million tonnes of oil equivalent	6,000 MMscf
Volume of oil spilled through own operations (thousand tonnes)	0
Volume of oil spilled through sabotage (thousand tonnes)	0
Groundwater contamination	Nil
Freshwater consumption	1.48 MMbbls

Health and Safety Performance Targets

Fatality	0
LTIF (per million man-hours)	0.2
TRIR (per million man-hours)	0.3
Fines or sanctions	Nil

Four strategic principles of the HSSE policy:

1 Safety & security of stakeholders

- Implementation of safety procedure systems
- Incident reporting and investigation procedure (to track performance and share lessons learned)
- Periodic health screening/survey of staff and contractor employees
- HSSE induction and awareness programme as well as competency training

2 Environmental safe-guarding and conservation

- Environmental stewardship through the implementation of an approved Environmental Management Plan (EMP)
- Conduct weekly monitoring of the quality of effluents, emissions and groundwater against statutory/ international guidelines
- Implementation of rigorous waste management plan
- For projects, conduct applicable Environmental Impact Assessment (EIA) studies and thereafter ensure periodic Environmental Evaluation Studies (EES) to monitor impact of our operations and implement mitigation measures as appropriate

3 Ensuring mutual respect with host communities and local stakeholders

- Promoting proactive engagement with host communities and other stakeholders for peaceful co-existence in order to create an enabling environment for the Company's operations

4 Compliance with applicable statutory regulations and industry codes of practice

- Ensure compliance with applicable laws, regulations and permits to ensure violations are avoided
- Collaborate on the development of new or revised regulatory requirements via appropriate industry bodies to ensure performance as a best practice operator

Local employment generation

Sourcing skills locally and investing in capacity building programmes to enhance the local talent pool are focal to Seplat's CSR strategy. Generating shared value with our local communities through job creation and skills enhancement has been our intent since inception, and as such, the number of employees recruited from our local communities has grown year-on-year and remains a key KPI to measure Company performance annually. Local content obligations were introduced by the Nigerian government to guarantee a minimum of 98% employment domestically. As an indigenous Nigerian operator, we are committed to surpassing legislative requirements and are delighted to announce that at the end of 2014, over 99% of our employees were Nigerian.

Talent retention

Recruiting and nurturing talent are two key performance metrics, supplemented by talent retention measurement. In 2014, our staff retention rate increased to 95.5%, a number which we plan to further improve upon in the coming year. Retaining high performing staff is a key strategic objective for any business, but is critical in highly technical and complex industries such as oil and gas. Following Seplat's listing on the London and Nigerian Stock Exchanges in 2014, the Board has approved long-term incentive programmes to ensure that high individual performance is matched with proportionate rewards.

Business principles and ethics

Our business principles determine how we operate and seek to nurture a transparent working environment with zero tolerance of corruption. Seplat's code of business conduct was developed in 2012 and has been widely distributed and communicated to all Seplat employees to ensure a culture of awareness and accountability within the organisation. The code encompasses Seplat's approach to anti-corruption and bribery protocol, transparent engagement with stakeholders, and Seplat's whistleblowing policy and procedures. The code offers a point of reference for all employees in how to conduct themselves within the workplace in a manner that does not conflict with Seplat's values as a transparent and ethical business.

Skills development

In 2014, we continued to invest in the training and development of our own employees. Through investment in internal skills development, Seplat can further optimise its delivery of operational goals to create further value for all stakeholders. Creating new capabilities internally allows our employees to gain access to roles and opportunities in the oil and gas sector which previously may have been inaccessible due to an insufficient skills-set.

Chukwuemeka Kerry

Business Performance Analyst and Reporting Officer, Corporate Production and Maintenance Department

Since 2012, Seplat has run its Graduate Trainee Programme which offers opportunities to students from its local communities to undergo skills and development training to equip those trainees with the relevant skills to be part of Seplat's growth story.

Chukwuemeka Kerry was a member of the inaugural Graduate Trainee Programme. The initial induction programme ensured Chukwuemeka was provided with the relevant HSSE awareness and training to operate within an E&P environment. Following the rigorous induction process, he was assigned to the Production and Field Operations Department, under the management of Mr Ganiyu Bolaji, Head of Production and Field Operations. A key responsibility whilst in this role was institutionalising a tracker system for field facility equipment performance against oil and gas production trends. Whilst his core training was provided by members of the Production and Field Operations Department, Chukwuemeka was also given training in soft skills development to complement his operational exposure.

At the end of the Graduate Trainee Programme graduates are given the opportunity to voice their preference in working unit within their trainee Department. Chukwuemeka selected the Production Measurement and Reporting Unit, a key division to Seplat given its responsibility for reviewing and optimising operational performance. After three years with the Company, Chukwuemeka is now the Business Performance Analyst and Reporting Officer within the Corporate Production and Maintenance Department, where his key responsibility is to collate and analyse production data from Seplat's fields in order to track Company performance in achieving production targets for the year. The diversity and breadth of skills training provided on the Graduate Trainee Programme provides skills and capacity building opportunities to individuals from Seplat's local communities ensuring shared value with local stakeholders in the development of the oil and gas industry in Nigeria.