Reset and in position to deliver growth

Our proactive and decisive management coupled with the strong underlying fundamentals of the business have seen us emerge from an exceptionally challenging period a much fitter and stronger business that is well equipped to deliver long-term value for our shareholders.

Austin Avuru
Chief Executive Officer

Dear shareholders,

I am pleased to report that Seplat made a return to full-year profitability in 2017, registered strong cash flow performance and significantly strengthened the balance sheet. In a year of contrast, we were plagued throughout most of the first half by force majeure at the Forcados terminal. However, following the lifting of force majeure on 6 June, we were able to return to operations on OMLs 4, 38 & 41 and rapidly restored full production. Our subsequent operational and financial performance is a clear indicator of our strong fundamentals and what we can achieve when we have unhindered access to market. We will retain the flexibility and financial discipline that has seen us emerge from a difficult chapter in our history a fitter and stronger business. With line of sight on the availability of multiple export routes, we aim to significantly de-risk the distribution of our oil production to market. Notably, our gas business made another record contribution in 2017 and continues to demonstrate the robustness of its revenues, providing a key source of growth and diversification, as well as delivering a much-needed reliable supply of gas to the Nigerian power sector. Seplat is now better positioned to return to sustainable growth.

Continued emphasis on efficiency and cost control

During the past two years the volatile macro-economic environment and disrupted operating conditions prompted us to reset the business in many ways. We focused on taking steps in areas within our control that would, in the first instance, protect the core business and ultimately provide Seplat with a strengthened platform upon which to execute our long-term growth strategy. In 2017 we continued to place great emphasis on operational efficiency and cost control to maximise cash margins and in doing so further reduced our unit production operating cost year-on-year by 32% to US$5.96/boe. Alongside this our general and administrative costs fell by 28% year-on-year. One of the advantages of operating onshore is the discretion we have over capital expenditures and the ability to dial-up or dial-down our work programme to match our cash generation and business priorities. In 2017 we scaled capital expenditures back to US$33 million, the majority of which was allocated to expansion of our gas business. It is not a natural state for Seplat to scale back the work programme to this extent, our hallmark is our ability to build and grow reserves and production through accelerated investment programmes, but it has been a necessary and prudent step to take in order to preserve a liquidity buffer during uncertain times. With operations restored in early June we have very quickly been able to reverse the impact of force majeure on the business and are making preparations to re-deploy rigs into the field and scale-up investments into our inventory of short-cycle production and development

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

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

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

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opportunities. When making investment decisions we have a robust system whereby, through a process of benchmarking and high-grading, capital will be selectively deployed to opportunities that offer the best cash returns.

Underpinned by strong oil and gas fundamentals

Our full-year 2017 average daily working interest production stood at 36,923 boepd, in line with guidance and up 43% year-on-year, and comprised 17,853 bopd and 114 MMscfd of natural gas. However, these figures reflect the force majeure conditions at the Forcados terminal for much of the first half and do not accurately represent what our portfolio is capable of delivering with unhindered access to market for our oil production. Over the second half of 2017 our average working interest production stood at 47,291 boepd, comprising 26,062 bopd and 127 MMscfd, and coming into 2018 our run rate was over 55,000 boepd comprising approximately 29,000 bopd and 160 MMscfd.

Our 2P reserves at end 2017 stood at 477 MMboe, a modest increase of 3.2% on end 2016, and we have a further 61 MMboe of 2C resources taking our total working interest reserve and resource base to 538 MMboe split almost evenly between oil and gas. This is a material volume by any standard and gives the business a great deal of running room production wise.

Diversifying oil export routes to market

In previous years I have discussed the importance of diversification as a key enabler for Seplat to deliver sustainable returns and value growth over the long term. In this respect our most important near-term priority is to ensure we have adequate redundant capacity through multiple crude oil export routes to buffer against any extended periods of force majeure or downtime in the future. In 2017 we successfully completed repairs and upgrades on two jetties at the Warri refinery that will enable sustained exports of 30,000 bopd (gross) if required in the future. Prior to the repair and upgrade work on the two jetties gross exports via the Warri refinery while force majeure was in effect at the Forcados terminal were around the 15,000 bopd level. It was access to this export route during force majeure that was the enabling factor for us to achieve continuity of gas supply to the domestic market and it can be kept available going forward to underpin and greatly improve security of gas supply to the domestic power sector in particular.

Longer term, the Amukpe-Escravos 160,000 bopd capacity pipeline is set to provide a third export option for liquids production at OMLs 4, 38 and 41 which presently accounts for around 90% of our total liquids production mix. I am pleased to say that good progress continues to be made towards completing and connecting the pipeline and also finalisation of the suite of commercial contracts and agreements that needs to be put in place and that we anticipate the pipeline to be fully commissioned and operational in Q3 2018. We view this as an important milestone in our efforts to embed greater diversification in our business activities and one that will significantly de-risk distribution of our oil production to market.

A record year for our gas business

In 2017 our gas business continued to go from strength to strength and made a record contribution with revenues of US$124 million, which accounted for over 27% of Seplat's total revenues. Early in the year we completed and commissioned the Phase II expansion of our Oben gas processing hub, which added a further 225 MMscfd of processing capacity to take total capacity at the Oben plant to 465 MMscfd. Together with 60 MMscfd capacity at the Sapele plant this means that we now operate 525 MMscfd of gross gas processing capacity, 443 MMscfd of which is net to our working interest, cementing our position as a pre-eminent supplier of gas to the Nigerian domestic market. This capacity expansion has already started to pay dividends as moving into 2018 we have been able to meet an increased call on our gas volumes, owing to supply interruptions elsewhere in the network, and step up gross deliveries to the 400 MMscfd level when required. This not only demonstrates flow assurance at that level and a production swing capability from our assets but it also underscores the strategically important nature of our gas business to Nigeria in improving security of gas supply for power generation and industry. In addition to processing our own gas we have installed processing headroom that will enable us to process third party volumes and generate a tariffing income in the future.

Our gas strategy is based around the concept of interconnection between large-scale gas reserves in the ground, operated processing hubs, connectivity to transmission infrastructure and a large number of high demand users. In this respect our current and planned future portfolio is ideally located, with the Oben hub providing a gateway to supply Nigeria's major demand centres on the Lagos axis and Abuja axis and even in the future neighbouring markets of Ghana, Togo and Benin through the WAGP should the opportunity present itself. The next phase of growth in the gas business is going to be anchored around the large-scale ANOH greenfield gas and condensate development. The upstream development is unitised with adjacent OML 21 and will be delivered by the unit operator, Shell. Alongside this we are making good progress towards FID at the midstream development on OML 53 within an incorporated joint venture partnership with government and look forward to setting out our plans for this exciting opportunity in due course. Consistent with our strategy ANOH will represent a major step forward in connecting large-scale gas reserves in the eastern Niger Delta to the main demand centres by utilising the OB3 gas pipeline currently under construction that will provide a future link to our Oben hub.

Return to profitability and financial strength to support growth

2017 marked a financial inflection point for Seplat as the higher oil and gas production following the lifting of force majeure at the Forcados terminal from June 6 onwards, together with higher oil price realisations, positively impacted revenue which was up 78% from 2016 at US$452 million. Profit before tax for the year stood at US$44 million and reflects the return to profitability in the third and fourth quarters where net quarterly profit before tax of US$24 million and US$46 million respectively offset the US$26 million loss before tax recorded at mid-year. A net tax credit of US$221 million, owing primarily to deferred tax credits of

As a truly indigenous organisation, nothing is more important to us than the prosperity of Nigeria. As such, we are building on our position as a leading supplier of gas to the domestic market, as we continue to prioritise the commercialisation and development of the substantial gas reserves and resources identified at our blocks – to power homes and fuel businesses.

US$224 million, increased the overall profit after tax for the year to US$265 million. Cash flow from operations was US$447 million, against capital investments of US$33 million, and translated into a significantly strengthened balance sheet at year end when cash at bank and net debt stood at US$437 million and US$141 million respectively. With the uncertainty created by force majeure we maintained a prudent stance in managing our liquidity throughout 2017 and in July successfully concluded an oversubscribed one-year extension of our revolving credit facility to end 2018. Overall, Seplat's aggregate indebtedness had reduced by US$422 million at end 2017 from its peak in Q1 2015 of US$1 billion, which is a significant deleveraging of the balance sheet particularly in exceptionally difficult trading conditions.

Post period end, in March 2018 we concluded a full refinancing of our indebtedness and in doing so reset our capital structure with longer dated debt maturities, freeing up significant near-term cash flow that would otherwise be consumed servicing debt, and providing a headroom to fund further growth. We refinanced the revolving credit facility with a new, four-year US$300 million revolving credit facility and also completed a debut US$350 million bond issuance which further diversifies our long-term capital base. Our improved liquidity position post refinancing will now allow us to scale up our work programme and focus on both organic and inorganic opportunities to deliver our growth strategy.

Honouring our corporate responsibilities

Community investment remains at the heart of Seplat's corporate responsibility strategy to deliver shared value and leave a long-lasting positive social and economic legacy for our local stakeholders. By investing in and supporting our host communities we seek to broaden opportunities for economic empowerment and employment to alleviate poverty through support of local entrepreneurial initiatives. For example, through our skills acquisition training programme we can connect with a large number of young people and provide them with the necessary training and tools to offer services to their communities well into the future, and also pass the acquired expertise and skills on. Throughout all of our various programmes we share our resources and expertise to help build more resilient communities, adding long-term value beyond our core business activity and creating a mutually beneficial alignment.

At Seplat, we recognise that the skill, dedication and enthusiasm of our team is critical to our success and we support our employee development with individually tailored training programmes. We provide a platform for career development for young people and new graduates and take pride in the diversity that has powered our growth.

Management changes

Following his retirement from the Board effective 30 March 2017, I would like to thank Stuart Connal for his significant contribution to Seplat in the last few years. He has provided excellent operational and technical leadership that has translated into the consistent growth in reserves and production capacity we have delivered and also in particular his contribution to the growth of our gas business. In February 2018, we announced the appointment of Effiong Okon to the Board as Executive Operations Director. Effy brings a wealth of relevant operational experience from 26 years in the industry with Shell and has an in-depth understanding of the Nigerian sector coupled with international experience. Effy is a great addition to the team and we look forward to his contribution as we seek to build and grow oil and gas output across our portfolio.

Outlook

We look ahead into 2018 and beyond with a strong sense of optimism and from a position of both strategic and financial strength. Every aspect of our business and management capabilities has been stress tested in the extreme during the past two years and I am delighted to be able to say that we have proved our ability to withstand severe external shocks to the business, be they macro-economic or disrupted local operating conditions, through finding and implementing innovative solutions to complex problems; effective risk management; continually improving operational efficiency; financial discipline; strong leadership; and above all else the dedication and professionalism of Seplat's workforce and support of our stakeholders. It is these same attributes that will drive us forward into our next phase of growth, which can be broken out into three distinct themes. Firstly, Seplat has historically been one of the most active drillers onshore Nigeria and we have a large inventory of oil production drilling opportunities we will high grade and drill out to organically sustain and grow production. Secondly, we will capitalise on our early mover advantage in the domestic gas sector and further grow upstream and midstream production and processing capacity to help meet Nigeria's increasing demand and power deficit.

Finally, with our balance sheet refinanced, a free cash flow positive production business together with headroom in our capital structure we have the capacity and capability to selectively consider and execute value accretive acquisition opportunities whilst staying true to our price-disciplined approach.

I stated last year that I want Seplat to be known as the most effective, innovative and efficient operator in Nigeria, delivering premium value to stakeholders, and nothing has changed this year other than I believe we are a step closer to achieving that ambition and realising our full potential.

Austin Avuru
Chief Executive Officer

Our key focus areas as we look to the year ahead

Key focus areas	Progress in 2017	Outlook for 2018
Manage and optimise our production and development operations to maximise cash flows and value of the business	Following the lifting of force majeure at the Forcados terminal in June, production was quickly restored to 47,291 boepd in H2, while the Company also reduced production opex by 32% and G&A costs by 28%.	Strong margins at current oil prices, increased contribution from the gas business and a more aggressive work programme will generate free cash flow to be reinvested to further increase production.
De-risk distribution of oil production to market	The force majeure at the Forcados terminal highlighted Seplat's reliance on that particular export route. During 2017 the Company established a barging export solution from Warri capable of sustained exports of 30,000 bopd.	The 160,000 bopd capacity Amukpe-Escravos pipeline is expected to be commissioned and operational in Q3 2018. Seplat is actively engaged with the pipeline owners and contractor to help ensure timely delivery of the project that will help provide sufficient redundant capacity to buffer against future interruptions.
Grow and maximise utilisation of gas production and processing capacity	In 2017, we achieved a record US$124 million in gas revenues from working interest production of 114 MMscfd. Completion of the Oben Phase II expansion project increased gross operated processing capacity to 525 MMscfd.	With sufficient installed processing capacity headroom, there is potential to increase gas sales significantly in 2018 with additional offtake agreements in the pipeline. Deliveries to the Azura Edo IPP will also move to take or pay terms. 2018 will also see FID for the large-scale ANOH greenfield development project.
Organically grow reserves	Appraisal drilling was suspended during 2017 to reduce capex and maintain a liquidity buffer.	We plan to scale up our drilling programme and in doing so have the optionality to incorporate an appraisal element into our activities.
Effective risk management	Risk management continues to be an integral part of all business activities in Seplat and good HSSE performance was achieved in 2017.	Seplat will continue to closely monitor risks to the business and implement our proven and reliable risk management framework.
Prudent financial management	During this challenging period, capex and opex were reduced, our RCF was extended and debt was reduced to ensure a liquidity buffer was maintained. We also benefitted from our hedging policy.	In March 2018, Seplat refinanced its debt with a new four-year RCF and debt bond issuance. The significantly strengthened balance sheet and improved liquidity will allow for capital investments into growth opportunities to be scaled up.
Operate safely and securely and minimise the impact on the environment	Oil and gas activities carry significant levels of HSSE risks if not properly managed. In 2017, we achieved an LTIF of 0.31, a slight improvement over 2016's 0.33, and once again avoided any employee or contractor fatalities.	As activity levels continue to increase there is a strong focus on preventing major environmental, health or safety incidents. We have set an LTIF target for 2018 of 0.16.
Value accretive acquisitions	Given the operating challenges confronted for much of the period our primary focus was on controlling expenditures to maintain a liquidity buffer rather than to pursue new opportunities.	With full production operations restored and the balance sheet refinanced Seplat is in a position to capitalise on new business opportunities such as acquisitions, farm-ins and bid rounds in accordance with our price-disciplined approach.
Play a major role in the development of Nigeria's gas-to-power programme	Nigeria's power generation deficit is widely recognised as a critical constraint on economic growth. Seplat cemented its position as the second largest supplier of processed gas to the Nigerian market, accounting for up to one third of Nigeria's gas-to-power generation requirement.	The pipeline of potential new offtakes to absorb Seplat's processing capacity and its gas growth projects are set to make the Company the largest single supplier of gas to the domestic market in the years ahead.
Maintain strong relationships with host communities	As an indigenous Nigerian oil and gas company we are proud of the positive contribution we are able to make to our host communities through our social investment programmes. In 2017 we invested over US$3.8 million and undertook a wide range of activities, focusing on healthcare, education, economic empowerment, infrastructure development and environmental stewardship.	2018 will see continued investment in our host communities to develop local talent, creating a domestic multiplier effect in the communities where we operate.