Chief Executive Officer's statement

Good progress with our strategic aims

In 2015 we delivered strong operational performance, grew our portfolio, remained firmly profitable and took our gas business across a transformational threshold with further expansion still to come. We acted quickly and decisively in response to the weak oil price environment, strengthened the core fundamentals of the business and have greatly enhanced long-term potential.

Austin Avuru
Chief Executive Officer

We are all acutely aware of the challenging oil price environment that dominated headlines in 2015, and the stresses it placed on the global industry. In response at Seplat we intensified our focus on making sure we delivered on what is under our control and on taking steps to mitigate against factors outside our control.

Beating production guidance

2015 saw Seplat deliver record net working interest production of 43,372 boepd, ahead of the upper range of 2015 full year guidance that was set at 32,000 boepd to 36,000 boepd and up 41% year-on-year. Within this oil and condensate production was 29,003 bopd and gas production 86 MMscfd for the full year.

This strong performance was primarily driven by an increase in oil, and particularly gas production at our core OMLs 4, 38 and 41 as a result of our aggressive drilling and infrastructure development programmes. We also saw an increase in oil output year-on-year at OPL 283 (Marginal Field Area) and recognised production from OML 53 and OML 55 for the first time. Interruptions to third party export infrastructure, that we rely on to export our oil production, weighed on the business again in 2015. However, as a result of steps we took during the year to increase condensate storage capacity, and therefore de-couple oil and gas production, we are now much better positioned to withstand such interruptions than in prior years and can continue to produce and sell gas into the domestic market even when oil production is interrupted.

Growing reserves

Working interest 2P reserves as assessed independently by DeGolyer and MacNaughton at 31 December 2015 stood at 480 MMboe, comprising 209 MMbbls of oil and condensate and 1,573 Bscf of natural gas. This translates into an organic reserve replacement ratio of 2x in 2015, and taking into account inorganic growth we achieved a reserve replacement ratio of 14x. Since inception a core value driver of Seplat's has been the progressive conversion of 2C resources to 2P reserves, and in 2015 we continued this trend by re-categorising around 30 MMboe. Since 2010 we have converted around 179 MMboe of 2C resources to 2P reserves marking a compound annual growth rate overall of 28%. We have also for the first time booked working interest 2P reserves of 185 MMboe associated with OML 53 and OML 55, highlighting the materiality of these blocks and their importance to our long term plans.

Solid financial platform, profitability and flexibility

When oil prices started their abrupt decline back in mid-2014 we acted quickly and decisively in response to the decaying oil price environment and have continued to do so since. In 2015, we made adjustments to our work programme and cost structures to ensure that, against a bleak industry backdrop, we remained firmly profitable in the period and underpinned by a strong balance sheet – something the collapse in oil price has only served to highlight the importance of maintaining. We have not booked any material impairment charges, which again, underscores the quality of our portfolio and resilience to a weak macro environment. Furthermore, we maintain discretion over spend and have the flexibility to re-align expenditures with cash flow as appropriate, up or down, and work hard to find innovative ways to achieve more with less.

Revenue for 2015 was down 26% from 2014 at US$570 million. Net profit for the year stood at US$67 million following one-off costs of US$77 million. Normalised for these charges, net profit would have totalled US$144 million. Cash flow from operations before movements in working capital was US$190 million, ahead of capital investments of US$152 million. Cash at bank and net debt at year end stood at US$326 million and US$573 million respectively.

At end 2015, the net NPDC receivables balance stood at US$435 million, down from US$463 million at end 2014 and a peak of US$504 million at HY 2015, after we entered into a signed agreement mid-year to start offsetting NPDC's share of gas revenues against the outstanding balance. In January 2015, we successfully refinanced our existing debt facilities with a new US$700 million seven year secured term facility and US$300 million three year secured revolving credit facility.

Our business model and strategy: page 16

Capitalising on the gas opportunity

At Seplat we were quick to seize upon the attraction of gaining a foothold in Nigeria's rapidly evolving natural gas sector. Far from seeing gas as a commodity to be exported as LNG or a by-product to be disposed of, we are absolutely firm in our belief that supplying Nigeria's domestic market is an outright commercial opportunity in itself that we will continue to prioritise and that gas to power in particular is vital to future economic growth and diversification for Nigeria.

In 2015, we produced a gross volume of 192 MMscfd compared to 88 MMscfd in 2014, all of which was supplied to the domestic market where demand for our gas was exceptionally strong and we increasingly accounted for a growing portion of market share. The increase correlates to the installation and commissioning of the new Oben Phase I expansion gas processing facility mid-year which took the gross processing capacity we operate to 300 MMscfd. This in turn was reflected in our gas revenues for 2015 which were up 185% year-on-year at US$77 million. With the full 12 month benefit of the Phase I expansion to be felt in 2016 and plans afoot to complete Oben Phase II expansion later in 2016 taking our gross processing capacity to a minimum of 525 MMscfd, we are well positioned to realise further step-change production and revenue growth from our gas business in coming years. You can read much more about our gas business in the special feature included within this report.

Strengthening through diversification

Diversification is an important part of positioning the business to make sure we have the building-blocks in place to deliver sustainable returns and value growth over the long term. There are numerous ways that we can benefit through greater diversification.

Firstly, asset diversification is key. Having started out with a concentrated portfolio comprising only OMLs 4, 38 and 41 we have to date grown our portfolio to six blocks, five of which we operate, all of which are in production and offer material future development upside opportunities to further grow and diversify output. Not only this, but an enlarged portfolio allows us to more rigorously benchmark and high-grade the inventory of investment opportunities available to us, thereby improving decision making and how we allocate our capital.

Secondly, over-reliance on a particular third party infrastructure system has been a long-standing issue for many producers onshore Nigeria in particular and we have been no different with a dependency on the TFS. Portfolio expansion can help dilute such a reliance as can the development of alternative options. Whilst deliveries so far via the pipeline linking OMLs 4, 38 and 41 to the Warri refinery have been modest, it is a focus of ours to establish a regular and mutually beneficial offtake arrangement and we will continue to work up additional potential alternatives.

Thirdly, exposure to a single commodity can leave the business overly susceptible to a prolonged down-turn in its price. Through growing our domestic gas business we are able to increasingly generate a revenue stream that is de-linked from oil price and achieve revenue continuity in the event of disruptions to third party oil export infrastructure.

Fourthly, diversification into the offshore is something we have not yet built in to the business but hold ambition to. Whilst we have a strong track record operating onshore the Niger Delta we possess the skills and experience to transpose this into the shallow water offshore areas of the Niger Delta where, in general, high levels of uptime can be achieved with direct access to market and minimal losses, all of which would provide a high degree of complementarity to our onshore operations.

Focus on the fundamentals

There are a number of key attributes that have enabled Seplat to thrive and also provide the business with the stamina and resources to withstand any major downturns. Whilst we have invested in assembling and developing an extremely high quality portfolio of oil and gas blocks in the Niger Delta, we have also invested in making sure that we have the right people in place to manage and operate the business, and that we prioritise long-term relationships with all of our stakeholders including partners, host communities and government alike, ahead of short-term gains. Similarly, we take all of our responsibilities very seriously and are committed to running safe and secure operations across the board, as illustrated by our strong performance in HSSE management over the year.

This long-term approach is what sets us apart from many of our peers and, coupled with our strategic foresight to gain early mover advantage and positioning in the local and international capital markets, means that in five short years we have been able to establish Seplat as the leading Nigerian independent E&P and a partner of choice.

2016 outlook

There is much for us to look forward to in 2016, but still many challenges we must overcome. Our strong focus remains on protecting the business and managing for value through driving further cost reductions, optimising operations, deleveraging and strengthening the balance sheet in preparation for opportunities that will inevitably follow this current downturn. We will see the next growth instalment in our gas story and whilst we cannot predict the oil price will make sure we are well placed to benefit from any recovery.

Austin Avuru
Chief Executive Officer