Exploiting improved operating environment to deliver strong profitability growth

How would you summarise Seplat's performance in 2018?

2018 was a solid year for Seplat, and a continued validation of our business model and strategy. We performed in line with our operational guidance and achieved robust profitability and cash flow generation, providing us with a strong foundation for growth in the coming years. This is clearly evidenced when viewing our performance in 2018 against the key performance indicators and other performance metrics we use to assess the strength of our business on pages 40 to 43 of this report. Based upon this operational stability and financial performance of the business we reinstated the dividend and declared a special dividend of 5 cents per share in April paid to normalise returns to shareholders after the dividend suspension in 2016 and 2017, and an interim dividend of 5 cents per share in October in line with our normal dividend distribution timetable. Further to this, the Board of Seplat is recommending a final dividend of 5 cents per share which is subject to approval of our shareholders at the AGM. It should be noted that since the IPO we have returned US$210 million to shareholders. Furthermore our Total Shareholder Return ("TSR") for 2018 was 11.8% and 7.1% for the LSE and NSE lines respectively, representing an upper quartile performance compared to our peers, oil price and relevant indices and also against a challenging equity market backdrop.

2018 was a solid year for Seplat, and a continued validation of our business model and strategy.

Austin Avuru
Chief Executive Officer

A robust strategy for growth

Since inception we have been guided by a clear and consistent strategy that 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

Strategy **page 30**

What were the key operational targets for 2018 and have they been met?

Having set production guidance for full-year 2018 of 48,000 to 55,000 boepd, I am pleased to be able to report that our 2018 outcome fell within this range at 49,867 boepd, comprising 25,699 bopd of oil production and 145 MMscfd (or 24,198 boepd) of gas production. We also aim, at a minimum, to replace the reserves we produce in the year and in 2018 achieved a reserve replacement ration of 121%. As a result our working interest 2P reserves at 1 January 2019 stood at 481 MMboe, comprising 227 MMbbls of oil and 1,473 Bscf of gas, and up marginally from 477 MMboe the prior year. Alongside this we have working interest 2C resources of 80 MMboe, comprising 38 MMbbls oil and 244 Bscf gas, that provides us with further potential to replace production and organically grow reserves.

More broadly, it remains a key operational policy to ensure multiple oil export routes exist for all of our assets in order to reduce any over-reliance on one particular third party operated export system. In line with this, even though it was not required in 2018 we have retained access to two jetties at the Warri refinery that will enable sustained exports of 30,000 bopd (gross) if required in the future. Looking further ahead, the Amukpe to Escravos 160,000 bopd capacity pipeline is set to provide a third export option for liquids production at OMLs 4, 38 and 41. While completion work on the pipeline has been slower than we would have liked we now expect the new pipeline to be commissioned imminently and be fully operational to the initial permitted volume for the Seplat / NPDC joint venture of 40,000 bopd in the third quarter. With line of sight on the availability of three independent export routes it is our intention to ensure all three remain available to provide adequate redundancy in evacuation routes, significantly de-risking the distribution of our production to market and reducing downtime which has adversely affected the business over a number of years.

Why did you issue a bond as part of the March 2018 refinancing?

As part of the overall refinancing in March 2018 we concluded a refinancing of the existing US$300 million revolving credit facility with a new four-year US$300 million RCF at LIBOR +6% and alongside this issued a debut US$350 million bond priced at 9.25%. Proceeds of the refinancing were used to repay and cancel pre-existing indebtedness and also to cash settle crude oil prepayments entered into during 2016 and 2017.

This successful refinancing really represents our final step in resetting the business following the extended period of force majeure in 2016 and 2017 that restricted distribution of oil production to market and limited oil sales during that period. As a consequence we took certain measures to ensure we maintained a liquidity buffer and protected the core business, including the re-profiling of our debt facilities which in-turn increased repayment obligations in 2018 and subsequent years. The refinancing has enabled Seplat to longer date its debt maturities and free up significant cash flow in 2018 and beyond that would otherwise have been consumed by servicing debt, thereby providing a greater financial resource to reinvest in our organic and inorganic growth plans.

The bond issuance has also, in particular, diversified Seplat's long term capital base and helped to lower our overall cost of borrowing. In August the bond was listed on the International Securities Market of the London Stock Exchange in addition to the original listing on the Euro MTF market of the Luxembourg Stock Exchange, further raising Seplat's profile in the international capital markets.

How will you prioritise allocation of Seplat's capital?

The combination of our strong cash generation in 2018 (when operating cash flow stood at US$502 million) and the debt refinancing has translated into balance sheet strength, meaning that we exited the year with US$585 million of cash, up from US$437 million at the end of 2017, and a net cash position of US$135 million compared to a net debt position of US$141 million a year earlier. With this robust capital structure and a portfolio that can continue to generate significant cash flow we have a considerable financial resource to deploy as we continue to deliver our growth strategy and build value for our shareholders.

In terms of the existing portfolio we expect to step up investments in 2019 to the US$200 million level, and will allocate the capital on a highly disciplined basis to production and development opportunities that offer the highest cash returns. We will maintain discretion over our capital spend and keep it proportionate with the cash flow generated to ensure our existing business can continue to be the free cash generative machine it was in 2018. This in turn can underpin a sustainable core annual dividend yield for our shareholders in line with our policy with the possibility for special dividends when profits, cash and capital investments commitments allow. Further to this we took final investment decision for the large scale ANOH gas and condensate development post period end and will be making a phased equity investment into ANOH Gas Processing Company ("AGPC"), the incorporated joint venture owned 50:50 by Seplat and NGC that is developing a 300 MMscfd Phase I gas processing plant at OML 53.

We have also prioritised deleveraging of the balance sheet and consistently reduced our gross debt level of US$1 billion at the start of 2015 to a level of US$350 million in March 2019. However, we have retained a significant un-drawn headroom in our capital structure with the revolving credit facility that means we are equipped to capitalise on inorganic growth opportunities as and when they may arise, in line with our price disciplined approach and focus on opportunities that provide near-term production growth, cash flow and reserve replacement potential.

What is the optimum oil / gas balance for Seplat?

Our gas business has continued to record significant year-on-year growth with 2018 yet another record year that saw gas revenues climb to US$156 million (21% of Seplat's total revenue in 2018), up 26% year-on-year and up from a level of just US$18 million in 2013 representing over an eight-fold increase in just five years. We have always said that we see the gas business having the potential to consistently contribute around 30% of Seplat's bottom line and we maintain that as an achievable outcome. It should be noted, however, that the importance of the gas business is greatly amplified during periods of oil price weakness or disruption to oil exports.

In contrast to the oil business where oil price volatility can more than offset volume growth in any period, the gas business is an area where we have been able to realise the combined benefit of increasing price and increasing volume. Gas prices in the Nigerian domestic market are de-linked from the oil price and have shown a steady increase since 2012 in particular (when we made the strategic decision to commit investments to capture the gas opportunity), with the domestic service obligation price increasing from US$1.0/Mscf to the current US$2.5/Mscf. Beyond this we have entered into a number of additional gas sales agreements on a willing buyer/willing seller basis that has seen commercial pricing move towards the US$3.5/Mscf level. Today our production and reserve mix is evenly balanced between oil and gas, providing a good level of commodity diversification within the business and our plan remains to grow both our oil business and gas business in tandem into the future.

How much further can you grow the domestic market gas business?

There is considerable scope to grow the gas business further and it is one of our aims to become the largest supplier of processed gas to the domestic market in Nigeria in the coming years. The next driver of step-change growth for our gas business will be the ANOH gas and condensate project that we took final investment decision on in March 2019. The project will see a Phase I development of a 300 MMscfd midstream gas processing plant on OML 53 that will purchase and process the wet gas from the unitised gas fields at OML 53 and OML 21, which is operated by Shell and in which we have a 20% unitised upstream interest. To deliver the new gas plant we have formed an incorporated joint venture, AGPC, with NGC in which we each have a 50% equity interest.

The project will see large scale gas reserves in the eastern Niger Delta connected to Nigeria's major demand centres and I believe Seplat is uniquely positioned to deliver the project by capturing repeatability gains and leveraging our experience of developing the Oben gas processing hub at OMLs 4, 38 and 41 where we have installed an additional 375 MMscfd processing capacity to take overall total capacity to the 525 MMscfd level today.

Upon delivery of the ANOH project and combined with Seplat's existing gas business, there will be sufficient gas processing capacity capable of supporting over 3,000 MW of power generation. We are not limiting ourselves either, as at both the Oben and ANOH hubs we are taking a modular approach to expansion and have ensured that at each location we have sufficient accommodation space to grow processing capacity to over 1 Bscfd over time so that we can meet Nigeria's growing demand for gas and continue to be a first mover in capturing the domestic gas opportunity in the years to come.

What do you see as your main challenges?

There is continuing volatility of the oil price, mainly due to over-supply concerns arising from the seemingly relentless growth in US output we have seen in recent years and continued geopolitical tensions in key markets that could erode demand. This remains a factor, though we have continued to see good demand for Nigerian oil grades and our sales remained strong in 2018. To mitigate the risk of severe negative oil price movements we maintain an active hedging strategy aimed at providing a levels of cash flow assurance taking into account our capex plans and business costs. We also protect our margins through strict cost control and in 2018 lowered our production operating costs to US$5.77/boe from US$5.96/boe the year before. These factors, together with the diversification the gas business brings and discretion we maintain over spend, help to ensure that the business can break even at significantly lower oil price levels.

Another key industry-wide challenge is continued operational delivery in what can be a challenging environment and budget control. Since inception we have safely drilled over 70 new wells at our assets and undertaken major infrastructure projects including the 375 MMscfd expansion of the Oben gas plant. This means that we have built a strong track record and take our learnings from past achievements into future activities. We have also consistently remained within our budgeted expenditures and demonstrated a prudent approach to managing our financial resources that has served us well in more challenging times and delivered us to the position of strength we are in today.

What are your plans for 2019?

In 2019 we will return to a level of drilling and development activity not seen since 2015. At OMLs 4, 38 and 41 we have a number of wells planned at Sapele Shallow, which overlies the main oil productive reservoirs in the main Sapele field and is estimated to hold around 500 MMbbls STOIIP. To date Sapele Shallow has not been fully developed and is set to become a longer term focus of ours as we seek to realise the full potential of our core asset base. Additionally we also have new wells planned at the Ovhor field and re-entries of wells at other locations to ensure that we not just offset natural decline but realise an incremental benefit.

We are also stepping up activities at OML 53 in 2019 and, following the re-entry and completion of two existing wells at the Ohaji South oil field late last year, plan to drill additional wells in 2019 as we start to grow output in the eastern Niger Delta.

In addition to the major ANOH gas and condensate project, which I have already outlined, we will also undertake various facility upgrade and asset integrity projects, including further upgrades to our liquid treatment facilities, booster compression and the Sapele gas processing plant. We have set our 2019 capex budget at US$200 million which is more than double our spend in 2018.

What were your CSR highlights in 2018?

We see a strong HSE performance as being key to our licence to operate. Seplat has always had and continues to have an uncompromising focus on HSE and has developed a well-established safety culture which is ingrained at every level in the business. We have consistently improved our Lost Time Injury Frequency Rate ("LTIF") towards zero and in 2018 our LTIF was 0.14, a significant improvement on the prior year LTIF of 0.31. However, we understand that there is always more to do, and our safety policies and training procedures are therefore consistently reviewed and amended to reflect this.

Equally important is our commitment to deepening relationships with the communities where we operate and have always prioritised the long-term relationships with our host communities ahead of short term gains. As one of Nigeria's leading indigenous operators, we understand the importance of working with our host communities to our mutual benefit and to establish lasting relationships based on respect and trust. Collaboration is key and in 2018 we held 298 community meetings, 19 meetings with traditional rulers and four town hall events. In tandem, we continued to invest in community projects, supporting infrastructure development, education and health programmes in the areas around our assets.

You are five years on from IPO, what might the next five years hold for Seplat?

In simple terms we will continue to create value by leveraging our core strengths and remaining true to our tried and tested strategy and business model. I remain confident that Seplat has the right team, the right approach, the right assets and access to the right opportunities to achieve our goals and create significant value for all of our stakeholders. In positioning the business for the next five years and beyond we will seek to:

1 Manage the current portfolio to maximise value and maintain significant financial capacity and flexibility by:

- Disciplined allocation of capital to highest cash return production opportunities
- Ensuring the current portfolio continues to be free cash flow generative and is able to underpin a sustainable dividend yield for shareholders

2 Capture transformational value accretive acquisition opportunities by:

- Capitalising on the Nigerian opportunity set that remains one of the most prolific in Africa
- Prioritising new opportunities that offer near term production, cash flow and reserve growth potential
- Leveraging our core production and development expertise to capture upside

3 Realise the strategic premium to be derived from the gas business by:

- Aiming to become the largest single supplier of processed gas to the domestic market
- Controlling midstream processing capacity to attract and grow third party tolling business
- Considering strategic initiatives to demonstrate the equity value of the gas business

4 Become the African indigenous oil and gas investment of choice by:

- Aspiring to mirror our Premium Segment status on NSE and achieve a premium listing on LSE
- Continuing to capitalise on Seplat's unique position in the capital markets as the only company to fully dual list on the NSE and main market of the LSE

Our key focus areas as we look to the year ahead

Key focus areas	Progress in 2018	Outlook for 2019
Manage and optimise our production and development operations to maximise cash flows and value of the business	Working interest production up 35% year-on-year at 49,867 boepd and in line with production guidance. Re-entered two wells in Ohaji South, drilled a new gas production well at Oben and completed a workover of an existing gas well.	Strong margins at current oil prices, reliable and significant contribution from the gas business and a more aggressive work programme will generate free cash flow to be reinvested to offset natural decline and incrementally boost production.
De-risk distribution of oil production to market	The Company's policy is to establish multiple export routes for all assets. The barging export solution from Warri capable of sustained exports of 30,000 bopd (gross) was available as a back-up option if required in the year.	Slower than expected progress on completion of the 160,000 bopd capacity Amukpe-Escravos pipeline means it is expected to be commissioned and operational in Q2 2019. Utilising all three routes will ensure adequate redundancy in evacuation routes.
Grow and maximise utilisation of gas production and processing capacity	Gas revenues reached a new high of US$156 million from working interest production of 145 MMscfd in 2018. Deliveries to the Azura Edo IPP commenced on take or pay terms.	In March 2019 the Board sanctioned FID for the large-scale ANOH greenfield development project at OML 53. The Company will also undertake an upgrade of the existing Sapele gas plant at OMLs 4, 38 and 41.
Organically grow reserves	Achieved a reserve replacement ratio of 121% in 2018 with working interest 2P reserves at 1 January 2019 independently assessed to be 481 MMboe.	In 2019 the Company will scale up its drilling programme and in doing so 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 2018.	Seplat will continue to closely monitor risks to the business and implement our proven and reliable risk management framework.
Prudent financial management	In March 2018, Seplat refinanced its debt with a new four-year RCF and debut bond issuance. Unit production opex and G&A were further reduced by 3% and 13% respectively.	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 2018, we achieved an LTIF of 0.14, an improvement over the 0.31 recorded in 2017, 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.
Value accretive acquisitions	No acquisitions were made during the year.	With a robust operational platform and headroom in the capital structure 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.
Maintain strong relationships with host communities	In 2018 Seplat invested over US$4.6 million (US$64 million since inception) and undertook a wide range of community activities focusing on healthcare, education, economic empowerment, infrastructure development and environmental stewardship.	2019 will see continued investment in our host communities to develop local talent, creating a domestic multiplier effect in the communities where we operate.