

A special  
feature on  
our gas  
opportunity

# 2015: A transformational year for our gas business





Welcome to this special feature section.

Here we will focus on one of our key strategic priorities, the commercialisation and development of our substantial gas reserves and resources.

Nigeria has one of the largest gas reserves globally and a fast evolving domestic market to which Seplat is a leading supplier.

We are very proud of the success of our gas story and the plan is to further increase gas production and processing capacity to meet Nigeria's growing demand, particularly in the gas to power sector.

### Delivering on our commitment

In April 2014 Seplat became the first company to complete a dual-listing on the London and Lagos Stock Exchanges, raising US\$535 million. A compelling element of our investment proposition was, and continues to be, the robust growth strategy the Company has within which the commercialisation of gas assets to supply the domestic market is a core element. Now, two years on from IPO, Seplat has made tremendous progress towards monetising its significant existing gas reserves over and above its domestic supply obligations.

In 2010, at the time Seplat was founded, the Nigerian gas sub-sector was characterised by a number of constraints including poor pricing arrangements (the price of gas was around US\$0.3/Mscf), inadequate gas infrastructure, and the legacy of non-payment by major consumers.

Seplat was prompted to review its gas business and develop an expansion strategy when the Nigerian Government launched initiatives to improve the debilitating impact of poor power generation and supply in the country by opening the Domestic Supply Obligation pricing to market forces, and thus making it economic for E&P companies to invest to increase gas availability in the domestic market.

Rolling forward to the present, this expansion has seen Seplat become the second largest supplier of processed gas to the Nigerian market today and we have current expansion projects underway and new field developments in the pipeline that are set to make us the largest single supplier of gas to the domestic market in the years ahead. Over the past three years we have invested well in excess of US\$300 million to increase the Company's production capability and gas processing capacity, which has risen from an initial 90 MMscfd to in excess of 300 MMscfd, with 100% of our gas output going into the domestic market.

### Nigeria's demand for power

Nigeria, which has the largest proven gas reserves in sub-Saharan Africa and ninth largest

globally, significantly falls behind its country peers in electricity production per capita, with almost 50% of the population having no access to electricity. Nigeria's electricity consumption per capita is below the average for sub-Saharan Africa and well below Angola, Ghana and Zambia. The global average power consumption per capita is 2,800 kWh compared to just 149 kWh in Nigeria.

This constraint on power access not only has a debilitating effect on the social welfare of the country but also results in considerable lost economic growth. To address this issue, the government has enabled the transition from a state monopoly in power generation to a private sector led power industry.

The government has set ambitious targets for increasing power generating capacity of which the vast majority (up to 80%) will need to come from gas-fired power plants. The IMF forecasts that by 2020 Nigeria will have added 11,000 MW of gas-fired generation capacity which in turn will require at least an additional 2 Bscfd of gas production over and above 2015 levels.

Whether or not these targets can be met, it is clear that there is going to be a significant increase in gas demand from the domestic market in the coming years.

### Diversification for growth

Seplat's gas business has always been a key growth pillar for the Company and our development of it pre-dates the recent decline in the oil price. Having said that, 2015 has been a period of notable growth and progress for our gas business: the commissioning of the new 150 MMscfd Oben gas plant saw deliveries into the domestic market increase sharply, with peak gross deliveries hitting 332 MMscfd.

With 100% of volumes dedicated to supplying key demand centres within the domestic market, Seplat is strategically important to Nigeria's current and future security of gas supply and currently supplies enough to underpin around a third of current grid generation capacity.

The government must play its role to ensure all stakeholders in the gas to power chain respect contractual rules and it must also design incentives that encourage prospective investors to provide the necessary infrastructure improvements. For example, the FGN pipeline under construction (OB3) from the east to the west Niger Delta needs to be completed before the desired supply increase to Lagos and the north can happen. Seplat, as a listed company with strong operating credentials and access to local and international capital markets, is well positioned to play its part in delivering fast-track and cost-efficient field development and infrastructure projects to help boost domestic gas supply.

Since starting out in 2010 with 2P gas reserves of 406 Bscf Seplat has converted 459 Bscf gas from 2C resources to 2P reserves and acquired a further 795 Bscf which, adjusting for produced volumes, means 2P gas reserves stood at 1,573 Bscf at end 2015 (representing a compound annual growth rate of 31%) with 2C resources still of 239 Bscf.

With commercial pricing expected to increase further we are committed to continuing to increase gas supply to the domestic market, underpinning greater levels of power generation capacity in Nigeria and delivering further value for our shareholders.



A.B.C. Orjiako  
Chairman



Austin Avuru  
Chief Executive Officer

# Meeting demand

Seplat's production and development plans will fuel Nigeria's 'Power Revolution'.

Nigeria has Africa's largest economy, a population in excess of 182 million and is projected to be the third most populous country in the world by 2050. Yet, half of Nigerians have little or no access to electricity and electricity consumption per capita is estimated to be just 149 kWh.

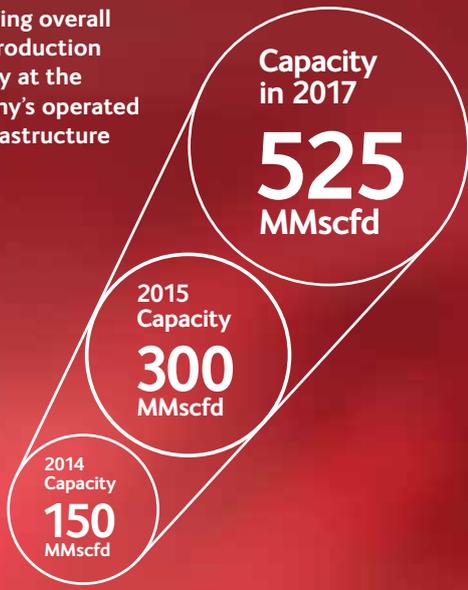
By comparison the global average is estimated to be around 2,800 kWh with the US being the highest at around 12,000 kWh. The Nigerian government has ambitions to transform the country's power generating capacity from the current level of approximately 4,000 MW to as much as 40,000 MW.

To achieve such aspirations natural gas will need to be the primary driver and could account for up to 80% of the overall power mix.

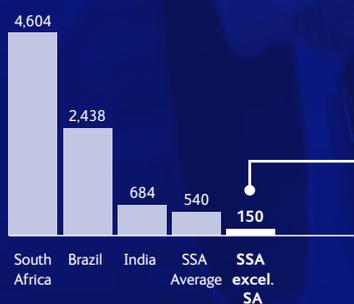
However, domestic gas supply will need to increase by multiples over and above current levels if significant growth in power generation is to be realised, and it is Nigerian independents, such as Seplat, that will need to deliver this. Seplat currently provides enough gas to underpin around a third of the country's current power generation and is set to become Nigeria's leading domestic gas producer in the coming years. As such, it is clear that Seplat is integral to Nigeria's planned power revolution.



Increasing overall gross production capacity at the Company's operated gas infrastructure

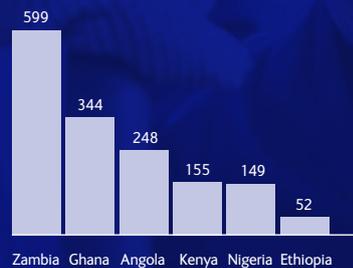


Major emerging markets' power consumption (kWh/capita, 2011)



Source: McKinsey study, Company data

Sub-saharan Africa power consumption (kWh/capita, 2011)



Gas supply required to scale up power generation



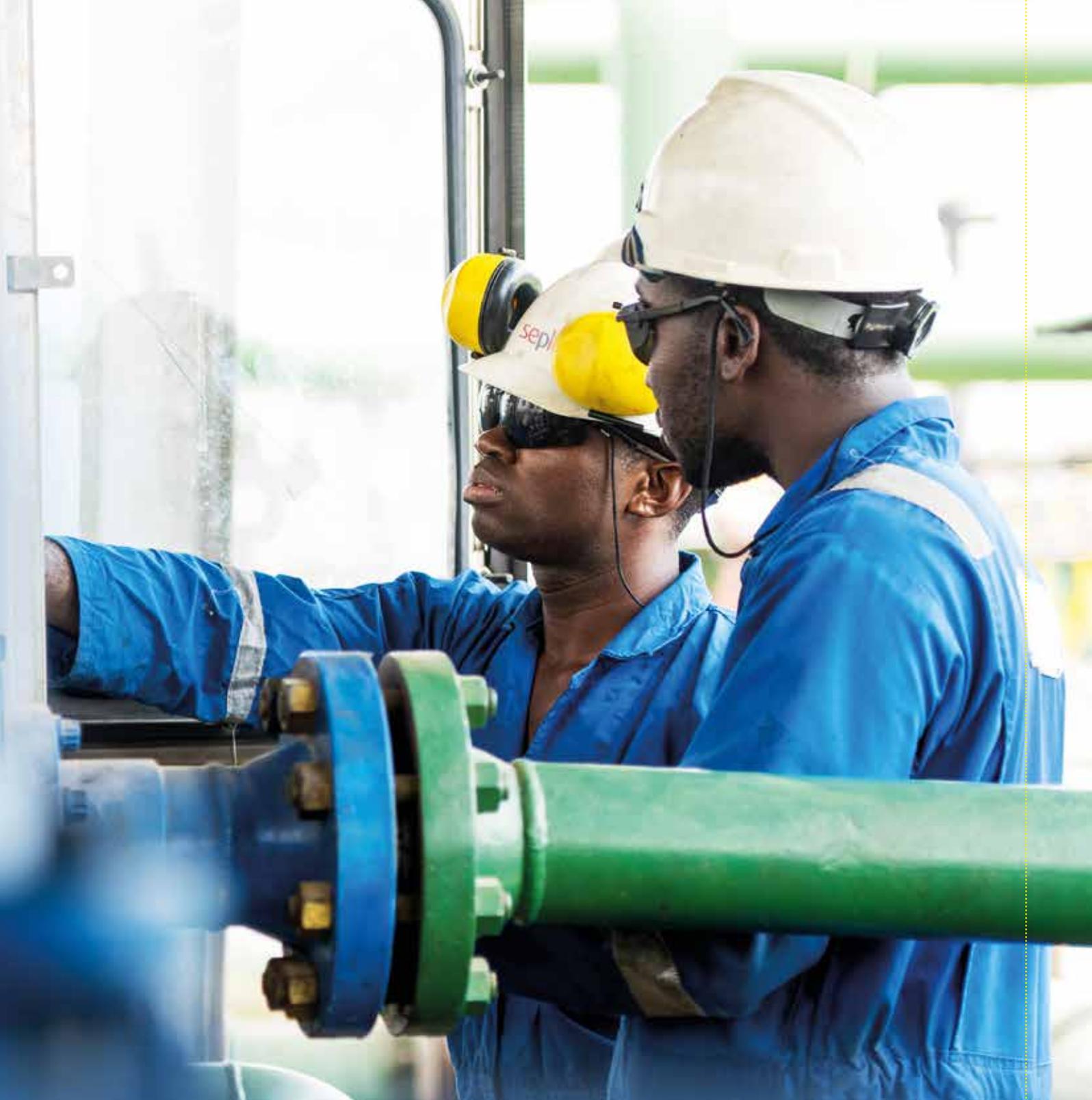
# Delivering

2015 was a transformational year for our gas business as we commissioned the new Oben gas processing facility allowing us to more than double gas supply to the domestic market. Our production is sufficient to underpin around a third of current power generation in Nigeria.

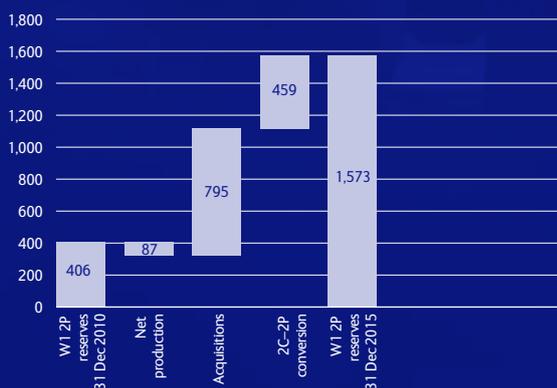
The Phase 1 expansion of the Oben gas processing facility was completed mid year doubling our overall gross capacity to 300 MMscfd. By the end of 2016, further increases will take Seplat's overall gross processing capacity to a minimum of 525 MMscfd. With 100% of volumes dedicated to supplying key demand centres within the domestic market, Seplat is strategically important to Nigeria's current and future security of gas supply.

Seplat has also worked to monetise associated gas that was previously flared through the installation and commissioning of three 10 MMscfd associated gas compressors and a compression station at Oben. A further expansion plan is being developed that will comprise the installation of an additional two compressor units to capture remaining excess associated gas volumes at the Oben station.

In 2015, Seplat delivered a 119% year-on-year increase in average gas production to 192 MMscfd gross (86 MMscfd net working interest).



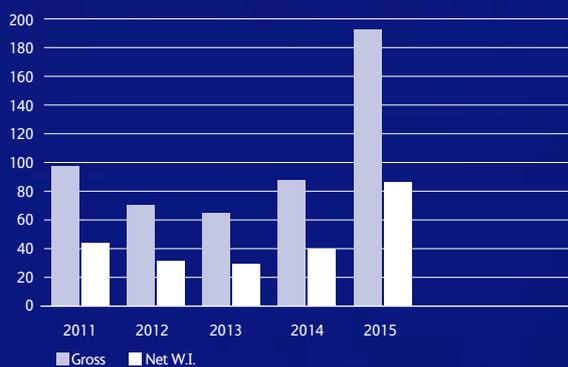
### W1 2P Gas reserve base 2010 to 2015 (Bscf)<sup>1,2</sup>



Source: Company information

- Volumes stated at 31 December 2010 based on independent estimates from Gaffney Cline & Associates
- Volumes stated at 31 December 2015 and for acquisitions based on independent estimates from DeGolyer & MacNaughton

### Gas production supplied to the domestic market (MMscfd)



2015: A transformational year for our gas business

# Maximising value

Gas revenues in 2015 grew by 185% year on year to US\$77 million with only a six month benefit from the capacity expansion at Oben. Furthermore, the 119% increase in gas production was accompanied by a 34% increase in the average realised gas price.

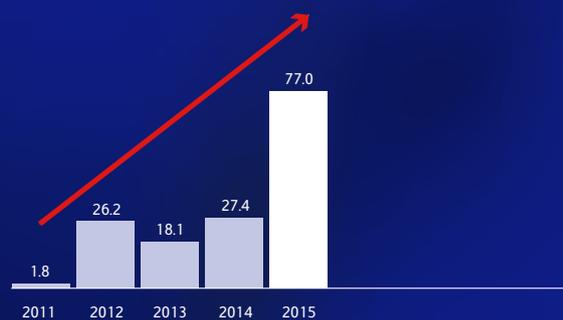
Seplat's working interest 2P gas reserves were independently estimated at the end of 2015 to be 1,573 Bscf, an increase of 90% year on year. Since 2010, Seplat has delivered a compound annual growth rate of 31% for working interest 2P gas reserves. The Company's significantly enlarged gas reserves base will allow it to commit additional volumes to more long-term supply contracts in the coming years.

During 2015, Seplat signed a new gas sales agreement with NGC to supply an additional 100 MMscfd at a price of US\$3.50/Mscf to the domestic market over and above its pre-existing contracts.

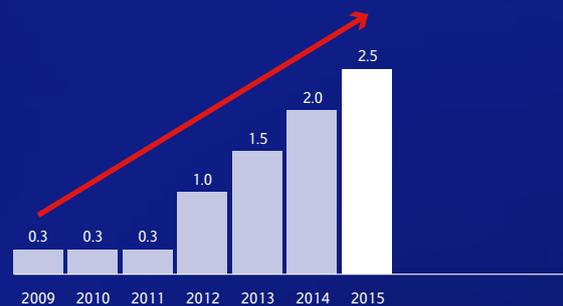
The new gas sales agreement will run until mid-2017, after which the volumes will be allocated towards the gas sales agreement with the Azura power project that was signed in 2014. The Company also signed an additional variable gas sales agreement with NGC to supply up to a further 140 MMscfd. It is envisaged that the variable contract will allow for any volumes not taken by the buyers under the domestic supply obligation to be placed elsewhere in the market together with any additional volumes that may be required.



Company gas revenues (US\$m)



Gas to domestic power pricing has improved (US\$/Mscf)



Source: NNPC; assumed 1 Mmbtu equals 1 Mscf. Based on DSO pricing levels.

# “Increased power generation is key to Nigeria’s GDP growth and Seplat is on track to become the leading supplier to the domestic market as a result of substantial investments to expand gas production and processing capacity.



Stuart Connal  
Chief Operating Officer

In 2015 we saw a real step-change in our gas business. Net working interest production increased by 119% year on year to 86 MMscfd, gross processing capacity was doubled to 300 MMscfd with work underway to increase it to a minimum of 525 MMscfd and our working interest 2P gas reserves increased by 90% to 1,573 Bscf.

Of particular note during the year was the installation and final commissioning of a new gas processing facility at the Oben field, adding an additional gross processing capacity of 150 MMscfd. Having committed to the expansion project in 2013, we opportunistically identified a new-build processing facility in Dubai that was originally destined for a project in Ukraine that had been cancelled. We were able to reach an agreement with the other counterparties to acquire and reconfigure the facility to our specific requirements, for a cost of around US\$110 million allowing us to achieve in a period of two years what would ordinarily have taken between five to seven years and cost in the order of US\$250 million. This move has allowed Seplat to capitalise on an early mover advantage and accelerated a major uptick in domestic supply to the benefit of Nigeria. This is evidenced by the notable uplift in power generation that coincided with commissioning of the new plant in July 2015 – the additional 150 MMscfd gas supply translating into around a 600 MW increase in power generation. As a result we now produce enough gas to underpin around a third of current power generation in Nigeria.

Another important decision we took was to pre-invest in the accommodation space and ancillaries necessary to give us headroom to further grow capacity. Our major focus at present is the Phase II expansion of the Oben gas processing facility. This will entail the installation of three more 75 MMscfd processing modules, adding a further 225 MMscfd gross capacity and taking our overall capacity to a minimum of 525 MMscfd. The additional processing modules, together with booster compression stations, have been ordered and delivery is anticipated towards the latter parts of 2016 for installation and commissioning by year end or in early 2017.

Completion of this next expansion phase will further set us apart as a preeminent supplier of gas to the domestic market and cement the Seplat operated Oben hub as a core strategic infrastructure link, connecting the major demand centres on the Lagos and Abuja axis with greater long-term gas supply. Other initiatives include the Sapele Rehabilitation project, the objective of which is to provide a sustainable 60 MMscfd NAG and AG solution through rehabilitating the existing Sapele Gas Plant or installing an export line to the Oben Gas Plant.

The increase in gas production has also presented us with the associated benefit of higher than expected condensate yields.

To handle this, and also facilitate the continuity of gas production and sales during periods when third party oil export infrastructure is in shut-in, we completed the construction of two x 50,000 barrel storage tanks at the Amukpe field in 2015 and plan to add additional storage capacity. To scale our gas business up and commit to more long-term gas sales agreements we need to ensure we have the reserves in the ground to match. To this end the acquisition of an interest in OML 53 in particular provides us with exactly this and places Seplat at the helm of what will be one of Nigeria’s largest greenfield gas development projects.

In 2016, we will continue to prioritise the commercialisation and development of our gas business as natural gas increasingly becomes the fuel of choice for domestic power generation. We are strategically well placed to capitalise on growth opportunities in the gas sector and to work with the Government and other stakeholders in achieving the collective ambition of increasing gas-fired power generation to multiples of where it is today underpinned by a reliable and diversified gas supply.

A handwritten signature in black ink that reads "Stuart Connal". The signature is fluid and cursive, with a long horizontal line extending to the right.

Stuart Connal  
Chief Operating Officer



“ The growing revenue stream from our gas business is de-linked from the global oil price and remains on a strong growth trajectory.



Roger Brown  
Chief Financial Officer

Our gas business is making an increasingly important financial contribution for Seplat. In contrast to the oil business where the severe decline in oil price has more than offset the volume growth we have delivered, 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 over the past four years in particular, with the domestic service obligation price increasing from US\$0.3/Mscf to the current US\$2.5/Mscf during this time. Beyond this we have entered into a number of additional gas sales agreements on a willing buyer/willing seller basis that saw commercial pricing in 2015 move towards the US\$3.5/Mscf level.

In H1 2015, we signed a new gas sales agreement with NGC to supply an additional 100 MMscfd at a price of US\$3.5/Mscf to the domestic market over and above the pre-existing contracts. This new gas sales agreement will run until mid-2017, after which the volumes will be allocated towards the gas sales agreement with the Azura power project that was signed in 2014 at a price of US\$3.0/Mscf. We also negotiated and signed an additional variable gas sales agreement with NGC to supply up to a further 140 MMscfd. It is envisaged that the variable contract will allow for any volumes not taken up under the domestic supply obligation to be placed elsewhere in the market together with any additional volumes that may be required. It must be noted that the gas pricing levels, despite the increases in recent years, remain just a fraction of the equivalent cost of running diesel fuelled generators which much of the country still relies on for power. It is widely recognised that gas in Nigeria can provide an affordable and locally abundant fuel source to provide power, which in turn is a key driver of GDP growth and development, with industry analysts predicting a continued upwards trend in gas pricing and potential for the domestic market to at least double in size over the next four to five years.

All of this is clearly reflected in the trajectory of our gas revenues in recent years. Having booked revenues of just US\$18 million from our gas business in 2013 we saw a 51% year-on-year increase in 2014 when revenues were

US\$27 million and in 2015 we saw a 185% year-on-year increase with gas revenues of US\$77 million, the step-change occurring as we commissioned the new Oben gas processing facility mid-year. In 2016 we expect to see another significant uptick in gas revenues as we derive the benefit of the new gas plant for the full 12 months and in 2017 we will realise the benefit of the current expansion phase underway to take our total processing capacity to a minimum of 525 MMscfd. As such, Seplat is well placed to deliver continued growth of its gas business while also increasing margins and thereby provide the Company with an increasing level of insulation to oil price volatility, as well as being a significant player in the gas-to-power market growth in Nigeria.

Our achievements to date and future delivery of new projects has been and continues to be driven by an aggressive investment programme and differentiates Seplat as a courageous early mover that is willing to commit significant capital and resources to improve the level and security of domestic gas supply.

In 2013, Seplat was awarded Pioneer Tax Status for an initial period of three years, with a review at the end of 2015 regarding a two-year extension. The review will consider whether Seplat has reinvested the tax savings to the advantage of the country's oil and gas sector. We believe that Seplat is an excellent example of the whole purpose of establishing the pioneer incentive scheme. We have fully invested the tax savings we derived from the grant and delivered verifiable results, not just from a gas perspective but across our oil business too where we have increased production by as much as 6x from OMLs 4, 38 and 41 since acquisition in 2010. As a leading independent Nigerian upstream E&P company we remain committed to meaningfully contributing to the growth and development of the Nigerian economy and generating superior returns for our shareholders.

A handwritten signature in black ink, appearing to read 'Roger Brown', followed by a horizontal line.

Roger Brown  
Chief Financial Officer



The domestic gas opportunity in Nigeria is a compelling investment proposition.

Seplat is today a leading supplier of gas to the domestic market and is committed to further increasing supply to meet Nigeria's growing demand, particularly in the gas-to-power sector.



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