



Seplat Petroleum Development Company Plc

Related Party Transaction Policy

Effective date 28th April 2020

1 INTRODUCTION AND PURPOSE

- 1.1 SEPLAT is an indigenous Nigerian company registered in the corporate affairs commission under the laws of Nigeria. However, the dual listing of SEPLAT securities in both the Nigerian Stock Exchange and London stock Exchange subjects the company to both laws of both jurisdictions
- 1.2 **Related Party Transactions** are regulated by both the Nigerian and U.K laws. SEPLAT is required by law to disclose all **Related Party Transactions** and to conduct each such transaction in accordance with the **Arm's Length Principles**. Respect of law is one of SEPLAT's key Values, and the company goes beyond compliance toward a value inspired culture. SEPLAT conducts business in a fair, honest and transparent manner, with accurate and complete business and financial records.
- 1.3 The purpose of this Related Party Transactions ("**Policy**") is to establish the parameters within which SEPLAT deals with all **Related Party Transactions**, in compliance with the law.

2 APPLICABILITY

- 2.1 This policy applies to every Employee and **Director**

3. RESPONSIBILITY

- 3.1 The **Board** shall have overall responsibility for ensuring this policy for ensuring that this policy: (i) is updated as required to remain in compliance with applicable laws in force, and (ii) is implemented and strictly enforced. The **Board** shall aim to reduce the Company's **Related Party Transactions**.
- 3.2 A **Review Panel** shall be established and shall be responsible for the investigation and review of all **Related Party Transactions**. The **Review panel**, **FINCO**, and the **Board** shall be responsible for the approval of **Related Party Transactions** in accordance with the threshold set out in sections 7.2- 7.4 of this policy.
- 3.3 The **CFO** shall be responsible for the day-to-day implementation of this policy, including the conduct of training and the interpretation of this policy.
- 3.4 Supervisors shall be responsible for ensuring that their employees comply with this policy in performing their duties.
- 3.5 The Head of any function conducting an approved **Related Party Transaction** shall be responsible for ensuring that the transaction is conducted in accordance with this policy with proper documentation and record retention.

3.6 Each Employee and director is responsible for reading this policy carefully, understanding and complying fully with this policy. In the event of an occurrence of any circumstance that is not expressly addressed in this policy or in the event of any Employee or **Director** is in doubt as to whether a transaction/activity would violate this policy, Clarification should be sought from the **CFO**.

4. DEFINITIONS

For purposes of this policy, the following definitions of key terms shall apply:

- 4.1 **“Arm’s Length Principles”** means that the terms of the **Related Party Transactions** must be similar or identical to the terms of an independent third party transaction carried out in the same or similar circumstances.
- 4.2 **“Board”** means the board of directors of Seplat petroleum Development company plc
- 4.3 **“Director”** means member of the Board
- 4.4 **“CFO”** means the Chief Financial Officer of SEPLAT. However, where the Chief Financial Officer is a **Related Party in a Related Party Transaction** under review, then the CEO shall appoint another **Key Management Personnel** to act as **CFO** for purpose of applying this policy to the transaction in question.
- 4.5 **“CS/CGCO”** means the Company Secretary / Chief Governance Compliance Officer of SEPLAT.
- 4.6 **“FINCO”** means the Finance Committee of the **Board**
- 4.7 **“Family Member”** means the spouse, civil partner, child, the trustee of any trust of a **Related Party**.
- 4.8 **“Interested Persons”** means a director, CEO and **Substantial Shareholders** of SEPLAT, and persons connected to them.
- 4.9 **“Persons connected”** means any immediate family member of **Interested Persons**, companies over which Interested Persons or immediate family member of Interested Persons have control or significant influence, and companies where Interested Persons or immediate family member of Interested Persons is (are) a key management personnel.
- 4.10 **“Interested Person Transaction”** means any transaction between SEPLAT, its subsidiary and/or affiliate (on the one hand) and an **Interested Person** (on the other hand) which directly or indirectly involves the;
- a) Provision of receipt of financial assistance
 - b) Acquisition, disposal or leasing of assets;
 - c) Provision or receipt of services;
 - d) Issuance or subscription of securities;
 - e) Granting of or being granted options; or
 - f) Establishment of joint ventures or joint investment.

- 4.11 **“Key Management Personnel** mean senior managers or officers who control, direct or administer the business of SEPLAT or its affiliate subsidiary.
- 4.12 **“NSE IPT RULES** means the Nigerian stock exchange rules governing **interested Person Transactions**, as issued on the 1st of November 2014 and amended from time to time.
- 4.13 **“Related Party”** has the meanings given by the Securities and Exchange Commission’s Code of Corporate Governance for Public Companies in Nigeria (**“SEC Code**), the international Accounting Standard No. 24 (**IAS 24**) and by other relevant regulations that may be enacted from time to time.

Under the **SEC code**, a “Related Party means entities (Including Shareholder) that control the company or are under common control of a parent company or significant shareholders including family members and **Key Management Personnel**.

Under **IAS 24**, a “Related Party” means a person or the entity that is related to the entity that is preparing the financial statements (In this standard that is referred to as the “reporting entity”). A person or close member of that person’s family is related to a reporting entity if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the **Key Management Personnel** of the reporting entity; or (III) is a member of the **Key management Personnel** of the reporting of the reporting entity or of a parent of the reporting entity.

- 4.14 **“Related Party Transaction”** means the direct or indirect transfer of goods, services, resources, or obligations between SEPLAT and a **Related Party**, whether or not price is charged. For example, the transfer/Sale/purchase/lease/license of goods, services, tangible or intangible assets, lending or borrowing money, standing as guarantor, or any transaction having financial implications.
- 4.15 **“Review panel”** means the Related party Transaction Review Panel, which will be the first level in reviewing and approving all **Related Party Transactions**. The Review Panel shall at a minimum consist of the following representatives (or their nominees, who must be a manager of Grade level 6 or above);
- a) **CFO**
 - b) CS/CGCO;
 - c) Executive Director, Operations (in the alternative, Executive Director. Technical);
 - d) Head, Business Integrity; and
 - e) General Manager, Commercial & Tax (to give due consideration to transfer pricing and tax considerations)

4.16 “**Substantial Shareholder**” means any shareholder owning or controlling more than five percent (5%) of the total equity of SEPLAT.

4.17 “**Transfer Pricing Methods**” mean the process of comparing the **Related Party Transactions** with an identical or similar independent third party transaction in order to show compliance with **Arm’s Length principles**.

5 POLICY STATEMENT

5.1 Every **Related Party Transaction** must be disclosed and approved in accordance with this policy prior commencement.

5.2 Any **Related Party Transaction** that pre-dates this policy must be immediately reported for regularizing, in accordance with Section 6 below

5.3 All **Related Party Transactions** must be conducted and priced in accordance with **Arm’s Length Principles**.

5.4 Where a **Related Party Transaction** is approved under this policy, the aggregate value of such transaction shall not be awarded to the **Related Party**. Rather, the **Review Panel, FINCO** or the **Board** (as appropriate).

5.5 SEPLAT shall disclose **Related Party Transactions** within its annual report and in a transfer pricing declaration form (attached to the **FIRS regulations**). Disclosure of **Related Party Transactions** shall be in enough detail to enable a third party to understand the effect of each **Related Party Transactions** on SEPLAT financial statements.

6 DISCLOSURE REQUIREMENTS

6.1 Each Director and **Key Management Personnel** shall immediately notify the **CFO** of any interest that he/she or a **Family Member** has in a potential or ongoing business with SEPLAT.

6.2 Every Employee involved in a **Related Party Transaction** shall immediately notify the **CFO** and ensure that a written approval is given before the transaction begins or continues

6.3 Where a **Related Party Transaction** is initiated or proposed by SEPLAT, the head of the relevant function shall immediately notify the CFO.

6.4 In the Contracting process, the contracting manager must obtain approval of the **Related Party Transaction** before taking any action in respect of the transaction.

6.5 The **Review Panel** shall have the power to initiate an investigation into any proposed or ongoing **Related Party Transaction**.

6.6 Every notice given in line with this section 6 shall be in Form of Notice of Related Party Transaction attached to this policy as Appendix 1. Every notice shall be sent with all relevant documentation.

6.7 After receiving a Notice of Related Party Transactions and all required documentation, the CFO shall within forty-eight hours, or at the earliest possible time, convene a meeting of the Review Panel to consider the **Related Party Transaction**.

7 REVIEW PROCESS

7.1 All Related Party Transactions shall be reviewed and screened by the **Review Panel** in the first instance.

7.2 Related Party Transactions with an aggregate value of up to US\$5,000,000 (Five Million United States Dollars) shall be reviewed and approved by the **Review Panel**. The **Review Panel** shall document all meetings and justification for its decision and make a report to **FINCO** at the next meeting of the committee. **FINCO** shall submit the report of the **Review Panel** and its recommendations to the **Board** at the next meeting for approval/ratification.

7.3 Related Party Transactions with an aggregate value exceeding US\$ 5,000,000 (Five Million United States dollars) but to up to US\$10,000,000 (Ten Million United States Dollars) shall be approved by **FINCO**. The **Review Panel** shall conduct a review in the first instance and if the review of the **Related Transaction Party** is successful the **Review panel** shall refer the transaction to **FINCO** for recommendation to the board, together with all documentation, a summary of its discussions, recommendations on the transaction. **FINCO** shall review and make a decision on the **Related Party Transaction**. **FINCO** shall submit to the **Board** at the next board meeting, a report of its decisions together with a summary of its discussions, justifications for its decisions. Where business exigencies require urgent consideration of a **Related Party Transaction** to be approved by the **Board**, **FINCO** may request the chairman of the Board to convene a special meeting of the **Board** to address the **Related Party Transaction**.

7.4 Related Party Transactions with an aggregate value exceeding US\$10,000,000 (Ten Million United States Dollars) shall be approved by the **Board**. The **Review Panel** shall conduct a review in the first instance, and if the **Review Panel** clears the transaction, it shall refer the transaction to the **Board** at the next meeting for approval, together with all documentation, a summary of its discussions, recommendations on the transaction. The **Board** shall act as final authority on the

approval of the transaction. Where the business exigencies require urgent consideration of a **Related Party Transaction** to be approved to the **Board** to address the **Related Party Transaction**.

7.5 In determining whether to approve, deny, ratify or amend a Related Party Transaction, the Review Panel, FINCO, Or Board shall consider the following factors (as appropriate):

- a. Description of **Related Party Transaction**, particularly the terms, purpose and timing;
- b. Name of each **Related Party** and the nature of their relationship with SEPLAT;
- c. The extent of each **Related Party's** interest in the transaction
- d. Whether the terms of the **Related Party Transaction** is the same or similar to the terms of an independent third party transaction conducted under the same or similar circumstances;
- e. Whether the transaction could potentially expose SEPLAT to violation of the income Tax (Transfer Pricing) Regulations No. 1 of 2012 , the IAS 24 (Related Party Disclosures) under the International Financial Reporting Standards, any statutory modifications or re-enactments thereof , and other applicable laws;
- f. If the transaction involves the sale of an asset, the full description of asset, including date acquired and cost basis;
- g. Review of **Transfer Pricing Method** used and alternative approaches to valuation of the transaction;
- h. Whether there was a bidding process and the results of such process, as well as the transparency of the process ;
- i. The approximate value of the transaction and the approximate value of the **Related Party's** interest in the transaction;
- j. Information concerning potential counterparties in the transaction;
- k. Whether the transaction includes any potential risk to SEPLAT'S reputation;
- l. Whether the transaction could potentially have an adverse impact on SEPLAT'S share price and/or relationship with key institutional investors;
- m. Description of any provisions or limitations imposed as a result of entering into the transaction; and
- n. Any other relevant information regarding the transaction.

7.6 A **Director** or **Key management personnel** shall not participate in any discussion of a **Related Party Transaction** for which he/she or any of his/her **Family Member** is a **Related Party**, except when the **Review Panel**, **FINCO**, or **Board** invites such **Director** or **Key Management Personnel** to provide necessary information.

8 EXTENSION OF (AND VARIATION TO) APPROVED TRANSACTIONS

8.1 Any extension of or variation to an approved **Related Party Transaction** must be referred back to the **Review Panel** for consideration. Where the proposed extension or variation will increase the aggregate value of the transaction beyond the approval threshold of the **Review Panel**, the **Review Panel** shall, if appropriate, refer the transaction to **FINCO** or the **Board** for approval, as applicable.

9 DECISION MAKING

9.1 It is desirable to have all members of the **Review Panel** in all meetings, but at least two thirds (i.e., 3 members, including the CFO) shall be present to form a quorum. Decisions shall be by unanimous vote of members present at the meeting. In determining the quorum, any resulting fraction shall be rounded up to the nearest whole number. Where members of the **Review Panel** fail to agree, the transaction shall be referred to **FINCO** for approval. The decision of **FINCO** and **the Board** shall be in line in line with agreed voting procedures, otherwise will be by majority vote of unaffected members that are present during discussions.

9.2 Upon review the details of a **Related Party Transaction**, the **Review Panel**, **FINCO**, or Board as (appropriate) may approve, deny ratify or revise the terms of the **Related Party Transaction**. **All** Employees and **Directors** shall comply with the decision of the **Review Panel**, **FINCO**, or **Board** (as appropriate).

9.3 Any Decision taken by the **Review Panel** or **FINCO** shall be reported to **the Board** at the Board meeting immediately following the decision.

9.4 **FINCO** shall have the power to override any decision of the **Review Panel**. The **Board** shall have the power to override any decision of **FINCO**, any decision of the Board shall be final and binding on all Employees and **Directors**.

9.5 Any Decision taken on a **Related Party Transaction** shall be properly recorded, together with a summary of discussions and all relevant documentation, a copy of the final decision on any **Related Party Transaction** shall be given to the **CFO** to notify the party seeking to approve the transaction and other relevant parties.

10. SPECIAL REQUIREMENTS ON INTERESTED PERSON TRANSACTIONS

10.1 This Section 10 outlines the special requirements of the Nigerian Stock Exchange for an Interested Person Transaction. Please refer to Appendix 4 below, showing the key differences between an Interested Person Transaction and a Related Party Transaction.

10.2 When considering any proposal for SEPLAT, its subsidiary or affiliate to deal with an Interested Person, the Company shall in good time notify and discuss such proposal with the Nigerian Stock

Exchange ["NSE"]) in order for the NSE to advise on whether such dealing will be classified as an Interested Party Transaction.

10.3 The Company shall immediately disclose, in its Accounts and to the NSE, any Interested Party Transaction of a value (or aggregate value for the same Interested Person within the same financial year) equal to or more than 5% of Seplat Group's latest audited net tangible assets.

10.4 The Company shall obtain the approval of securities holders for any Interested Person Transaction of a value (or aggregate value for the same Interested Person within the same financial year) equal to or more than 5% of Seplat Group's latest audited net tangible assets or 5% of SEPLAT's issued share capital.

10.5 With respect to the sale or proposed sale of any unit of property/projects of SEPLAT, its subsidiary or affiliates to an Interested Person,

- a. the Audit Committee and the Board shall first approve such sale or proposed sale, after satisfying itself that the terms of the sale or proposed sale are fair, reasonable and not prejudicial to the interests of SEPLAT and its minority shareholders. **No Interested Person** shall participate in any vote to approve the sale or proposed sale;
- b. the Company shall announce, with the details outlined in Section 2.2 of the NSE IPT Rules, the sale or proposed sale approved by the Audit Committee and the **Board** within two (2) weeks of such sale or proposed sale; and
- c. The Company shall, where required, obtain the approval of securities holders no later than six (6) weeks before the date of the sale or proposed sale.

10.6 The Company shall prepare and submit to the Securities and Exchange Commission ("SEC") a circular containing the scheme of all Interested Party Transactions ("IPT" Circular"), with the details outlined in Section 5.0 of the NSE IPT Rules. The Company shall subsequently issue the IPT Circular within 28 days after approval by SEC.

10.7 The Audit Committee shall give an opinion on any Interested Party Transaction involving the issue, for cash, of any listed class of shares or securities, or the purchase or sale, for cash, of any real property for cash, for which an independent professional valuation report was obtained and such valuation was disclosed in the IPT Circular.

10.8 The Company may, via a circular to shareholders, obtain their general mandate for recurrent Interested Person Transactions of revenue or trading nature or that are necessary for SEPLAT's day-to-day operations (e.g., purchase and sale of supplies and materials). However, the general mandate shall not extend to Interested Person Transactions involving the purchase or sale of assets. Undertakings or businesses. Each

Year, the Company shall obtain a renewal of the general mandate.

11. DOCUMENTATION AND RECORD RETENTION

11.1 The Head of the function conducting a Related Party Transaction shall be responsible for ensuring that the Related Party Transaction is reduced to contract, with the proper documentation of all key activities

11.2 All documentation on a Related Party Transaction shall be retained for a minimum period of six (6) years from the date on which the tax return relevant to the last entry was filed.

12. CONFLICTS OF INTEREST VERSUS RELATED PARTY TRANSACTIONS

12.1 Employees and **Directors** should recognize the difference between conflicts of interest and **Related Party Transactions**; Conflicts of interest relate to the conflicting private interests of Employees and Directors, while **Related Party Transactions** relate to SEPLAT's exchange of resources with its **Related Parties**.

12.2 In line with good corporate governance, Employees and **Directors** should not report conflicts of interest as Related Party Transactions; Such reports must be disclosed in accordance with SEPLAT's Conflicts of interest Policy for Employees and Directors.

12.3 If any Employee or Director is unsure whether to disclose a transaction or activity as a conflict of interest or a **Related Party Transaction**, he/she should contact the **CFO** for clarification.

13. EXCEPTIONS TO THIS POLICY

13.1 Any exception to this Policy must be approved in advance by the **Board**.

14. VIOLATION

14.1 SEPLAT shall enforce a zero-tolerance policy for any violation of this Policy, including and up to termination of employment or directorship.

14.2 Employees and Directors are required to comply with this Policy. To immediately disclose any ongoing and proposed **Related Party Transaction**, and to immediately report any violation of this Policy.

14.3 In the event SEPLAT becomes aware that a **Related Party Transaction** is being conducted in violation of this Policy, the matter shall be dealt with by the **Board**. The **Board** shall review the **Related Party Transaction** in line with Section 9.4 of this Policy, and shall decide whether to terminate, ratify, or revise the transaction. The **Board** shall also recommend sanctions as appropriate.

15. AMENDMENTS

15.1 This Policy may be amended from time to time by the **Board**.

Appendix 1

Form of Notice of Related Party Transaction

The Chief Financial Officer,
Seplat Petroleum Development Company Plc

I wish to disclose the following Related Party Transaction:

- a) **Description of the transaction:**
- b) **Name of each Related Party and their relationship with SEPLAT or Key Management Personnel:**
- c) **The extent of each Related Party's interest in the transaction:**
- d) **Status of the transaction:**
 - Proposed (i.e., yet to begin)
 - Ongoing
- e) **Proposed (or Agreed) commencement date and expiration date for the transaction:**
- f) **Appropriate amount involved over life of the transaction:**
- g) **Total amount paid by and/or paid to SEPLAT:**
- h) **Outstanding balance owed by each Party under this (or any other) transaction:**
- i) **Amounts written off in favour of the Related Party and/or in favour of SEPLAT under this (or any other) transaction:**
- j) **Key commercial and legal terms for the transaction:**
- k) **Justification for conducting the transaction with a Related Party in preference of an independent third party:**
- l) **Any previous dealing with the Related Party:**
- m) **Other persons (within SEPLAT) involved in the transaction:**
- n) **How does the transaction satisfy the appropriate Transfer Pricing Method (*please refer to Related Party Transaction Guidelines*):**
- o) **Other information relevant for proper review of the transaction:**

I declare that I have disclosed within this Notice all relevant information that I am aware of regarding the above Related Party Transaction, and that I have attached to this Notice all documentation relating to the Related Party Transaction, such as:

1.

I undertake to cooperate fully with the Related Party Transaction Review Panel, the Finance Committee, and the Board of Directors of SEPLAT in their review and consideration of the Related Party Transaction.

Name...

Signature:

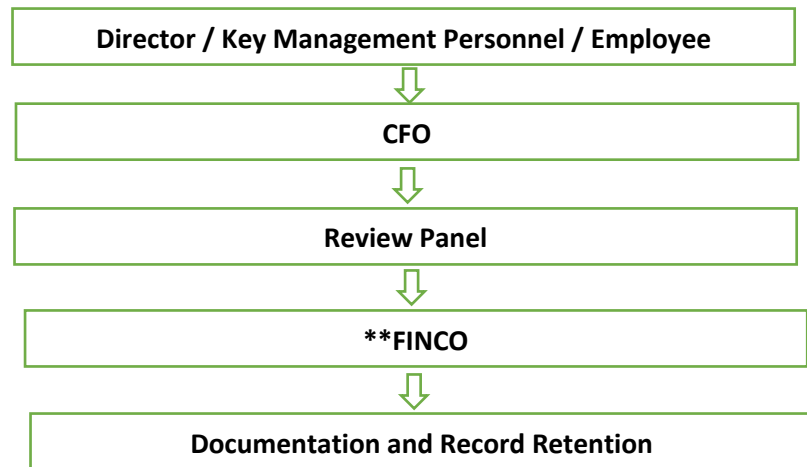
Title:

Date:

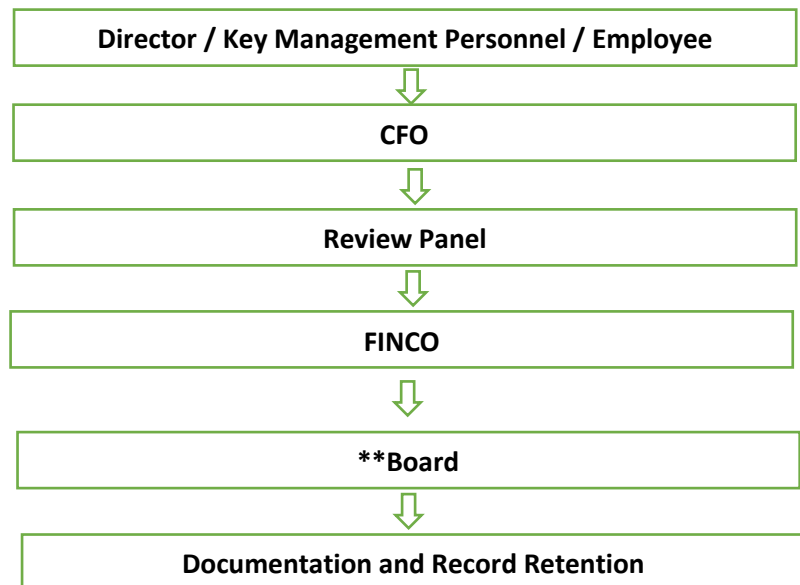
Appendix 2

Sequence for Notice, Review, and Approval of All Related Party Transactions

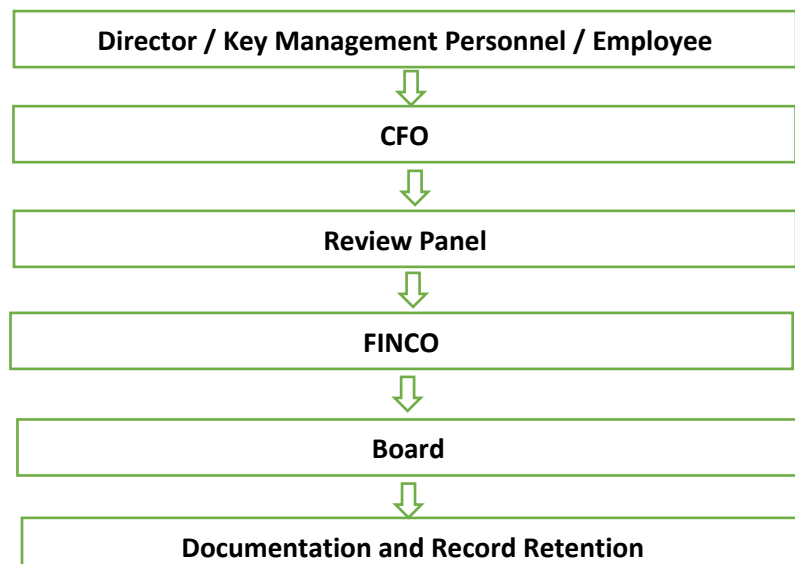
Related Party Transactions with aggregate value up to US\$ 5,000,000



Related Party Transactions with aggregate exceeding US\$ 5,000,000 but up to US\$ 10,000,000



Related Party Transactions with aggregate value exceeding US\$ 10,000,000



**For reporting purposes

Appendix 3

Notice and Approval Matrix for All Interested Person Transactions

		REQUIREMENT FOR ALL IPTS		REQUIREMENT FOR SPECIFIC IPTS	
	Less than 5% of Group's LANTA*	Equal to or More than 5% of Group's LANTA*	Equal to or More than 5% of SEPLAT's Issued Share Capital	Sale or Proposed Sale of Property Units	1 Issue of Listed Shares or Securities, for cash** 2. Purchase or Sale of Real Property, for cash**
BOARD				Obtain approval, after independent financial evaluation and satisfaction of fair and reasonable sale terms	
AUDIT COMMITTEE				Obtain approval, after independent financial evaluation and satisfaction of fair and reasonable sale terms	
NSE	Consult NSE to confirm as IPT	Consult/Disclose to NSE	Consult NSE to confirm as IPT	Consult NSE to confirm as IPT	Consult NSE to confirm as IPT
SEC	Include in IPT Circular, for SEC approval	Include in IPT Circular, for SEC approval	Include in IPT Circular, for SEC approval	Include in IPT Circular, for SEC approval	Include in IPT Circular, for SEC approval
SECURITIES HOLDER		Obtain Approval	Obtain Approval	Where approval is required, obtain not later than 6 weeks before date of sale/proposed sale	
PUBLIC	Publish in IPT Circular within 28 days of	1) Disclose in the Accounts 2) Publish in IPT Circular within 28	Publish in IPT Circular within 28 days of SEC approval	1) Announce within 2 weeks of sale/proposed sale	Publish in IPT Circular within 28 days of SEC approval

	SEC approval	days of SEC approval		2) Publish in IPT Circular within 28 days of SEC approval	
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Caution: The above matrix is merely an illustration of procedures required under the NSE IPT Rule. When dealing with a specific IPT, SEPLAT shall comply with requirements for all IPTs and specific IPTs. In addition to the above processes, Employees must comply with all relevant Company policies and procedures. E.g., Board Charter, Authority Matrix, etc.

*LANTA = Latest Audited Net Tangible Assets

**If an independent professional valuation report is obtained and disclosed in the IPT Circular.

Key Differences between Related Party Transaction and Interested Person Transaction

The regulations on a Related Party Transaction and an Interested Person Transaction relate to the same issues (i.e., transactions between associated persons and entities). However, there are key differences between two transactions, which are summarized below:

#	Key Difference	Related Party Transaction (“RPT”)	Interested Person Transactions (“IPT”)
1	Primary Regulation in Nigeria	Federal Inland Revenue Service (“FIRS”) Transfer Pricing Regulations.	Nigerian Stock Exchange (“NSE”) Rules governing transactions dealing with related parties and interested persons.
2	Governing body in Nigeria	FIRS.	NSE.
3	Application	Applies to all taxable persons.	Applies to companies trading on NSE.
4	Objective	Solely guards against illegal and unethical tax/transfer pricing activities.	Largely guards against prejudicial transactions by controlling officers and shareholders to the detriment of SEPLAT and its minority shareholders.
5	Scope/nature of regulated transaction	Regulated transactions are broad and include any activity that may affect profit and loss.	Regulated transactions are limited to direct or indirect exchange of financial assistance, services, securities and options, and establishment of joint ventures or joint investments.
6	Determination of RPT and IPT	<p>Determination of whether a transaction is classified as RPT will be made from the sole perspective of SEPLAT. All associated companies and persons are considered related parties.</p> <p>To illustrate, according to FIRS TP Regulation and international RPT standards,</p> $\text{RPT} = \text{Seplat} + \text{Subsidiary/affiliate/controlling manager or officer/substantial shareholder/joint venture member/entity or person with common control/connected persons.}$	<p>Determination of whether a transaction is classified as IPT will be made from the collective perspectives of SEPLAT, its subsidiaries and affiliates. Unlike FIRS, NSE considers subsidiaries and affiliates as Entities-at-risk, and not related parties.</p> <p>To illustrate, according to the NSE IPT Rules,</p> $\text{IPT} = \text{Seplat/subsidiary/affiliate} + \text{Seplat director/CEO/controlling shareholder/connected persons.}$
7	Classification of counterparty as “Related Party”	The Related Party classification by FIRS and international RPT standards includes and transcends the NSE	The NSE classification of Interested Party is limited to named persons – SEPLAT Directors, CEO, controlling

	vs. “Interested Person”	classification of Interested Party. Here, Related Party broadly includes controlling managers and officers (e.g., Executive Directors and Senior Management), substantial shareholders, entities with common control, joint venture partners, etc.	shareholders, and their connected persons.
8	Prerequisite to Transacting	The only prerequisite to entering into a RPT is applying a transfer pricing method to show compliance with arm’s length principles.	There are multiple prerequisites to entering into an IPT, ranging from prior disclosure to NSE, SEC, securities holders and the public to opinions from the Audit Committee and an independent financial adviser, and Board approval, depending on the transaction.
9a	Time and Manner of Disclosure	Disclosure is for all RPTs and is made <i>post facto</i> . Disclosure is made to the FIRS (via TP Disclosure Form) and to the public (via the Annual Report).	Disclosure is for certain IPTS and must precede the transaction. Disclosure is made to the NSE, SEC, securities holders and the public.
9b	Approval to Transact	No prior approval is required. Transaction must simply comply with arm’s length principles.	Depending on the transaction, prior approval is required from the NSE, securities holders, SEC, Board and Audit Committee.
10	Involvement of Audit Committee	Not required.	Required for sale of property units, issuance of listed class of shares or securities, and in any instance the Audit Committee disagrees with the opinion of an independent financial adviser.

RELATED PARTY TRANSACTION GUIDELINES

These Guidelines serve as guidance for compliance with the law (particularly transfer pricing regulations) and SEPLAT's Related Party Transactions Policy. Management should use these Guidelines as a reference point for ensuring compliance.

1. INTRODUCTION AND PURPOSE

- 1.1 There are legal requirements that SEPLAT must comply with in relation to Related Party Transactions. Upholding its commitment to compliance with law, SEPLAT introduced a Related Party Transactions Policy ("**Policy**") setting the standard for dealing with all **Related Party Transactions**.
- 1.2 The purpose of these Guidelines is to: (a) explain how the Policy should be implemented in day-to-day operations; (b) explain how to apply the Arm's Length Principles to all Related Party Transactions, and (c) detail the requirements for disclosure, documentation and statutory filings of Related Party Transactions under the law.

2. AFFIRMATION OF THE RELATED PARTY TRANSACTIONS POLICY

- 2.1 These Guidelines should be read and applied together with the Policy. In the event of any conflict or ambiguity between these Guidelines and the Policy, the Policy will supersede to the extent of the conflict or ambiguity.
- 2.2 All defined terms in these Guidelines will be construed in accordance with the Policy, unless expressly defined within the body of these Guidelines.

3. RELATED POLICIES

- 3.1 These Guidelines should be read and applied together with SEPLAT's: (i) Related Party Transactions Policy, (ii) Transfer Pricing Policy, and (iii) Conflicts of Interest Policy.

4. REGULATORY CITATIONS

In the context of **Related Party Transactions**, due consideration has been given to: (i) the Income Tax (Transfer Pricing) Regulations No. 1 of 2012 ("**FIRS Regulations**"), (ii) the IAS 24 (Related Party Disclosures) under the International Financial Reporting Standards ("**IFRS**"), and (iii) the Organization for Economic Cooperation and Development Transfer Pricing Guidelines ("**OECD Guidelines**").

5. GUIDING PRINCIPLES

- 5.1 Transfer pricing manipulation is a key concern behind regulations on **Related Party Transactions**. Transfer pricing manipulation is when **related Parties** under-price or over-price the resources transferred between each other. Usually, the goal is to evade taxes and influence the financial position of the entity.

- 5.2 To guard against transfer pricing manipulation the law requires all entities to disclose and conduct every **Related Party Transaction** in accordance with **Arm's Length Principles**. This means that the price of the resource being transferred must be similar to the price of the same or similar resources transferred in the open market ("**Arm's Length Price**"). The law recognizes that a **Related Party Transaction** may have certain conditions that re available on the open market, and permits entities to make necessary adjustments for those conditions in order to accurately determine the **Arm's Length Price**.
- 5.3 Like any other entity, when SEPLAT is involved in **Related Party Transactions**, the law places a burden on SEPLAT to prove that it properly *disclosed* each transaction and *conducted* each transaction in accordance with **Arm's Length Principles**. SEPLAT will be deemed to have met this burden by providing sufficient documentation to show thorough analysis of comparable market conditions to determine the **Arm's Length Price**.
- 5.4 The **Transfer Pricing Methods** are the globally accepted processes for determining the **Arm's Length Price** applicable to a **Related Party Transaction**. Each **Transfer Pricing Methods** conducts a comparative analysis between a **Related Party Transaction** and its identical or similar independent third-party transaction.

6. HOW TO APPLY THE TRANSFER PRICING METHODS

- 6.1 The **FIRS Regulations** subscribe to the globally accepted **Transfer Pricing Methods of: Comparable Uncontrolled Price, Resale Price, Cost Plus, Transactional Net Margin, and Transactional Profit Margin**. The FIRS may from time to time prescribe additional methods to be used.
- 6.2 **Calculations under the Comparable Uncontrolled Price ("CUP") Method.** CUP compares the price charged for property, goods or services transferred under a **Related Party Transaction** with the price charged for same or similar property, goods, or services transferred under a comparable independent third-party transaction, under comparable circumstances. The price resulting from the comparison should be adjusted by functional difference that could materially affect the price on an open market.

EXAMPLE

(A). **COMPANY A provides consultancy services to its affiliate, COMPANY B. What is the Arm's Length Price that COMPANY B should pay to COMPAY A for consultancy services?**

Assuming COMPANY A also provides a similar scope of consultancy services to COMPANY X (an independent third party) for NGN1, 000,000. Then, the Arm's Length Price to be paid by COMPANY B to COMPANY A should also be NGN1, 000,000.

(b) **To demonstrate when and how adjustments by any functional difference that could materially affect the price on an open market should be made, assume**

COMPANY A does not include any warranty in its consultancy services to its affiliate COMPANY B, but COMPANY A includes a six (6) month warranty package in its consultancy services to COMPANY X that is valued at NGN1,000,000. Under this scenario the Arm's Length Price should be adjusted in consideration of the different warranty conditions, by subtracting the value of the warranty from the value of the services, as follows:

▪ Cost of services to COMPANY X:	NGN1,000,000
▪ Less: value of warranty to COMPANY X:	NGN1,000,000
▪ Arm's Length Price to be paid by COMPANY B:	NGN900,000

6.3 **Calculations under the Resale Price Method ("RPM").** RPM compares the price at which property/product is purchased from Related Party with the price at which that property/product is resold ("Resale Price") to an independent third party. **The Arms'**

Length Price is calculated by subtracting an appropriate gross margin on the Resale Price another adjustments for costs associated with purchase of the property/product (e.g., custom duties) from the Resale Price. RPM is known to be useful for transfers between a distributor and its Related Party, where the distributor has not added substantial value to the property/product.

EXAMPLE:

COMPANY A is an oil and gas E&P company, COMPANY A sells oil to COMPANY B (its affiliate) of distribution to the market. COMPANY A also sells oil to COMPANY X, an independent third party. What is the Arm's Length Price that COMPANY B should pay to COMPANY A for the oil?

Assume a market analysis shows that the gross profit margin of COMPANY from the resale of oil to its customers is 10%, and COMPANY X spends money on marketing while COMPANY B does not. The Arm's Length Price will be computed as follows:

▪ COMPANY B's sale of oil to unrelated parties	\$5,000
▪ Less: Arm's length resale price margin based On COMPANY B's transactions (10% x 5,000)	\$500
▪ Less: Adjustment for marketing costs	\$100
▪ Arm's Length Price to be paid by COMPANY B:	\$4,400

6.4 **Calculations under the cost-plus Method ("CPM").** CPM compares the mark-up on the direct and indirect costs incurred in a Related Party Transaction with the mark-up of the direct and indirect costs incurred in a comparable independent third-party transaction.

EXAMPLE:

COMPANY A, an oil and gas E&P Company engages COMPANY B. its affiliate, to provide a rig and drilling services. What is the Arm's Length Price that COMPANY A should pay to COMPANY B for the rig and drilling services?

An analysis of the financial statements of drilling contractors similar to COMPANY B shows an average earning of 20% on costs. Assuming COMPANY B's costs amount to \$100,000, the Arm's Length Price to be paid by COMPANY A should be \$120,000 (that is, ngn1000,000 + [20% of NGN100,000])

- 6.5 Calculations under the Transactional Net Margin Method ("TNMM"). TNMM compares the net profit margin relative to an appropriate base (including costs, sales or assets) received from a Related Party Transaction with the net profit margin relative to an appropriate base received from a comparable independent third-party transaction.

EXAMPLE:

COMPANY A is a manufacturer of office furniture, and sells all its furniture to COMPANY B, its affiliate. What is the Arm's Length Price that COMPANY B should pay to COMPANY A for office furniture?

Note: In the case, CUP cannot be used to determine the Arm's Length Price because there are no reliable adjustments to account for differences between COMPANY A's office furniture and similar office furniture in the market. It may therefore be more reliable to examine the net margins of comparable companies.

A market analysis identifies COMPANY X (an independent third party and a manufacturer of office furniture) as a suitable company for comparison with COMPANY A. COMPANY X realizes a net mark-up (i.e. operating margin) of 10%. The Arm's Length Price will be computed as follows:

▪ COMPANY A's cost of goods sold:		\$5,000
▪ COMPANY A's operating expenses:		\$1,500
▪ Total costs for COMPANY A:		\$6,500
▪ Add: COMPANY X's net mark-up (10% x 6,500):		\$650
▪ Arm's Length Price to be paid by COMPANY B:		\$7,150

- 6.6 Calculations under the Transactional Profit Split Method ("TPSM"). TPSM compares the division of profit and loss realized from a Related Party Transaction with the division of profit and loss realized from a comparable independent third-party transaction.

EXAMPLE:

COMPANY A manufactures gas plants and buys patented gas plant designs from its affiliate, COMPANY B. COMPANY A sells its production line to another affiliate, COMPANY C. What is the Arm's Length Price that COMPANY A should pay to COMPANY B as royalty for the patented gas plant designs?

An analysis of companies comparable to COMPANY A, COMPANY B, and COMPANY C show that comparable companies realize 5%, 10% and 20% profit margin on their operating assets, respectively. Assuming the operating assets of the affiliated companies are as follows: COMPANY A: \$200, COMPANY B: \$300, COMPANY C: \$500. The Arm's Length Price will be computed as follows:

▪ Optimum profit of COMPANY A:	\$10	(5% OF \$200)
▪ Optimum profit of COMPANY B:	\$30	(10% OF \$300)
▪ Optimum profit of COMPANY C:	\$100	(20% OF \$500)
▪ Aggregated profit of Affiliated Group:	\$140	(\$10 + \$30 + \$100)

- 8.2 It is important that all ongoing Related Party Transactions are disclosed because our financial and business records may be audited at any time by the FIRS to ensure compliance with the FIRS Regulations. Review of any ongoing Related Party Transaction should include opportunities to regularize defects or omissions in the transaction or processes.
- 8.3 SEPLAT should disclose Related Party Transactions within its Annual Report and in a Transfer Pricing Declaration Form (attached to the FIRS Regulations). The standard for sufficient disclosure of a Related Party Transaction is in enough detail to enable a third party to understand the effect of each Related Party Transaction on SEPLAT's financial statement ("sufficient Disclosure").
- 8.4 SEPLAT's Annual Report should also include a statement of the Board on Related Party Transactions, particularly the nature of each transaction, the nature of each related party relationship, and other information that the Board (exercising its best judgement) believes is necessary for Sufficient Disclosure.
- 8.5 Disclosures should be made separately for each Related Party. However, Related Party Transactions of a similar nature can be disclosed in aggregate, except where separate disclosure is necessary for **Sufficient Disclosure**.
- 8.6 Disclosure of Compensation to Key Management Personnel: In addition to disclosures required by the FIRS Regulations, the IFRS requires companies to disclose the total compensation given to Key Management Personnel in the form of:
- a. Short-term employee benefits;
 - b. Post-employment benefits;
 - c. Other long-term benefits;
 - d. Termination benefits; and
 - e. Share-based payments.
- 8.7 Limited Disclosure of Transaction with Government as Related Party: The IFRS requires limited disclosure of a Related Party Transaction with a government body that has control, joint control or significant ant influences over SEPLAT (for example, joint venture partners), and limited disclosure of a Related Party Transaction with another entity that is also subject to control, joint control or significant influences by joint venture partner. In relation to the forgoing transactions. SEPLAT is required to disclose:
- a. Joint venture partners name and the nature of joint venture partner's relationship with SEPLAT:
 - b. the name of the related entity that is subject to joint ventures partners control, joint control or significant influence; and
 - c. the nature and amount of each individually significant transaction, in enough detail necessary for Sufficient Disclosure.
- 8.8 Disclosures Exempted under the FIRS Regulations. SEPLAT may be exempted from the documentation and disclosure requirements of the FIRS Regulations if:
- A. the Related Party Transaction is priced in accordance with Nigerian Statutory provision

B. the price involved in the Related Party Transaction has been approved by other Government regulatory agencies established under Nigerian law (such as: National office for technology Acquisition and promotion: Department of Petroleum Resources, Nigerian National Petroleum Corporation etc.]). However, in this instance the FIRS must be satisfied that the approved price is in line with Arm's Length Principles.

Statutory Filing:

8.9 Every year, SEPLAT should complete and file, together with its tax return, a transfer pricing Declaration Form, disclosing all Related Party Transactions for that year and affirming whether or not transfer pricing documentation exists.

8.10 Documentation

The activities of each approved or ratified Related Party Transaction should be properly documented in English. Examples of documentation that the FIRS may audit in relation to Related Party Transaction include: ledgers, cashbooks, journals cheque books, bank statements, deposit slips, paid cheques invoices, stock list, and other books of account and data. If audited by the FIRS SEPLAT must present all requested and relevant transfer pricing documentation within twenty-one (21) days of receiving a request.

8.11 Documentation on Related Party Transactions should include a sound transfer pricing analysis to show efforts made to determine the Arm's Length Price for each transaction.

8.12 All documentation on Related Party Transactions must be in place before the due date for filing SEPLAT's income tax return for the year the documented transactions occurred. The documentation should be sufficient enough for the FIRS to verify that each Related Party Transaction is consistent with Arm's Length Principles.

8.13 Recommendation of Independent Audit: It is best practices for SEPLAT to engage an independent, competent and qualified auditor to periodically audit SEPLAT's business and financial records to ensure compliance with Related Party disclosure requirements under applicable law.

9 ADVANCE PRICING OF AGREEMENT AS AN ALTERNATIVE TO UTILIZING TRANSFER PRICING METHODS

9.1 SEPLAT may request the FIRS to enter into an Advance Pricing Agreement that sets the criteria for SEPLAT's compliance with Arm's Length Principles for specified Related Party Transaction over a fixed period of time ("APA").

10 PENALTY FOR VIOLATION

10.1 If the FIRS determines that a company or person has violated the FIRS Regulations, the FIRS will make necessary adjustments to the tax liability of the company or person, for each accounting year.

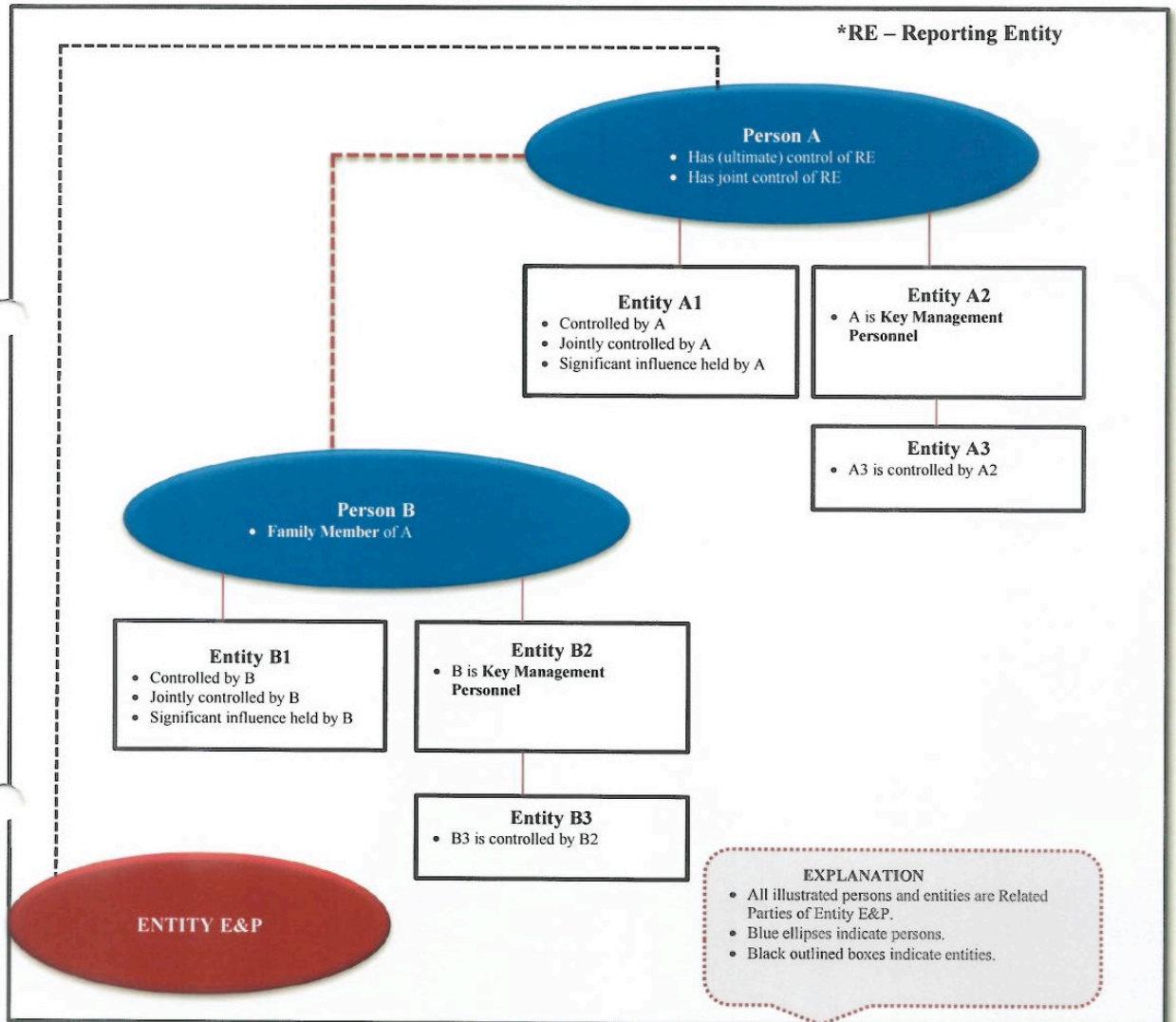
10.2 Failure to disclose and conduct Related Party Transaction in line with Arm's Length Principles may also result in loss of investor confidence in the company, damage to the company's reputation, and criminal prosecution of some Key Management Personnel for fraudulent misrepresentation of the company's financial statements.

11 AMENDMENTS


11.1 These Guidelines may be amended by the Board of Directors from time to time.

12. REVISION HISTORY

Appendix 1
Example Showing Related Parties



The diagram above is an illustration of a type of related party association and is not intended to depict all forms of related party associations. For clarifications, please contact the CFO.

	Policy Title:	Related Party Transactions Policy & Guidelines
	Policy Owner:	Board of Directors of Seplat
	Policy Account Holder:	Chief Financial Officer
	Effective Date:	Policy: 13th December 2012 Guidelines: 24th of March 2015

Appendix 2

Sequence for Dealing with Related Party Transactions

1. • Identify and analyze the Related Party Transaction
2. • Select the appropriate Transfer Pricing Method to best determine the Arm's Length Price
3. • Conduct a benchmark study, using comparable third party transactions. Make adjustments for any differences
4. • Prepare relevant transfer pricing documentation
5. • Notify the CFO and seek approval in accordance with the Policy
6. • Upon notice of approval from the CFO, conduct the Related Party Transaction in line with the terms of approval
7. • Document all activities
8. • File Annual Report with statement on Related Party Transactions, and file completed Transfer Pricing Declaration Form
9. • Retain all documentation for a minimum of six (6) years from date of filing tax return for the last entry
10. • Independent audit to ensure compliance

