

Championing the African energy transition

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Andrew Knott

Chief Executive Officer, Savannah



Dear fellow shareholders

I would like to welcome you to our ninth Annual Report as a listed company. This year’s letter follows a similar format to those of recent years. The first section discusses our Company’s continued industry-leading financial, operational and sustainability performance. The second discusses our key focus areas for 2022 and 2023. The third discusses the “how” and the “why” we see the African energy transition evolving and discusses the relevance of our hydrocarbon AND renewables business model.

Before turning to the first section, I would like to draw your attention to three key articles in this year’s Annual Report. The first article (on pages 8 to 17) describes “Why we do what we do”, where we discuss our corporate purpose and the associated core beliefs which serve to underpin our strategy and business model. I really believe that this section is essential reading for anyone seeking to understand our Company. The second (on pages 24 to 27), authored by Dr. Richard Norris, a global energy policy specialist and a Fellow of the Canadian Global Affairs Institute, discusses the equity of the global energy transition and the importance of poverty alleviation. The third article, from NJ Ayuk (on pages 28 to 31), Executive Chairman of the African Energy Chamber, focuses on the critical role the private sector will be required to play in the African energy transition. We are extremely grateful to our guest authors for their contributions.

2022 in review

For the first time in almost 40 years¹ the rich world faced the challenges of operating in a high inflation, rising interest rate environment with, for example, the IMF’s advanced economy average consumer price index rising 9% year-on-year, a level 2.5x the 10-year average², and benchmark US\$ interest rates rising to 5.5% at year end, a level 4.4x the 10-year average³. The supply chain impacts of the Russia-Ukraine war, particularly in the energy and food sectors, were the principal drivers, with, for example, oil, Liquefied Natural Gas and European electricity prices rising 42%⁴, 64%⁵ and 53%⁶ respectively and food an estimated 14%⁷, year-on-year. However, rich world interest and inflation rates remained much lower than those of Sub-Saharan Africa which ended the year at 12.0%⁸ and 17.7%⁹ respectively.

Boosted by the strength of the macro energy complex, the seven energy supermajors reported a record US\$200 billion of profit in 2022 (+100% year-on-year), despite a 1.3% aggregate reduction in production volumes. Savannah too performed strongly, but for very different reasons. Our Total Revenues^(a) rose by 26% year-on-year to US\$290 million with our Adjusted EBITDA^(c) rising by 27% to US\$222 million. At the Nigerian business unit level, we recorded Adjusted EBITDA^(c) of US\$244 million. Our 20% production volume growth in Nigeria (versus the supermajors’ -1.3% noted above) was primarily driven by the operationalisation of four new gas sales agreements (“GSAs”). 89% of our 2022 revenue stream was derived from fixed price GSAs with no cyclical exposure to oil or international gas prices.

Our Nigerian business has now delivered six consecutive years of Total Revenues^(a) growth at a compound annual growth rate (“CAGR”) of 21%. This Total Revenues^(a) growth compares favourably to the long-term trend CAGR of the wider UK stock market constituents of 3.1%^{10,11}. Further, since the announcement of our decision to acquire our Nigerian business in 2017, we have more than doubled the number of customers. We are now contracted to supply gas to 24% of Nigeria’s thermal power generation capacity (up from 10% at the time of acquisition) as well as key petrochemical and cement factories¹². We are clearly performing a critical service to the Nigerian economy. Over the same period our operational performance has been equally robust, with an estimated 99% uptime across our asset base.

The US\$22 million difference between our Group and Nigerian business Adjusted EBITDA^(c) numbers largely reflects the central costs of running our business and the investments we have made to build the corporate infrastructure that will enable our future organic and inorganic growth plans. On a pro forma basis we increased our headcount by 21% year-on-year and training hours per employee by 74%. In the coming years we intend to continue to invest in our people and infrastructure as we continue to pursue our goal of potentially quadrupling the scale of our business over the course of the coming years.

In Niger, we are looking forward to conducting a comprehensive flow testing programme in late 2023 of the main oil fields included in our c. 35 MMstb R3 East field development plan (the “FDP”). This flow testing programme is expected to enable

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us to fine tune and optimise the FDP, ahead of expected first commercial oil production in 2024. The key decision we made around R3 East in 2022 was to move towards an export sales-driven development solution via the new Niger-Benin pipeline, as opposed to our previously intended initial development solution of selling crude to the domestic Zinder refinery. This decision followed the strong progress that China National Petroleum Corporation has made in constructing the Niger-Benin pipeline, which is now over 75% complete and expected to commence commercial oil transportation in the fourth quarter of 2023. The operationalisation of the Niger-Benin pipeline is expected to be transformational for Niger, with exported oil sales forecast to increase GDP by approximately 24% and exports by 68% in 2025¹³.

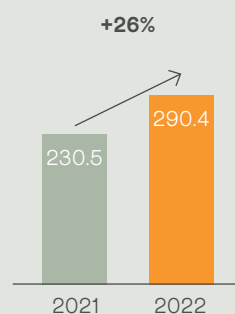
In March 2022 we signed an agreement for our up to 250 MW Parc Eolien de la Tarka wind farm project, located in the Tahoua region of Southern Niger. At the time of writing all key studies required to achieve project sanction have either been completed or are in progress. The project’s initial on-site wind speed data measurements have proven to be highly encouraging and we expect to sanction the project in 2024 with first power delivery in 2026. Post-year end, this project has been supplemented with the signing of an agreement for the development of two solar photovoltaic power plants in the areas around the cities of Zinder and Maradi, also in southern Niger, with a combined installed power generation capacity of up to 200 MW. These projects are expected to be developed on a similar timeline to Parc Eolien de la Tarka: project sanction is targeted for 2024 and first power delivery in 2026. In aggregate, therefore, we are expecting to generate up to 450 MW of new clean and affordable power for Niger, which would equate to an up to 60% increase in overall on-grid electricity availability.

From a business development perspective, three major events occurred in 2022:

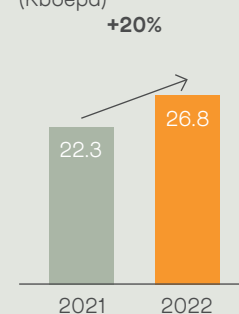
- **Announcement of our proposed acquisition of the South Sudan Assets^(m).** In December, we announced our proposed acquisition of PETRONAS’ assets in South Sudan for a total consideration of up to US\$1.25 billion. The transaction is expected to complete in the third quarter of 2023, alongside the publication of a new Admission Document¹⁴.
- **Completion of our US\$407 million acquisition of ExxonMobil’s assets in Cameroon and Chad.** In Cameroon we acquired a 41.06% interest COTCo, which owns and operates the 903 km Cameroon section of the Chad-Cameroon pipeline and related infrastructure. During 2022, COTCo transported an average of 124 Kbpod of crude oil, valued at an estimated US\$4.6 billion at the Brent crude oil prices prevailing during the year. Post-year end we agreed to sell a 10% interest in COTCo to the national oil company of Cameroon, Société Nationale Des Hydrocarbures, for consideration of US\$44.9 million plus accrued dividends. In Chad we acquired a 40% interest in the Doba Oil PSC which produced 28 Kbpod in 2022. Post-year end these assets were impacted by external events*. We see our interest in COTCo acting as a potential catalyst for further growth in Cameroon over the course of the coming years. Post-year end we entered into an agreement in relation to the up to 75 MW Bini a Warak Hydroelectric Project in the north-east of the country.

* For further information, see pages 86 to 91

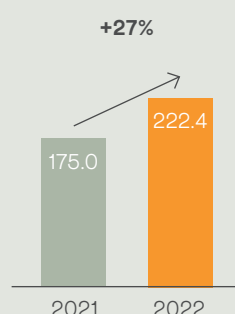
Savannah Total Revenues^(a) (US\$m)



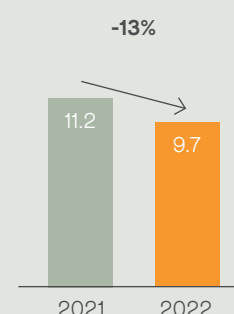
Savannah’s Nigerian daily production (Kboepd)



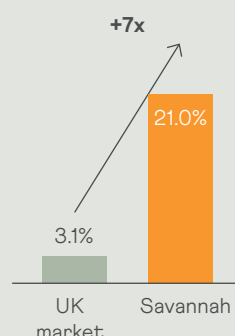
Adjusted EBITDA^(c) (US\$m)



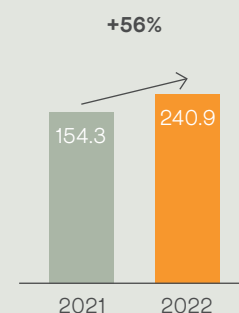
Carbon intensity (kg CO₂e/boe)



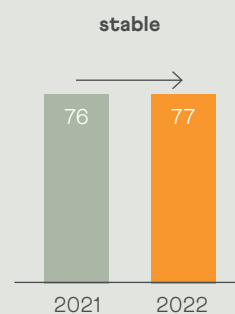
UK market vs. Savannah long-term revenue growth



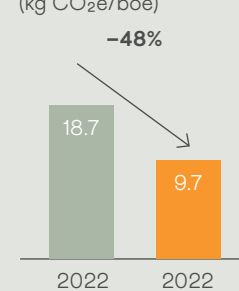
Cash Balance (US\$m)



Adjusted EBITDA^(c) Margin (%)



Savannah vs. Supermajors’ carbon intensity¹⁵ (kg CO₂e/boe)



● Supermajors
● Savannah

- Growth of our renewable energy business. 2022 saw the first full year of activity for our Renewable Energy Division.** During the year, we made significant investments in the people side of the business as well as generating a pipeline of high quality solar, wind and hydro power projects. At the time of writing this amounted to up to 525 MW of publicly announced projects in motion. Internally, we believe we have strong visibility on a range of other projects, which we expect to enable us to meet our target of delivering up to 1 GW+ of renewable energy projects in motion by year-end 2023. I am, therefore, confident that Savannah will become one of the largest renewable energy development companies in Africa over the course of the next two years.

As always, we maintained our strong focus around safe operational delivery. In 2022 we recorded a Lost Time Injury Rate ("LTIR") of 0.34 and a Total Recordable Incident Rate ("TRIR") of 0.68 per 200,000 working hours. Our performance against key sustainability metrics remained equally industry leading. Our carbon emission intensity fell 13% year-on-year to 9.7 kg CO₂e/boe (48% lower than the industry average of 18.7 kg CO₂e/boe). Our senior management female gender diversity was 32%, while our local employee ratios in our countries of operation was over 95%.

Key focus areas for 2023 and 2024

Over the course of the next two years, I expect there to be several key focus areas for the business. These include:

- The refinancing of our US\$359 million Accugas debt facilities.** Our intention remains to redenominate the current US dollar-denominated facility to a multi-tranche Naira-denominated facility, extending the average maturity to beyond 2030 and reducing the facility cost in dollar equivalent terms;
- Progressing the R3 East Development project.** As noted previously, we intend to commence a flow testing programme on the key R3 East area fields in the fourth quarter of 2023 with first commercial oil production anticipated by end 2024;



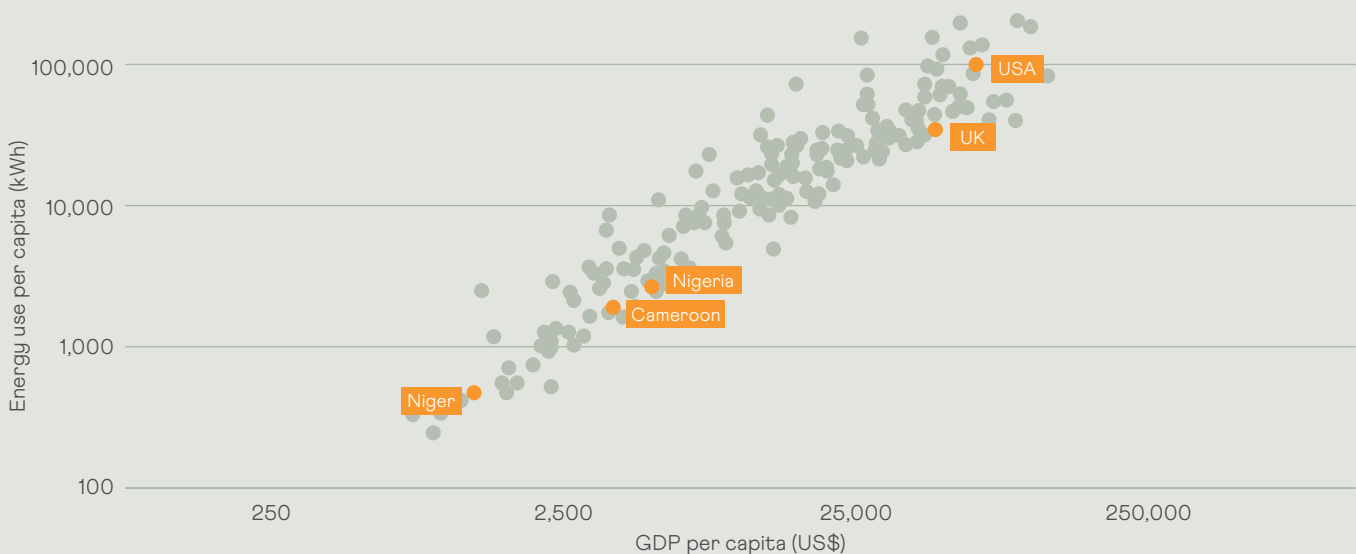
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- Further hydrocarbon acquisitions.** The major energy companies are estimated to have in excess of US\$100 billion¹⁶ of upstream oil and gas assets in Africa and most have significant upstream asset divestment programmes. Savannah is strongly positioned to successfully participate in these divestment programmes, given our operating capabilities, regional reputation and access to capital. Post-deal we would expect to act as strong asset stewards delivering better underlying operational performance and improvements in unit carbon intensity (within the limitations of the underlying assets) compared to the previous asset owners;
- Delivery of our renewable energy projects.** We have an aspiration to have our first project(s) fully sanctioned by end 2024 and first power from our project portfolio in 2026; and

Correlation between GDP and energy use per capita

(Note: logarithmic scale)



Source: Our World in Data based on BP & Shift Data Portal, World Bank.



L-R His Excellency Gaston Eloundou Essomba, the Minister of Water and Energy for the Republic of Cameroon, His Excellency Dr Christian Denny-McClure, British High Commissioner to the Republic of Cameroon, Andrew Knott, CEO, Savannah



Niger wind farm signing ceremony, Houses of Parliament, UK; L-R: Andrew Knott, Chief Executive Officer, Savannah; His Excellency Sani Mahamadou, Minister of Petroleum, Niger

- **Expansion of our renewable energy business.** Savannah believes the African renewable energy market represents a potentially vast target market of over 242 GW by 2030¹⁷, requiring an investment of over US\$40 billion in the 2026-2030 window, and that the Group's hydrocarbon asset operational management skills are directly transferable to this space. In the near term we are hoping to have up to 1 GW+ of renewable energy projects in motion by end of 2023 and up to 2 GW+ of projects in motion by end 2024.

As can be seen from the above list, we remain unequivocally an "AND" company. We are seeking to deliver strong performance, both for the short AND long-term, across multiple fronts. We are pursuing growth opportunities in both the hydrocarbon AND renewable energy areas. This approach permeates our entire business and how we have built, and will continue to build, our corporate infrastructure.

How we see the African Energy Transition

As in previous years' shareholder letters, I have chosen to discuss how we see the African Energy transition. Before turning to discuss this, I feel it is important to emphasise that this is only one of several important contributing beliefs driving what Savannah does as a company. On pages 8 to 17 of the Annual Report we have outlined in detail "Why we do what we do". In that section we discuss our corporate purpose and associated core beliefs which serve to underpin our hydrocarbons AND renewables strategy and business model. In simple terms, the section explains why energy poverty in Africa is the principal problem our company is seeking to help solve and why we believe this problem is one of the most urgent and important problems facing the world today. I would urge any reader interested in really understanding our company to read this section, especially if they are from a rich world background and perhaps less intuitively understand the realities of the everyday challenges facing the 600 million people in Sub-Saharan Africa who are defined by the World Bank as living in extreme poverty (i.e. have incomes of less than US\$2.15/day)¹⁸.

Energy is critical to enabling and sustaining people's quality of lives. My preferred chart for demonstrating this is adjacent, which compares GDP per capita to power consumption per capita. As can be seen, people without access to energy are dramatically poorer than those with access to energy. For example, Niger is ranked 189 out of 191 on the UN Human Development Index¹⁹ ("UN HDI") with a GDP per capita of US\$584²⁰ and power consumption per capita of 449 kWh²¹. The United States of America on the other hand is ranked 21 out of 191 on the UN HDI with GDP per

capita of US\$76,348 and power consumption per capita of 79,480 kWh, 12,983% and 17,614% higher respectively. A similar pattern emerges when we look at the relationship between power consumption and other key quality of life barometers such as life expectancy and lifetime health outcomes.

Over 80% of today's global energy mix is provided by hydrocarbons with 54% of this provided by oil and gas²². The scale of investment required to sustain the "status quo" global quality of life is immense. Global non-financial capital expenditures for the energy sector amount to 42% of all global capex²³. The world clearly, therefore, requires oil and gas today, and is prepared to pay vast amounts of money to enable this. The extent to which the world requires oil and gas in the future will depend on the absolute and relative rate of renewable energy and carbon mitigation technological improvements, and the absolute and relative rate of adoption of these improvements. In this regard, the quote by John Kerry (The US Climate Change Envoy), which I have cited in my last two shareholder letters, remains pertinent – "I am told by scientists that 50% of the reductions we have to make by 2050 or 2045 are going to come from technologies we don't have yet."

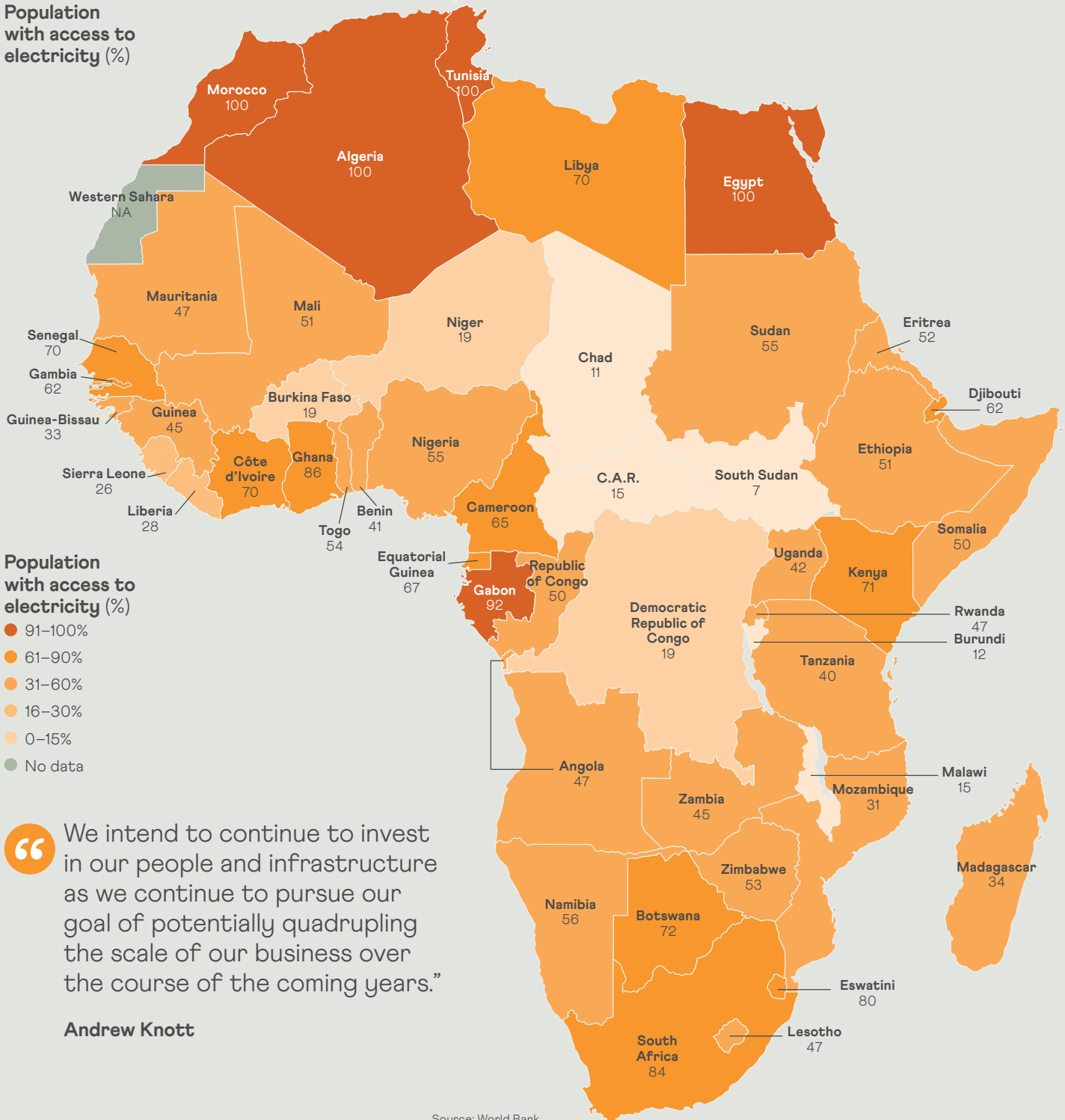
While the pace of technological evolution and adoption may be argued to be generally faster today than in earlier periods, I believe that it is important to recognise that the global energy transition is likely to take a relatively long time. As demonstrated in the charts on page 23, previous energy transitions have taken fifty plus years, and the modern renewable transition only began around 2015. Further, full displacement of the previous energy sources has not occurred in previous transitions (i.e. coal still provides approximately 26% of the global energy mix).

In this regard, when we look at the forecast future energy mix, there is currently a big difference between the trend case (i.e. what forecasters are suggesting will actually happen) versus the Net Zero 2050 case. Essentially the world appears to be on track to have around 50%²⁵ of its energy mix in 2050 to be provided by oil and gas, which, given likely energy demand growth over the course of the next 28 years, suggests that actual oil and gas demand is currently not on trend to fall significantly over the period.

The foregoing contrasts dramatically with the many Net Zero forecasts which generally see the total share of fossil fuel supply falling to just over 20% of the global energy mix by 2050²⁴.

African population with access to electricity (%)

Population with access to electricity (%)



“ We intend to continue to invest in our people and infrastructure as we continue to pursue our goal of potentially quadrupling the scale of our business over the course of the coming years.”

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Source: World Bank.

Energy transitions take (a lot of) time

It has taken decades for major energy sources to provide a significant share of global supply:

Coal

50 years to contribute 40% of the global energy mix

Crude oil

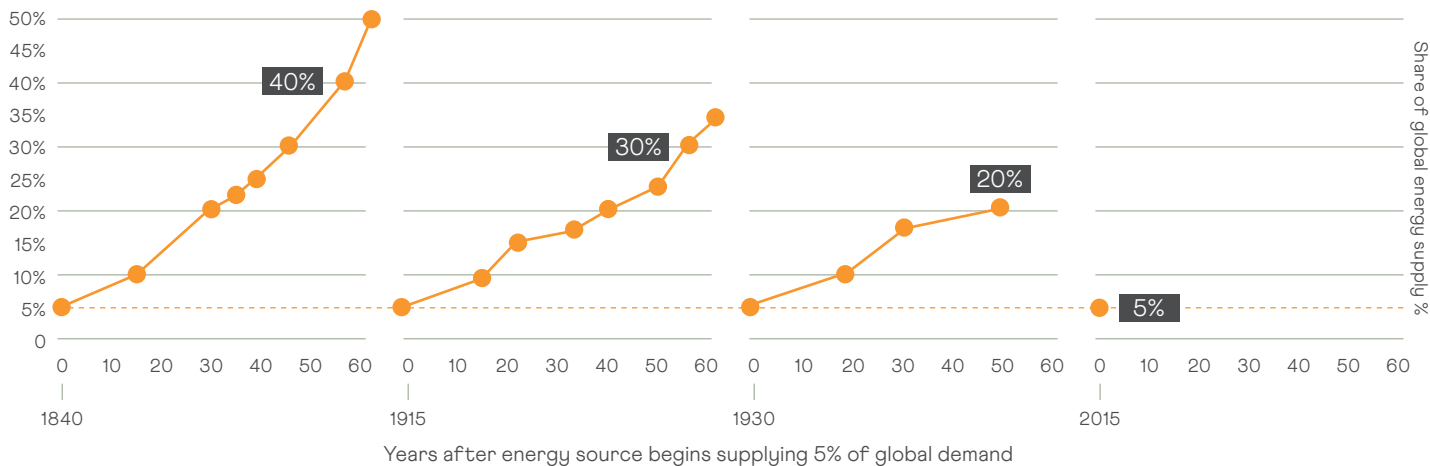
50 years to contribute 30% of the global energy mix

Natural Gas

50 years to contribute 20% of the global energy mix

Modern Renewables

Still contributes only 5% of the global energy mix



Source: Vaclav Smil. Modern renewables include: wind, solar, and modern biofuels; Bill Gates: How to Avoid a climate disaster

“The opportunities associated with the African energy transition (hydrocarbon acquisitions from Big oil sellers and the build-out of our renewable energy business) represent a once in a generation opportunity, which we at Savannah are strongly positioned to take advantage of.”

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Further, it is likely that lower income countries, where the ability to pay for renewable energy infrastructure is lowest and the need for low priced energy to deliver life changing economic growth is highest, will see hydrocarbons form a much greater part of their energy mix in 2050 than in the developed world. This point is demonstrated well by the adjacent map. On average, only 56% of Africa’s entire population has access to on-grid electricity (falling to 49% if South Africa, Egypt and Algeria are excluded), with the electricity access rate in our countries of active operations estimated at 65% for Cameroon, 19% for Niger and 55% for Nigeria. For much of Africa, the primary issue is around people being given access to reliable and affordable power, period.

From a Savannah perspective, our primary focus is on participating in **Projects that Matter** in Africa. We expect to continue to acquire hydrocarbon businesses and to re-invest the cash flows we generate in both hydrocarbon AND renewable energy projects. We firmly believe that Africa needs both if it is to be given the opportunity to grow and lift ever more of her citizens out of energy poverty.

Closing thoughts

I would hope that having read through this letter my reasons for being optimistic around the future of our business are

clear. We are a purposeful organisation, doing societally essential work. The opportunities associated with the African energy transition (hydrocarbon acquisitions from Big oil sellers and the build-out of our renewable energy business) represent a once in a generation opportunity, which we at Savannah are strongly positioned to take advantage of. We have made significant investments in our people, infrastructure, capabilities and have well-developed regional and financial stakeholder relationships and credibility. We have a strong track record of “getting things done”. I believe that Savannah will achieve great things over the course of the coming years and look forward to continuing this journey with you, my fellow shareholders.

Lastly, I would like to express my gratitude to all those who contributed to our successes in 2022 - my incredibly dedicated and passionate colleagues, our host governments, communities, local authorities and regulators, our shareholders and lenders, and our customers, suppliers and partners. Thank you all.

Andrew Knott
Chief Executive Officer, Savannah
7 June 2023

Footnotes

CEO Shareholder Letter

1. Source: The Economist, 2022 has been a year of brutal inflation.
2. Source: IMF.
3. Fed Prime Rate LIBOR.
4. Source: EIA.
5. Source: EIA.
6. Source: Eurostat.
7. Source: Food and Agriculture Organisation (FAO).
8. Source: Trading Economics.
9. Source: IMF.
10. FTSE 100, 10 years. Source: Factset.
11. Source: Growth Index.
12. Savannah estimate based on Accugas peak contributions to thermal generation for the time period.
13. Source: Fitch Solutions.
14. The document to be published by a company seeking admission of its securities to trading on AIM in accordance with Rule 3 of the AIM Rules.
15. Carbon intensity figures based on the latest available published data reported by bp, Eni and Total.
16. Source: World Bank.
17. Source: IEA.
18. Source: World Bank.
19. Source: United Nations Human Development Report 2021.
20. Source: IMF.
21. Source: Our World in Data.
22. Source: IEA, World Energy Outlook (2022).
23. Source: S&P Global Market Intelligence, S&P Global Ratings. Universe is Global Capex 2000.
24. Source: EIA, International Energy Outlook.
25. Source: IEA, Net Zero by 2050.