

# A STABLE AND PROVEN STRATEGY

ANNUAL REPORT  
AND ACCOUNTS

2013

## ABOUT US

We are an oil and gas exploration and production company, employing a strategy for building long term shareholder value through a portfolio of assets.

Lift the flap to find out where SOCO started and how we have grown

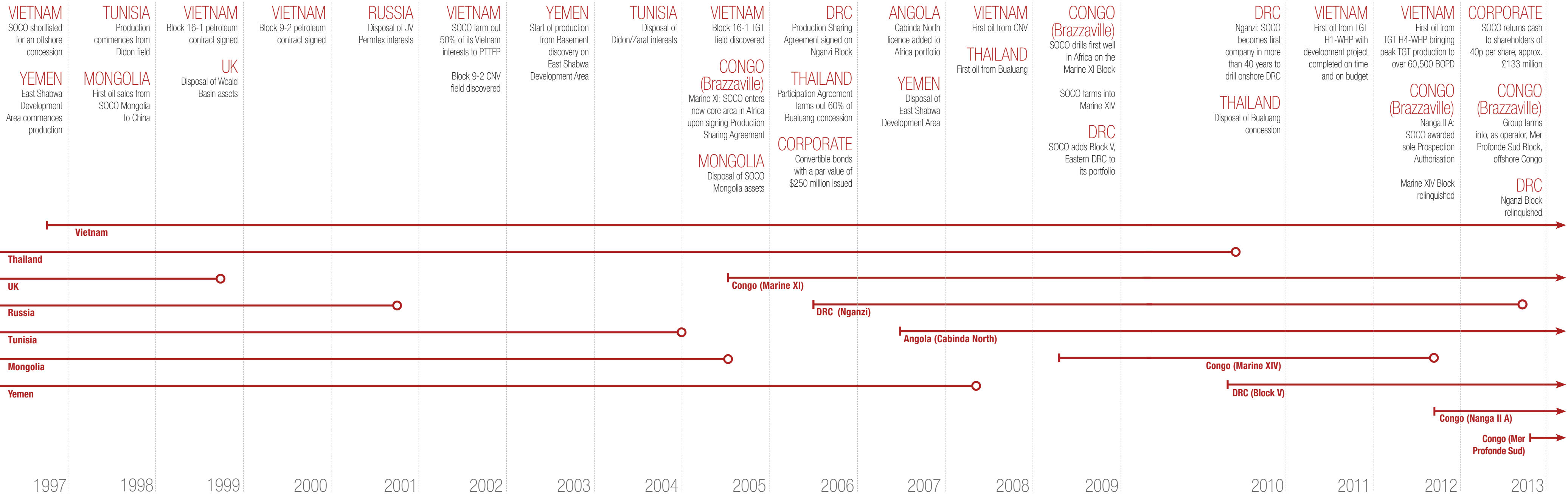
1997//  
SOCO IS LISTED  
ON THE LONDON  
STOCK EXCHANGE

OUR STRATEGIC  
OBJECTIVES  
see page 6

1//RECOGNISING  
OPPORTUNITY 2//CAPTURING  
POTENTIAL 3//REALISING  
VALUE

2013//  
WE DISTRIBUTE  
OUR FIRST CASH  
RETURN TO  
SHAREHOLDERS

PROJECT MILESTONES



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# SOCO AT A GLANCE

## HIGHLIGHTS IN 2013

### PRODUCTION

16,694

BOEPD, net working interest

### REVENUE

\$608.1 MILLION

### PROFIT FOR THE YEAR

\$196.1 MILLION

Excluding exploration write offs

### RETURN TO SHAREHOLDERS

\$213.3 MILLION

## PRODUCTION PORTFOLIO

//SEE PAGE 4

### Block 9-2

#### Location

Cuu Long Basin,  
offshore Vietnam

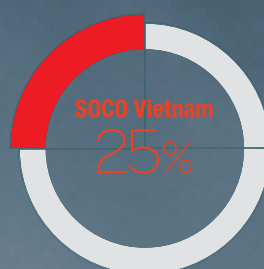
#### Operational phase

Field development/production

#### Operator

Hoan Vu Joint Operating Company

#### SOCO interest



#### Project partners

PetroVietnam

50%

PTTEP

25%

### Block 16-1

#### Location

Cuu Long Basin,  
offshore Vietnam

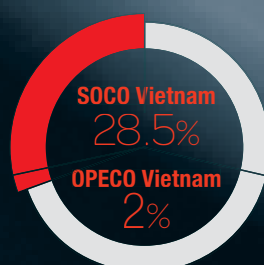
#### Operational phase

Appraisal/field development/production

#### Operator

Hoang Long Joint Operating Company

#### SOCO interest



#### Project partners

PetroVietnam

41%

PTTEP

28.5%

## Corporate headquarters

London, United Kingdom

## Listing

London Stock Exchange,  
FTSE 250

## Functions

- Strategic direction
- Operational support
- Financial management
- Investor relations
- Stakeholder communications

# EXPLORATION PORTFOLIO

//SEE PAGE 5

## ○ Marine XI Block

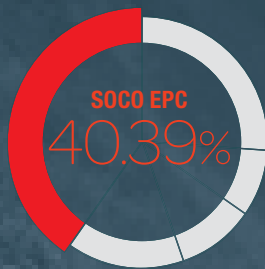
### Location

Congo Basin, offshore  
Congo (Brazzaville)

**Operational phase**  
Exploration/appraisal

**Operator**  
SOCO EPC

### SOCO interest



### Project partners

|        |              |
|--------|--------------|
| WNR    | SNPC         |
| 23%    | 15%          |
| AOGC   | PetroVietnam |
| 13.11% | 8.5%         |

## ○ Cabinda North Block

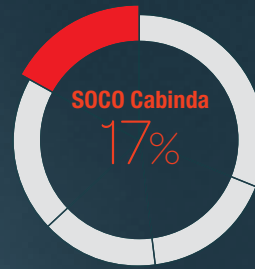
### Location

Congo Basin, onshore  
Cabinda, Angola

**Operational phase**  
Exploration

**Operator**  
Sonangol P&P

### SOCO interest



### Project partners

|                             |                |
|-----------------------------|----------------|
| Sonangol P&P                | Teikoku Oil    |
| 20%                         | 17%            |
| ENI                         | China Sonangol |
| 15%                         | 11%            |
| Angola Consulting Resources | Petropars      |
| 10%                         | 10%            |

## ○ Mer Profonde Sud

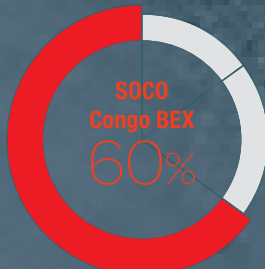
### Location

Congo Basin,  
offshore Congo (Brazzaville)

**Operational phase**  
Block evaluation/exploration

**Operator**  
SOCO Congo BEX

### SOCO interest



### Project partners

|                    |
|--------------------|
| PA Resources Congo |
| 25%                |
| SNPC               |
| 15%                |

## ○ Block V

### Location

Albertine Rift,  
onshore eastern DRC

**Operational phase**  
Block evaluation

**Operator**  
SOCO E&P DRC

### SOCO interest



### Project partners

|         |
|---------|
| Cohydro |
| 15%     |

## ○ Nanga II A

**Location**  
Congo Basin, onshore  
Congo (Brazzaville)

**Operational phase**  
Block evaluation

**Operator**  
SOCO EPC

**SOCO Interest**  
**100%**  
of a Prospection  
Authorisation

# PRODUCTION IN VIETNAM IS AT A RECORD HIGH, AND WE ARE SEEING RESULTS IN AFRICA

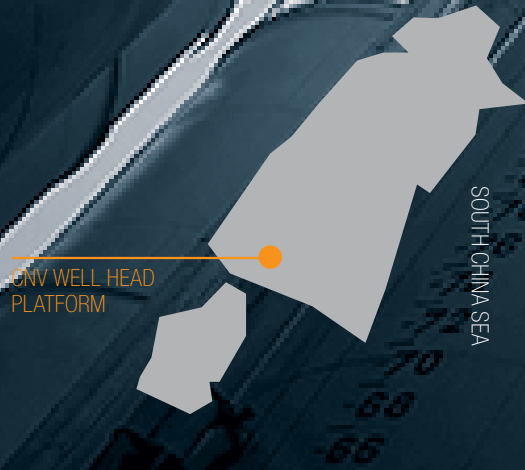
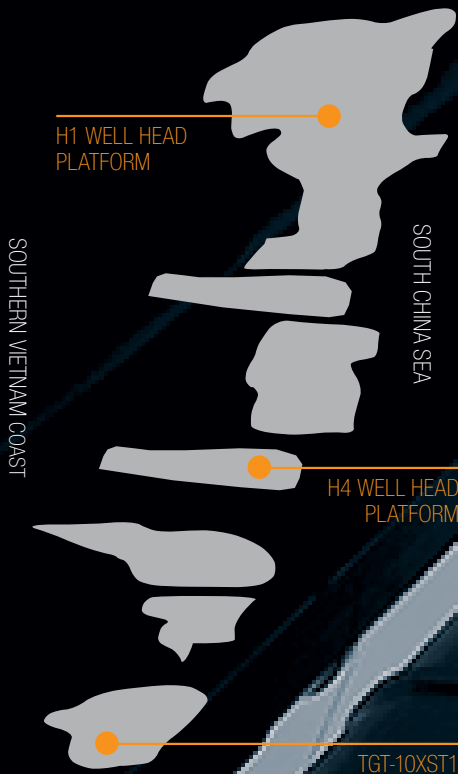
## VIETNAM

### BLOCK 16-1 CUU LONG BASIN

//SEE PAGE 18

### BLOCK 9-2 CUU LONG BASIN

//SEE PAGE 21



#### Average production

| BOEPD// | 2013   | 2012   |
|---------|--------|--------|
|         | 16,694 | 14,757 |

The Directors present their Strategic Report for the year ended 31 December 2013 for the Group, which comprises pages 4 to 39 and includes:

|     |  |     |
|-----|--|-----|
| 1// | SOCO's Strategy and Business Model       | p6  |
| 2// | Chairman and Chief Executive's Statement | p10 |
| 3// | Review of Operations                     | p18 |
| 4// | Financial Review                         | p24 |
| 5// | Risk Management Report                   | p28 |
| 6// | Corporate Social Responsibility Report   | p32 |

This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to SOCO International plc and its subsidiaries when viewed as a whole. The Directors, in preparing the Strategic Report, have complied with s414C of the Companies Act 2006.

**Approval**

The Strategic Report was approved by the Board of Directors on 4 March 2014 and signed on its behalf by:

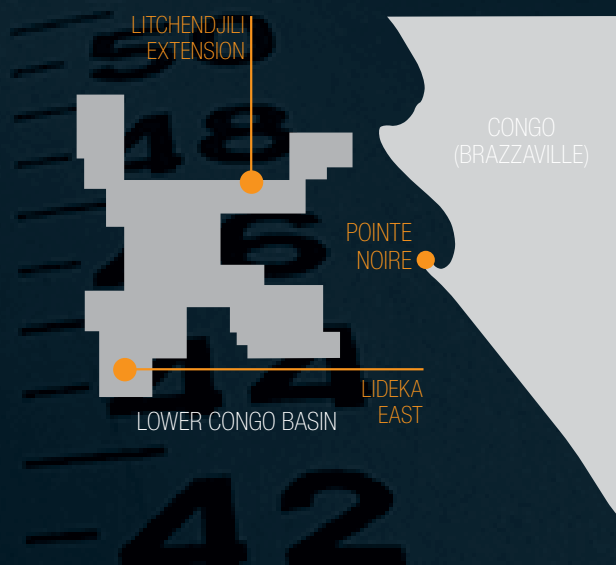
**Cynthia Cagle**  
Company Secretary

## AFRICA

### MARINE XI

//SEE PAGE 22

- ▶ The large Litchendjili oil and gas discovery on the Marine XII Block lies adjacent to, and potentially extends onto, SOCO's Marine XI Block. Negotiations are currently underway to secure a rig to drill in the second quarter of 2014
- ▶ The Lideka East Marine-1 well successfully targeted a post-salt structure, up-dip from the Lideka Marine-1 well which found oil shows in the Sendji Formation (tS3)



LOWER CONGO BASIN



### MER PROFONDE SUD

//SEE PAGE 22

- ▶ SOCO has acquired a 60% working interest in the MPS Block, offshore Congo (Brazzaville) through a "farm in" agreement with PA Resources Congo SA
- ▶ An exploration well will be drilled in the remaining licence period to test a different structural setting and play from the other wells already drilled on the Block

# OUR STRATEGY CONTINUES TO YIELD RESULTS

Since our incorporation in 1997 we have applied our core strategic objectives to our projects, and they remain at the centre of our operations today

## 1 Recognising opportunity

By cultivating relationships and having early access into regions, projects or situations where there is potential to create significant upside through the Company's participation.

## 2 Capturing potential

By adding the Company's managerial, technical and commercial expertise to progress activities through the formative stages or through periods of difficulty.

## 3 Realising value

By locking in returns, regardless of the phase of the project life cycle, once the Company's capability to add value begins to diminish.





## OUR PROVEN BUSINESS MODEL

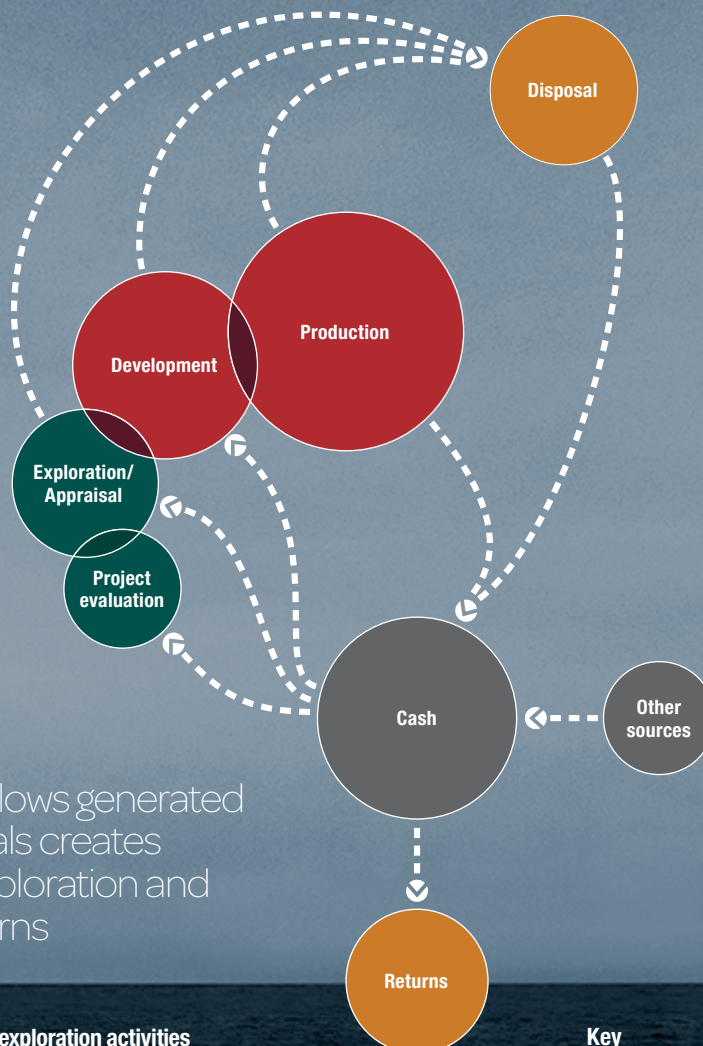
### SOCO achieves its core strategic values by applying its business model to:

- Build large positions early on, before the play concept becomes too expensive.
- Increase portfolio value through the application of managerial and technical expertise. The SOCO corporate team, based in London, utilises a pool of specialist proven geoscientists and engineers enabling a highly efficient and focused approach to the Company's activities.
- Lay off risk (rather than take on risk). By partnering with other oil and gas companies, SOCO mitigates risks and increases capital resources.
- Lock in returns at the right time. Aim to commercialise within realistic time frame (5-10 years) and to avoid projects that lock in capital for long periods of time.

### SOCO focuses on overlooked or under-exploited opportunities in hydrocarbon prone regions:

- Brownfields versus greenfields to reduce risk.
- Hurdle rate for new country entry is 50 mmbbls net to SOCO on initial opportunity.
- Oil rather than gas. A market is required before a gas project is ever considered.

**SOCO is committed to being a safe and positive presence in the countries where we operate, guided by a responsible approach to oil and gas exploration and production.**



Reinvestment from cash flows generated by operations and disposals creates more opportunities for exploration and potential shareholder returns

**While the Company's free cash flow funds its exploration activities and external financing funds significant new development projects, a proportion of excess cash is returned to shareholders.**

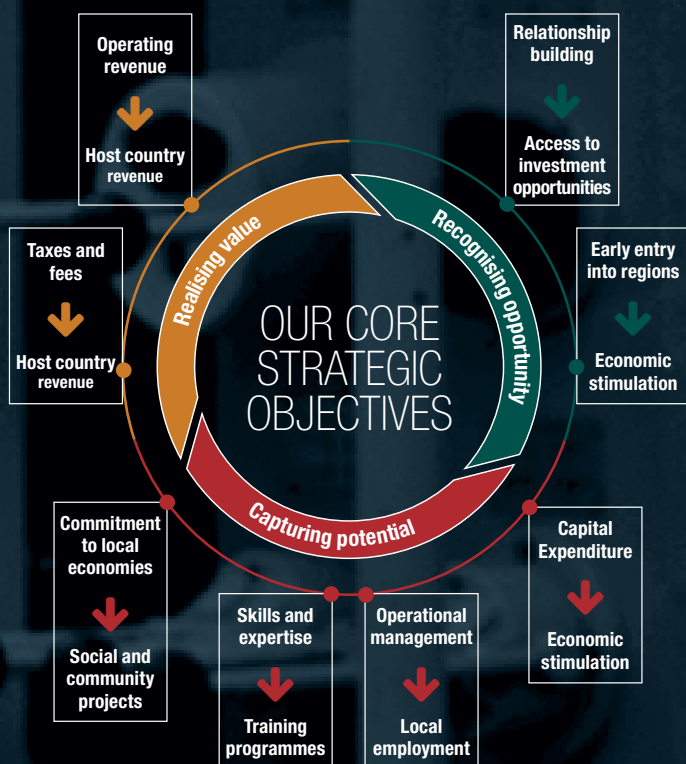
**Key**  
● Recognising opportunity  
● Capturing potential  
● Realising value  
 - - - Cash flow



# SOCO INTERNATIONAL CAN BE A POWERFUL FORCE FOR ECONOMIC DEVELOPMENT

## OUR CORPORATE SOCIAL RESPONSIBILITY COMMITMENT IS INTEGRATED INTO OUR STRATEGY

//SEE PAGE 32



Oil and gas companies have a central role in today's global energy supply. SOCO International can be a powerful force for economic development. Through our business, we create jobs, provide training and skills and support local communities.

A successful project can transform not only a company, but also the economic and social wellbeing of a host country by contributing to its ability to produce and supply its own natural resources. We recognise that built into the heart of this opportunity is the business imperative to act responsibly.

SOCO is committed to conducting our business in an honest and ethical manner and ensuring that the health and safety of people and the protection of the environment remain a business priority. Our goal is to be a positive presence and to build sustainable value for the host countries and local communities, as well as for our own shareholders.

[www.socointernational.com](http://www.socointernational.com)



**Rui de Sousa**  
Chairman



**Ed Story**  
President and Chief  
Executive Officer

## Chairman and Chief Executive's Statement

### **D**ear Shareholders

Our business model is very simple: we are value focused. We do not approach this by setting reserve or production milestones, which may or may not add value. We aim to deliver shareholder value by offering an attractive and sustainable yield via annual returns whilst providing relatively low risk upside through focused exploration.

The Company was pleased to have successfully initiated the yield leg of the business model last year by returning over \$200 million to shareholders during the fourth quarter. We are also pleased to confirm our intention to recommend a further cash return this year. Using previous guidance of returning 50% of free cash flow, the magnitude of the cash return would be approximately \$100 million. The intent is to again make this return in a manner which is tax efficient to many shareholders and the structure and quantum is expected to be confirmed with mid-year results.

On the operations front, both our Vietnam and Congo wells drilled during 2013 were successful. Offshore Vietnam, on the Te Giac Trang (TGT) field, the TGT-10XST1 exploration/appraisal well, which tested beyond expectations at over 27,600 barrels of oil equivalent per day (BOEPD), will result in adding another unmanned production platform to increase productive capability from the TGT field in the range of 15,000 to 25,000 BOEPD when H5 comes on-stream, projected to be in the third quarter of 2015.

The Lideka East Marine-1 well, in the Marine XI Block offshore the Republic of Congo (Brazzaville), was also successful as it intersected 50 metres of net oil pay. The extent of this discovery is currently being evaluated. The potential extension of a significant field discovery on a contiguous block and several other potentially exploitable leads clearly add value to the Marine XI Block.

Extended testing on the TGT-10XST1 well consumed all of the contracted rig time during the year. Consequently a number of planned development wells required to test additional reservoir intervals in the producing part of the TGT field were deferred until 2014. Thus the additional field data needed to validate fully the newly developed reservoir simulation model is not yet available.

As a consequence, we believe the sensible approach is to keep the notional assessment of recoverable volumes for the field unchanged from last year, which now includes gas, until we have more production data and a fully functioning full field simulation model. The notional in-place volumetric estimates are supported by an independent assessment by RPS, the reservoir engineering group retained by SOCO.

Enhancing our corporate governance was also a key achievement in 2013. We are very pleased to have added two extremely capable independent Non-Executive Directors to our Board. Marianne Daryabegui joined the Board in October 2013 and Rob Gray joined in December 2013.

It is with great pride that we were able to maintain our exemplary record from the health and safety aspect as we completed another year free of any lost time injuries.

## Financial and Operating Results

Group revenue for 2013 was relatively stable, dropping slightly from last year's record level of \$621.6 million to \$608.1 million. This was an extremely strong result giving consideration to the necessary production curtailment from our largest producing asset, the TGT field, when capacity at the Floating Production Storage and Offloading (FPSO) facility was reduced by up to 15,000 BOEPD when a contiguous field commenced production into the vessel in May.

Before accounting for the non-cash impact of the Nganzi relinquishment, post-tax profits were similarly down slightly from \$207.0 million in 2012 to \$196.1 million in 2013.

Net entitlement volumes actually increased year on year on a BOEPD basis, increasing from 15,496 to 16,694, after the TGT gas sales contract was signed during 2013, thus allowing gas volumes to be included in production and reserve statistics. Following the fulfilment of the cost recoupment associated with the Group's cost carry of PetroVietnam on Block 16-1 in 2012, the Group's entitlement volume is now equivalent to its working interest share of production. Realised oil prices dropped approximately \$5.00 per barrel year on year with realised prices in 2013 averaging approximately \$113 per barrel of crude oil sold.

Cash generated from operations came in at \$314.4 million in 2013, down from \$334.8 million in 2012, reflecting lower realised oil prices that were partially offset by higher volumes sold. Capital expenditures were down from \$109.9 million in 2012 to \$99.1 million in 2013. On 16 May 2013, the outstanding convertible bonds were purchased at par value and cancelled. On 14 October 2013, SOCO completed a return of \$213.3 million to shareholders (£133 million), after receiving shareholder approval at a general meeting on 25 September 2013. The Group ended the year with cash, cash equivalents and liquid investments of \$210.0 million, dropping only \$48.5 million despite the large return to shareholders and the retirement of the convertible bonds. At year end 2013, SOCO was completely debt free.

## 2013 Operations Review

### Vietnam

The TGT and Ca Ngu Vang (CNV) fields' combined production during 2013 equalled 16,694 BOEPD net to SOCO's working interest, exceeding full-year guidance by slightly over 4%. CNV continues to produce steadily averaging 2,059 BOEPD net to the Company's working interest during 2013, slightly down from the previous year. During 2014, we expect to increase CNV's gross production by up to 25% when we drill the CNV-7P well, which should spud in the second quarter.

Production from TGT averaged 14,635 BOEPD net to the Group's working interest during 2013, as compared with 12,618 barrels of oil per day the previous year, which was prior to the signing of the TGT gas sales agreement. TGT production was adversely impacted by two events, sharing of the FPSO which reduced TGT throughput by 15,000 BOEPD and deferral of the 2013 development drilling programme due to the extended testing programme on the highly successful TGT-10XST1 exploration/appraisal well which flowed at a combined average maximum rate at over 27,600 BOEPD.

The partners have approved a three rig drilling programme in Vietnam for 2014. All three rigs are already under contract and the first, the Hercules Resilience, arrived on site on TGT on 1 March 2014. Additional activity is

underway to bring H5 on-stream with an anticipated start date in the third quarter of 2015.

The positive TGT-10XST1 well result provides an opportune reminder that TGT is a field in early stage development. Also, the number and complexity of the oil bearing reservoirs across the entirety of the field means that the forward development plan must be optimised fully to deliver maximum recoverable oil over the field life.

Whilst the TGT field has a structurally simple trap configuration, it comprises a complex series of more than 50 reservoirs and, to date, only approximately 4% of its estimated P50 Stock Tank Oil Initially In Place has been produced. The full field development of TGT will require optimisation of the development programme over the next six years that will include an additional 35-45 infill producer and injection wells, subject to the annual approval process in Vietnam. Similarly, individual reservoir optimisation also requires that the producing intervals for each and every development well throughout the field are continuously and actively managed.

## Key Performance Indicators

| \$million (unless otherwise stated)           | 2013    | 2012    | 2011    |
|---|---------|---------|---------|
| Revenue                                       | 608.1   | 621.6   | 234.1   |
| Gross profit                                  | 439.0   | 460.5   | 166.3   |
| Net cash from operating activities            | 314.4   | 334.8   | 90.2    |
| Cash, cash equivalents and liquid investments | 210.0   | 258.5   | 160.1   |
| Net assets                                    | 1,080.8 | 1,176.6 | 1,098.1 |
| Total shareholder return (%)                  | 21.7    | 22.3    | (20.8)  |

See Additional Information – Key Performance Indicators on page 99 for all KPIs employed and their definitions

WE SUCCESSFULLY INITIATED THE YIELD LEG OF THE BUSINESS MODEL LAST YEAR BY RETURNING OVER \$200 MILLION TO SHAREHOLDERS



## KEY PERFORMANCE INDICATORS



## Africa

We are negotiating final terms to contract a rig to drill what is assessed to be a relatively low risk prospect in our Marine XI Block offshore Congo (Brazzaville). This well is designed to determine whether the Litchendjili field, previously discovered on the contiguous Marine XII Block due to come on-stream next year, extends into our acreage.

While we maintain our focus on organic growth generating our own prospect inventory, we do not ignore other value creation opportunities. One such opportunity was the farm-in to the Mer Profonde Sud (MPS) Block offshore Congo (Brazzaville) where we will evaluate significant exploration potential.

Following a detailed review by joint venture partners of the Nganzi Block onshore the Democratic Republic of Congo (DRC), it was decided not to apply to extend the exploration period. Thus the partners relinquished the Block in the last quarter of 2013. Although SOCO did not find commercial reserves in the Block, it has helped the Company to develop relationships in-country that will stand it in good stead for any potential future licence applications.

On Block V, after obtaining regulatory approval from the DRC Government, obtaining pre-programme environmental and regulatory sign-off from the managers of the Virunga National Park and conducting extensive consultation with local communities, SOCO expects to commence acquiring seismic data on Lake Edward. This is expected to be completed in the second quarter of 2014. Social investment projects for the communities on Block V began in August 2013, including a mobile hospital, the launch of a disease mapping campaign and the installation of a communications mast at Nyakakoma, a community located on the shores of Lake Edward.

SOCO takes its social and environmental responsibilities very seriously. Whilst there are some who oppose the DRC Government's decision to allow data gathering activities in Block V in the Eastern DRC, we are operating under valid contracts with the DRC Government which is fully entitled to award these contracts under both national laws and international convention. We remain committed to ensuring that the Government is able to obtain the knowledge it needs about the natural resource potential of the region using the most sustainable methodology practicable and that industry best practice is maintained.

## Corporate

### Return of Cash to Shareholders

On 14 October 2013, SOCO completed a return of \$213.3 million (£133 million) to shareholders, after receiving shareholder approval at a general meeting on 25 September 2013. The return of cash was structured using an issue of B Shares and C Shares, which enabled Shareholders to elect to receive their return of cash proceeds as either income or capital or any combination thereof on the equivalent basis of 40 pence per ordinary share.

### The Board of Directors

Further strengthening of the Board was a high priority for the year, motivated by the unexpected departure of Michael Johns, our Senior Independent Director, for personal health reasons and the need to add complementary expertise, different perspectives and strengthen board independence. We are very appreciative of Michael's contributions during his tenure on the Board and are grateful for his insight and dedication to the Company.

We are delighted to add two highly qualified independent members to the Board. Marianne Daryabegui was appointed in October 2013 and will serve as a member of the Audit and Risk, Remuneration and Nominations Committees. Rob Gray was appointed in December 2013 and will serve as the Senior Independent Director and a member of the Audit and Risk and Remuneration Committees. This means that we have introduced at least

# WE ARE DELIGHTED TO ADD TWO HIGHLY QUALIFIED INDEPENDENT MEMBERS TO THE BOARD

one new member to the Board in four of the past five years. We point to this as a strong indication of our commitment to maintain high standards of governance.

Marianne Daryabegui is currently the Managing Director of the Corporate Finance Oil and Gas Team at BNP Paribas in Paris, France. She has extensive experience in oil and gas corporate transactions, including structured financing and reserve based lending facilities, and has advised a wide number of oil companies across the sector. Prior to this, she worked for eight years in BNP Paribas' Energy Commodities Export Project Department where she headed the Commodity Structure Finance team for the Middle East, North and West Africa. Before joining BNP Paribas, Marianne spent eight years at TOTAL, working amongst other activities on upstream acquisitions and divestments in Europe and Africa.

Rob Gray was a co-founder of RegEnergys, a natural resources investment entity, and is currently the principal of ReVysion LLP, a financial advisory business in the natural resources sector. Rob has been an advisor to the natural resources sector for more than 30 years, including 13 years at Deutsche Bank where he was latterly a Senior Advisor having been Chairman of UK Investment Banking for five years and formerly Global Head of Natural Resources. Prior to joining Deutsche Bank, he was instrumental in establishing a number of leading institutional oil and gas groups. Rob continues as an industry advisor to various natural resource entities.



## WE ARE COMMITTED TO THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE

The Board recognises the need for an appropriate balance of critical attributes, including skills, experience, diversity, independence and knowledge of the Company. Accordingly, it continually seeks, within an appropriate Board size, to manage a balance between each important element in its composition, including Executive representation, independence, diversity, tenure and refreshment.

//SEE PAGE 43

### Board diversity

#### Board composition



#### Board nationalities

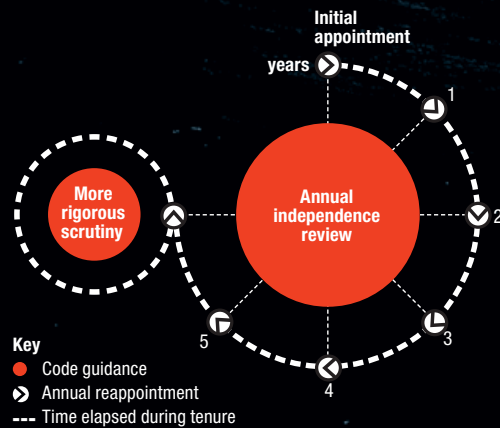


#### Board age breakdown

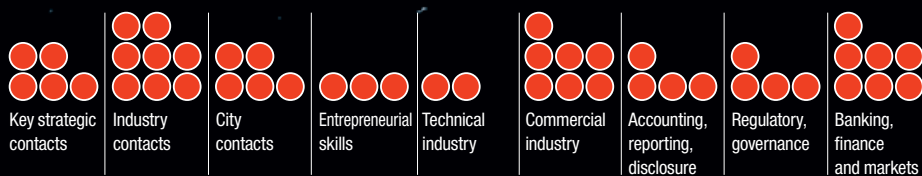


### Board independence

In accordance with the UK Corporate Governance Code (Code), all Directors are subject to annual independence reviews and election by shareholders



### Non-Executive Directors' knowledge, skills and experience





The Board takes its responsibilities with regard to succession planning very seriously. Accordingly, attention is focused on attracting and retaining strong leadership to ensure that the Company continues to be well positioned to deliver value for shareholders.

## Outlook

We remain committed to offering investors the opportunity for both an attractive and sustainable yield and substantial growth. During 2014, we intend to make a recommendation of a cash return to shareholders. Using previous guidance of returning 50% of 2013 free cash flow, the sum would approximate \$100 million. As was the case in the 2013 cash distribution, this return will most likely be structured as a B and C Share scheme, which will provide our UK shareholders optionality for the most efficient way to accept funds. However, going forward as we use up good tax capital, we will likely revert to a typical semi-annual dividend payment targeting a yield comparable to this year's but with the intent of growing it annually, subject to various macro parameters.

The operational focus for 2014 will be on the development of the H5 fault block of the TGT field. Whilst a decision is yet to be taken with regard to optimal production tie-in options, we expect that the additional productive capability will be online before the end of next year. Fabrication of an unmanned production platform for the H5 fault block will commence as soon as the official sanctioning of the project is received, which is anticipated to be before the end of the first quarter of this year.

Three rigs have been contracted for drilling in Vietnam. While one will be designated for drilling further development wells on the H1, H2, H3 and H4 fault blocks in the TGT field, another will drill the final production well on CNV, which will allow us to access the thus far unpenetrated south west corner of the field fractures in basement. The third, on a short term two well contract, has arrived on location and will commence drilling from the H1 Well Head Platform in March 2014.

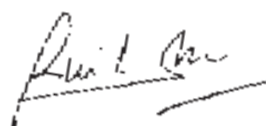
As stated, growth remains an important part of the SOCO story and exploration remains a cornerstone of our business model. However, we are committed to evaluating every alternative to optimise our exposure to upside without jeopardising a meaningful yield. What that means is that we

will manage our portfolio and maintain capital discipline in such a manner to ensure that we do not commit a disproportionate share of our capital expenditure budget to exploration drilling. We will continue to explore innovative ways to gain upside through the drill bit.


Our near term exploration drilling programme is sharply focused, with half targeting a high chance of success with a relatively low capital commitment, whilst the other half offers significant upside. In 2014, we are concentrating on the former and final negotiations should be completed shortly for a rig for the drilling of an exploration well offshore Congo (Brazzaville) to probe what is expected to be an extension of the Litchendjili field discovery made by ENI several years ago on the Marine XII Block. This field is slated to begin production in 2015. Should drilling successfully demonstrate that the field extends into the Marine XI Block, unitisation could result in revenue being generated from the Block very early following the discovery.

We remain very optimistic about the exploration potential of the MPS Block to deliver significant upside and will seek to drill it as soon as practical.

Again, we are value driven and will continue to explore all options to maximise this goal, which could include acquisitions or divestitures subject to either delivering on the value principle.



**Rui de Sousa**  
Chairman



**Ed Story**  
President and Chief Executive Officer



TGT-10XST1 WAS  
A SPECTACULAR  
SUCCESS, ONE  
OF THE HIGHEST  
FLOW RATE WELLS  
EVER DRILLED IN  
VIETNAM



**Antony Maris**  
Chief Operating Officer

## Review of Operations

Development of the Te Giac Trang (TGT) field offshore Vietnam was slowed during 2013 in favour of drilling an exploration/appraisal well on the southern-most H5 fault block. This well, the TGT-10XST1, was a spectacular success, one of the highest flow rate wells ever drilled in Vietnam, achieving over 27,600 barrels of oil equivalent per day (BOEPD). In Africa, we drilled a discovery with the sole exploration well drilled there, offshore the Republic of Congo (Brazzaville). The scope of the discovery is being evaluated prior to drilling a follow-up appraisal well. Elsewhere in Africa, we are in the early stages of evaluating two other projects and have farmed into a near-ready-to-drill prospect, also offshore Congo (Brazzaville).

Total production for the year averaged 16,694 BOEPD net to the Company's working interest (2012 – 14,757 BOEPD). All production is from the Company's interests in Vietnam.

### Vietnam

SOCO's Block 16-1 and Block 9-2 projects in Vietnam are located offshore in the oil rich Cuu Long Basin, which is a shallow water, near shore area defined by several high profile producing oil fields, the largest of which, Bach Ho, is located between the two Blocks and has produced more than one billion barrels of oil to date. The projects are operated through non-profit Joint Operating Companies (JOCs) wherein each participating party owns shares equivalent to its respective interests in the Petroleum Contracts governing the projects.

SOCO's interests are held through its wholly owned subsidiaries, SOCO Vietnam Ltd and OPECO Vietnam Limited. SOCO Vietnam Ltd holds a 25% working interest in Block 9-2, which is operated by the Hoan Vu JOC (HVJOC) and holds a 28.5% working interest in Block 16-1, which is operated by the Hoang Long JOC (HLJOC). OPECO Vietnam Limited holds a 2% interest in Block 16-1. SOCO's partners on both Blocks are PetroVietnam, the national oil company of Vietnam, and PTTEP, the national oil company of Thailand.

#### Block 16-1

##### Te Giac Trang

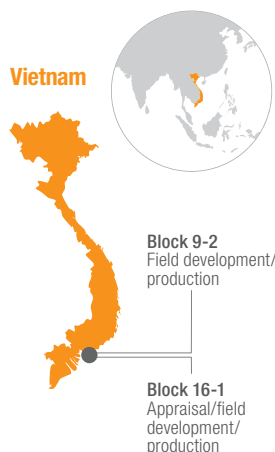
The TGT field is situated in the north-eastern part of Block 16-1 offshore Vietnam and is operated by the HLJOC. The Block was awarded in December 1999 and the first commercial discovery, TGT, was made in 2005. TGT is considered to be a simple structure, with complicated production intervals, extending over 16 kilometres and at least five fault blocks. The producing reservoir comprises a complex series of over 50 clastic reservoir intervals of Miocene and Oligocene age. Each reservoir interval requires individual reservoir management to ensure optimised field recovery. Production from the TGT field started in August 2011 and thus is early in field life and without a directly comparable field analogue.

The TGT field is currently producing from 16 wells from two unmanned platforms. Production net to SOCO's working interest averaged 14,635 BOEPD, an increase of almost 16% over the previous year. Considering the production limitations associated with sharing the Floating, Production, Storage and Offloading Vessel (FPSO), the field continues to perform in line with expectations, with field production averaging approximately 40,000 BOEPD (approximately 12,220 BOEPD net to the Group's working interest) through the first two months of 2014. TGT crude sales are at a premium to the Brent benchmark crude price, ranging from approximately

## Key Performance Indicators

|                                       | 2013   | 2012   | 2011  |
|---------------------------------------|--------|--------|-------|
| Production (BOEPD)                    | 16,694 | 14,757 | 5,437 |
| Proven and probable reserves (mmbobe) | 130.1  | 128.5  | 130.3 |
| Operating cost per barrel (\$)        | 8.06   | 8.83   | 9.42  |
| Capital expenditure (\$million)       | 99.1   | 109.9  | 152.2 |
| Lost time injury frequency            | –      | –      | –     |

See Additional Information – Key Performance Indicators on page 99 for all KPIs employed and their definitions



# THE PARTNERS HAVE APPROVED A THREE RIG DRILLING PROGRAMME IN VIETNAM FOR 2014

\$2 to \$7.40 in 2013. The premium averaged approximately \$4 per barrel to the Brent benchmark crude price to date in 2014.

### TGT-10XST1 Exploration/Appraisal Well

The TGT-10XST1 exploration/appraisal well is located on the H5 fault in the southern part of the TGT field, approximately six kilometres south of the H4 Well Head Platform (WHP). Testing, completed in October 2013, exceeded all pre-test expectations, flowing at a combined average maximum production from the three zones tested at over 27,600 BOEPD.

The first test, over a net 93 metre section in the Oligocene "C", produced at a maximum rate of 9,488 BOPD of 41.1 degree API oil and 1.16 million standard cubic feet of gas per day (MMSCFD). The second test, over the Miocene Lower 5.2L sequence, tested 7,100 barrels of oil per day (BOPD) and 1.76 MMSCFD. The final test, in the Lower Miocene Intra Lower Bach Ho 5.2 Upper and Lower sequence, over a perforated interval of 88.6 metres, flowed at an average maximum rate of 5,156 BOPD and 32.5 MMSCFD.

The well encountered approximately 250 metres of gross pay section (approximately 119 metres of net pay) in the Miocene and Oligocene reservoir horizons. Approximately 100 metres of net pay were evaluated by the three tests.

### Floating, Production, Storage and Offloading Vessel Capacity Testing and Maintenance

By prior contractual agreement that limited its throughput to 15,000 BOPD and/or 27,000 barrels of water per day, the Thang Long JOC (TLJOC) began producing from its field on Block 15-2/01 into the TGT FPSO in May of 2013. As a consequence, TGT throughput had to be limited with the FPSO operating at its nameplate capacity of 55,000 BOPD.

In anticipation of TGT throughput limitations associated with accepting TLJOC production, the HLJOC agreed with the owner/operator of the vessel to conduct testing of actual throughput capacity of the FPSO. In April 2013, the HLJOC completed the first phase of a multi-stage test of

the TGT FPSO oil production handling capacity beyond the 55,000 BOPD contractual minimum quantity. During the test, the FPSO successfully processed sustained production of over 60,000 BOPD, which confirmed our expectations based on the detailed pre-test simulations that only minor modifications to the low pressure separator system would be required.

Production problems in August limited TLJOC's ability to contribute to the second phase FPSO testing, as did delays to the TGT infield drilling programme resulting from the extended time on the TGT-10X well. Consequently, the second phase testing did not occur as planned. The HLJOC took advantage of the delay and the entire FPSO system was shut in for seven days in order to carry out annual maintenance and to do some necessary repairs.

Current plans call for the second phase of FPSO testing to be conducted as soon as practicable in 2014. Expectations are that this will occur in the second half of this year, following additional development drilling on TGT.

### 2014 Drilling Campaign

Further appraisal and development drilling will commence with an initial six wells, and a further two contingent wells. These wells are across the field, drilled from both the H1 and H4 WHPs, and part of the ongoing exploitation of the TGT field. Results from these wells will be incorporated into the continued evaluation of the field for the determination of future development well locations over the next six years.

### Associated Gas Gathering and Sales Agreement

In November 2013, the Group signed an Associated Gas Gathering and Sales Agreement in Hanoi for gas produced from the TGT field. The produced gas from the field is used for fuel and power generation offshore, and for gas lift on wells to enhance well performance, thus reducing the environmental impact of the operations. Gas in excess of these requirements is sold into the Bach Ho gathering system for transmission to shore for further use. Gas produced during 2013 was 26.8 million cubic feet per day.



## Reserves Determination

During 2013, SOCO improved its understanding of the TGT field. Besides the production history, well management programme and the southern appraisal wells (TGT-10X and TG-10XST1 sidetrack), the Company retained ERC Equipoise Limited as independent experts to construct a field-wide reservoir simulation model.

The lengthy drilling operations for TGT-10X and the TGT-10XST1 sidetrack were followed by an extensive testing programme which meant that the planned six well development programme scheduled for 2013 had to be deferred another year until 2014. A consequence of this deferral is that vital new information required to add to the sparse historical production data (18 months for the H1 platform producers and little more than four months from the H4 platform producers) was unavailable to feed into the initial field simulation model. Thus, the evaluation of the field remains one step behind where we would like to be at this time. As a result, the Company has decided to leave its TGT reserve estimates unchanged from the previous year with the expectation of commissioning an independent reserves evaluation report as soon as practicable.

These volumetric estimates are supported by an independent assessment by RPS, the reservoir engineering group retained by SOCO. For clarity, RPS was not retained to produce a report on Reserves or Resources but to provide an interim update of Stock Tank Initially In Place (STOIIP) and Gas Initially In Place (GIIP) and recovery factors, incorporating information from the first phase of the field-wide static and reservoir simulation models prepared by SOCO. RPS arrived at a range of approximately 510 to 1,120 million barrels of oil equivalent in place which now includes GIIP. RPS modelled recoveries from various producing intervals which showed a wide range from 8% to 46%, depending on the quality, thickness and height above water contact of the individual reservoir sands. As we reported last year, RPS' initial assessment of STOIIP ranged from 466 to 958 million barrels of oil in place, with average field-wide recovery factors ranging from 28% to 35%. SOCO anticipates recovery factors of up to 50% for reservoir zones across the field and currently it targets an aggregate recovery factor of 40% for the total field.

## Block 9-2

### Ga Ngu Vang (CNV)

The CNV field is located in the western part of Block 9-2, offshore Vietnam and is operated by the HVJOC. The field has been on-stream since 2008 and has been producing at stable rates with CNV production net to the Company's working interest averaging 2,059 BOEPD in 2013 (2012 - 2,139 BOEPD). In contrast to TGT, the CNV field is a fractured granitic Basement field which produces highly volatile oil from a fractured Basement reservoir with a high gas to oil ratio and exploitation is dependent on the fracture interconnectivity to efficiently deplete the reservoir. Accordingly, traditional reservoir properties and STOIIP calculations are not straightforward and a further well will be required to allow assessment of the revised full reserve potential of this field.

Hydrocarbons produced from CNV are transported via subsea pipeline to the Bach Ho central processing platform (BHCPP) where the wet gas is separated from crude oil and transported via pipeline to an onshore gas facility for further distribution. The crude oil is stored on a FPSO vessel prior to sale. At BHCPP, dedicated test separation and metering facilities have been installed and commissioned.

Preparations have commenced for drilling of the CNV-7P well in the first half of 2014, following formal approval by the relevant Vietnamese authorities of the updated CNV Full Field Development Plan. The well will be drilled into the south west area of the field and will enable production to be increased.



**Vincent Duignan**  
Group Exploration Manager



**Gordon Graham**  
Group Business  
Development Manager



**Serge Lescaut**  
General Manager, Africa Region

### Republic of Congo (Brazzaville)

SOCO holds its interests in the Marine XI and the Nanga II A Blocks in Congo (Brazzaville) through its 85% owned subsidiary, SOCO Exploration and Production Congo SA (SOCO EPC). SOCO EPC holds a 40.39% interest in the Marine XI Block located offshore in the shallow water Lower Congo Basin and is designated operator of the Block. SOCO EPC also holds a 100% interest in a one-year Prospection Authorisation over the Nanga II A Block, located onshore, adjacent to the coast. SOCO holds a 60% working interest in the Mer Profonde Sud Block, offshore Congo (Brazzaville) through its wholly owned subsidiary, SOCO Congo BEX Limited.

#### Marine XI

##### Lideka East Marine-1 well (LDKEM-1)

The LDKEM-1 well targeted a post-salt structure, up-dip from the Lideka Marine-1 well which found oil shows in the Sendji Formation (iS3). The well encountered approximately 50 metres of net pay section in the Upper and Lower Sendji, of which approximately 30 metres of net pay are within the targeted iS3 and S4 horizons.

The LDKEM-1 well was tested over a 20 metre interval in the iS3 and S4 horizons. The well flowed 35 degree API oil at a sustained rate of 268-335 BOPD, with base, sediment and water around 1%, in line with predictions from the petrophysical analysis. Produced gas volumes were very low.

The well was drilled on the crest of the structure to identify the length of the oil column. The Sendji is known to be a heterogeneous reservoir, and detailed rock physics and inversion models will need to be used to determine where the best porosity zones are situated. The oil water contact was not clearly defined in the exploration well, and an "oil down to" shale barrier could present upside. Further work will be conducted to establish viable opportunities on this field.

#### Litchendjili Extension

The large Litchendjili oil and gas discovery on the Marine XII Block, operated by ENI, lies adjacent to, and potentially extends onto SOCO's Marine XI Block. A geological-geophysical evaluation has been completed and a suitable well location determined. Negotiations are currently underway to secure a rig to drill in the second quarter of 2014.

SOCO has completed a well recommendation, subject to fine tuning based on additional information gained from sharing data with the operator on the contiguous block, to be submitted to partners at an upcoming meeting in March. A well site survey was completed in February 2014.

#### Nanga II A

Reprocessing is still ongoing of the remaining previously acquired seismic data, and is expected to be completed in the second quarter of 2014. We have received approval from the Congolese Ministry of Hydrocarbons for an extension to the Prospection Authorisation through mid-October of 2014.

#### Mer Profonde Sud (MPS)

The Company has acquired a 60% working interest in the MPS Block, offshore Congo (Brazzaville). The interest was acquired through a farm-in agreement entered into with PA Resources Congo SA (PAR), a wholly owned subsidiary of PA Resources AB. The MPS Block comprises the exploration area of the licence but excludes the Azurite field.

In return for carrying certain of PAR's costs, SOCO will assume a 60% working interest in the MPS exploration area as operator and will drill an exploration well in the remaining licence period. The well will test a different structural setting and play, identified from recent seismic reprocessing and subsurface re-evaluation, from the other wells already drilled on the Block. It will target similar reservoirs that produce from offsetting fields in Congo (Brazzaville) and in Angola/Cabinda.

The transaction received government approval, but remains subject to regulatory approval to enter into the third and final period of the licence. Subsequent to obtaining the necessary approvals, the partners would look to drill by early 2015.

Upon completion of the transaction, PAR will retain a 25% working interest in the licence, whilst the Congolese state oil company, SNPC, will retain its current 15% interest.

### Democratic Republic of Congo (Kinshasa) (DRC)

SOCO holds its onshore interest in the DRC through its 85% owned subsidiary, SOCO Exploration and Production DRC Sprl (SOCO E&P DRC). SOCO E&P DRC holds an 85% working interest and is the designated operator in Block V, situated in the southern Albertine Graben in eastern DRC.

#### Nganzi

The Board has decided not to proceed into the next phase of the licence. Accordingly, the Company submitted its application to relinquish the Block in October 2013. It received partner and regulatory approval in December and formal ministry confirmation of the joint venture partners' relinquishment of the Nganzi licence was received in early 2014. The non-cash write off of exploration costs amounted to \$92 million.

#### Block V

Block V is in eastern DRC, adjacent to the border with Uganda. The region is geologically within the Albertine Graben and Albertine Rift and is commonly referred to as North Kivu and The Great Lakes Region. Block V includes Lake Edward (on the DRC side) and the adjacent lowland savannah, both of which are within the Virunga National Park. SOCO's interest in the Block V licence was ratified in June 2010 when the Block V Production Sharing Contract with the DRC Government received its DRC Presidential Decree, the final step in the licensing process.

The DRC Government has granted permission to SOCO to proceed with a seismic survey on Lake Edward as one of a number of scientific studies to be conducted in the Virunga National Park under the Government's





Strategic Environmental Evaluation. Preparation for the seismic survey commenced in November 2013 with a bathymetry study of the lake to chart the shape of the lake floor.

The environmental impact assessment (EIA) relating to the seismic survey was conducted in 2011. The EIA highlighted a number of potential impacts on the flora and fauna. Accordingly, SOCO has taken mitigation steps, including change to the scale and scope of the seismic study, in order to reduce and where possible to eliminate these impacts. The Group has sought permission from the DRC Government to publish the EIA and it is understood that the report will soon be published on the Government's own website. An EIA for any potential subsequent activities has not yet been conducted as these activities are not currently being considered.

Although exploration is yet to begin on Block V, the Company has been very active fulfilling its non-exploratory operational commitments, including social projects and environmental baseline studies.

## Angola

### Cabinda North

A two well exploration programme was initiated in the Cabinda North Block in the second half of 2013. The wells were both drilled in the area of the previous Dinge discovery. The Vovo sands of the Dinge field are in an equivalent stratigraphic position to the Mengo-Kundji-Bindi reservoirs of the Republic of Congo, 17 kilometres north west and on trend.

Although not material to SOCO's interests, the detailed results of the drilling programme will be released by the operator, Sonangol, in due course. The data from the two wells is currently being incorporated into the seismic data previously acquired ahead of any decision on the continuation of the drilling programme.





**Roger Cagle**  
Deputy CEO, Chief Financial Officer  
and Executive Vice President

## Financial Review

### Key Performance Indicators

|   | 2013        | 2012        | 2011        |
|---|-------------|-------------|-------------|
| Realised oil price (\$/bbl)                   | 112.62      | 117.76      | 112.94      |
| Production (BOEPD)                            | 16,694      | 14,757      | 5,437       |
| Operating cost per barrel (\$)                | 8.06        | 8.83        | 9.42        |
| DD&A per barrel (\$)                          | 7.33        | 7.94        | 7.86        |
| Basic earnings per share (cents)              | 31.7        | 62.7        | 26.4        |
| <i>\$million</i>                              | <i>2013</i> | <i>2012</i> | <i>2011</i> |
| Oil and gas revenue                           | 608.1       | 621.6       | 234.1       |
| Gross profit                                  | 439.0       | 460.5       | 166.4       |
| Net cash from operating activities            | 314.4       | 334.8       | 90.2        |
| Cash, cash equivalents and liquid investments | 210.0       | 258.5       | 160.1       |
| Capital expenditure                           | 99.1        | 109.9       | 152.2       |

See Additional Information – Key Performance Indicators on page 99 for all KPIs employed and their definitions

For the second successive year SOCO has generated revenues in excess of \$600 million. Gross profit was \$439.0 million compared with \$460.5 million in 2012. After tax profits were \$104.1 million, down from \$207.0 million in the previous year, following an exploration write off of the Nganzi Block, onshore Democratic Republic of Congo (DRC), which was relinquished during the year.

In the first half of 2013, the Company repurchased and cancelled its remaining convertible bonds at par value of \$47.8 million leaving it debt free. Subsequently, SOCO announced its first return of cash to shareholders of approximately \$213 million. Despite these significant outflows in addition to the Group's ongoing capital expenditure programme amounting to \$99.1 million (2012 – \$109.9 million), the Group had a year end cash, cash equivalent and liquid investments balance of \$210.0 million. This is just \$48.5 million less than at the start of the year demonstrating the sustainability of the Group's operating cash flows.

### Income Statement

#### Operating Results

##### Revenue

Revenue from oil and gas production from the Group's South East Asia production assets in Vietnam was \$608.1 million compared with \$621.6 million in 2012. This modest decrease in revenue is mainly due to a lower oil price realised of \$112.62 per barrel of oil sold compared with \$117.76 per barrel in 2012. This was partially offset by the inclusion in 2013 of gas sales, following the signing of the Te Giac Trang (TGT) gas sales agreement, in the amount of \$8.3 million for gas delivered from the TGT field since its start up in 2010 through to the year end 2013. Higher oil sales volumes further offset the reduced oil price, despite the handling capability of the floating, production storage and offloading facility (FPSO) having been reduced for TGT partners by up to 15,000 barrels of oil equivalent per day (BOEPD), as it is now shared with the Thang Long Joint Operating Company (JOC) which operates a contiguous field to the north of TGT (also see the Review of Operations on pages 18 to 23). The Group's working interest share of production during 2013 was 16,694 BOEPD, up from 14,757 BOEPD in 2012, due to the inclusion of gas volumes produced in 2013 and an increase in oil production in the year arising from a full year of production from the TGT H4 Wellhead Platform (WHP) versus approximately six months in 2012.

##### Cost of Sales

The full year of production from the TGT H4-WHP also impacted cost of sales in 2013 which was \$169.1 million (2012 - \$161.1 million). Production operating costs in 2013 for both the TGT and Ca Ngu Vang (CNV) fields were similar to 2012. TGT inventory movements increased cost of sales in 2013 by \$12.6 million as compared to 2012, whereas CNV inventory movements reduced cost of sales in 2013 by \$7.0 million as compared to 2012. Both movements were associated with the timing of liftings and the market value of oil inventory.

Royalties and export duties arising on oil sales in 2013 were similar to 2012. Depreciation, depletion and decommissioning costs (DD&A) were also similar year on year with an increase in TGT reserves following the signing of the TGT gas sales agreement, offset by higher production volumes and an increase in expected future development costs on both fields.

Operating costs on a per barrel basis (excluding DD&A, inventory movements and sales related duties and royalties) were approximately \$8.10 per barrel versus approximately \$8.80 per barrel in 2012. The primary cause of the decrease is related to higher production volumes on the TGT field which has dedicated production and processing facilities on the FPSO, the costs of which are predominately fixed.

On a per barrel entitlement basis DD&A in 2013 was approximately \$7.35 per barrel versus approximately \$7.90 per barrel in 2012 due to the addition of TGT gas reserves, partially offset by an increase in expected future development costs.

### Administrative Expenses

Administrative expenses increased to \$13.2 million for the 12 months to December 2013 up from \$12.3 million in 2012. This increase is primarily due to higher staff costs associated with additions to the SOCO corporate team and costs of professional services associated with the return of cash to shareholders.

### Exploration Costs

Following a full evaluation of the Nganzi Block, onshore the DRC, the joint venture partners decided not to apply to extend the exploration period and relinquished the Block in the last quarter of 2013. Costs incurred on the licence since its acquisition in the amount of \$92.0 million have therefore been charged to the income statement in the year.

### Operating Profit

The above factors result in an operating profit arising from the Group's production operations for 2013 of \$333.8 million versus \$448.2 million from operations in 2012.

### Non-Operating Results

Finance costs have decreased from \$5.1 million in 2012 to \$2.8 million in 2013 following the purchase and cancellation of the remaining convertible bonds in May 2013.

### Tax

Tax decreased from \$238.6 million in 2012 to \$229.2 million in 2013 due to the lower oil sales revenue in 2013 as described above. The effective tax rate in Vietnam during 2013 and 2012 approximated the statutory rate of 50%.

### Profit for the Period

The Group's profit after tax in 2013 was \$104.1 million, down from \$207.0 million in 2012 mainly as a result of the exploration write off of the Nganzi Block described above. Basic and diluted earnings per share decreased from 62.7 cents in 2012 to 31.7 cents in 2013 and from 62.6 cents in 2012 to 31.6 cents in 2013, respectively.

### Balance Sheet

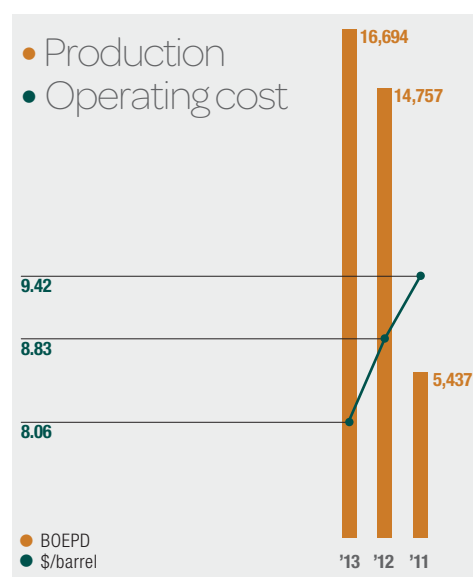
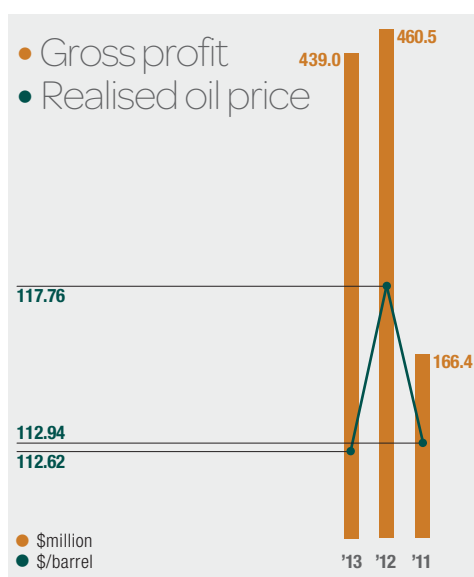
Intangible assets increased by \$16.0 million, comprising ongoing exploration activity in Africa of \$71.7 million, the reclassification of the Group's Cabinda licence costs to intangible assets from assets held for sale (\$36.3 million – see below) offset by the exploration write off of the Nganzi Block (\$92.0 million – see above).

Property, plant and equipment decreased by \$15.3 million during the year as DD&A of \$44.8 million exceeded additions of \$29.5 million mainly associated with capital expenditure on the Group's South East Asia drilling programme.

During the year the partners in the Hoang Long JOC initiated payments into an abandonment security fund to ensure sufficient funds exist to meet future abandonment obligations on the TGT field. The fund is operated by PetroVietnam and partners retain the legal rights to the funds pending commencement of abandonment operations. As at 31 December 2013, the Group had contributed \$15.0 million to the fund.

The year end inventory balance decreased from \$11.1 million in 2012 to \$7.3 million in 2013, consistent with production rates, the timing of oil cargo liftings and oil prices. Trade and other receivables decreased from \$72.2 million at year end 2012 to \$68.9 million at 31 December 2013, with trade receivables lower by \$10.7 million also due to production rates, the timing of oil cargo liftings and oil prices realised. Other receivables and prepayments were higher by \$7.4 million relating to joint venture partner funding.

Assets of \$36.3 million classified as held for sale at the end of 2012 in respect of the Group's Cabinda asset were reclassified to intangible assets during 2013 as there was no certainty that a transaction would occur



(see Note 12 to the financial statements). Associated liabilities of \$1.6 million were also reclassified in the year.

SOCO's cash, cash equivalents and liquid investments decreased from \$258.5 million to \$210.0 million at 31 December 2013. During 2013, the Company returned \$213.3 million to shareholders (see below), purchased and cancelled the Company's remaining convertible bonds at par in the amount of \$47.8 million, funded exploration and development capital expenditure as described above, and contributed to an abandonment fund in Vietnam (see above). Despite these significant cash outflows cash generated from operations meant that cash, cash equivalents and liquid investments decreased by just \$48.5 million over the year.

The Group's trade and other payables at year end 2013 are similar to that at year end 2012 (including the reclassified liabilities of \$1.6 million discussed above). Tax payables decreased from \$21.4 million last year end to \$18.5 million this year end, consistent with timing and volumes of liftings in Vietnam where tax is paid on each cargo lifted.

As at 31 December 2012, the Group's only debt was the convertible bonds with a par value of \$47.8 million. On 16 May 2013, these remaining bonds were purchased at par value and cancelled. The liability component of the debt at 31 December 2012 was \$47.2 million. Further details of the bonds, which were originally issued in 2006 at a par value of \$250 million, are in Note 24 to the financial statements.

Deferred tax liabilities increased to \$184.2 million at 31 December 2013 from \$113.3 million year end 2012, mainly due to accelerated tax depreciation and other timing differences associated with the Group's South East Asia segment. Long term provisions related to the Group's decommissioning obligations in South East Asia at \$42.9 million are virtually unchanged in the year as little activity has occurred in the year that will require additional decommissioning.

### Cash Flow

The Group's operating cash flow decreased to \$314.4 million in 2013 from \$334.8 million in 2012 mainly due to the lower revenue and slightly higher cost of sales. Capital expenditures reduced from \$109.9 million in 2012 to \$99.1 million in 2013. This reflects the lower spend in TGT during 2013 following the installation of the TGT H4-WHP that was completed mid-year 2012, and fewer development wells being drilled compared to 2012. This was partially offset by higher expenditure on the exploration programme in the Group's Africa region, where the Lideka East Marine-1 well was drilled offshore the Republic of Congo (Brazzaville) on the Marine XI Block and two wells were drilled onshore Cabinda in Angola. Additionally, the Group contributed to an abandonment fund in Vietnam (see above). Financing activities in the year comprised a return of \$213.3 million to shareholders (see below) and the purchase and cancellation of the Company's remaining convertible bonds at par in the amount of \$47.8 million.

### Distribution to Shareholders

During the year, the Company announced a return of value to shareholders of 40 pence per Ordinary Share amounting to £133 million (\$213.3 million) in cash by way of a B and C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving cash in the form of income or in the form of capital. The return of value, which was approved by shareholders on 25 September 2013, became effective on 3 October 2013. The Board expects to again recommend a return of capital to shareholders in the third quarter of this year, thereby confirming the sustainability of our capital return policy. The pay out is targeted to equal 50% of 2013 free cash flow.

### Key Performance Indicators (KPIs)

SOCO uses a number of financial and non-financial KPIs against which it monitors its performance. Detailed KPI targets for the next year are set out in the annual budget. A five year outlook also includes KPIs against which longer term performance can be assessed. At each Board meeting these expectations are reviewed for progress against actual results and adjusted to accommodate changes in the operating environment including oil price fluctuations.

SOCO's KPIs are set out and discussed in the Chairman and Chief Executive's Statement on pages 10 to 15, the Review of Operations on pages 18 to 23, the Financial Review herein and the Corporate Social Responsibility Report on pages 32 to 39. They are also set out in full on page 99 where they are defined.

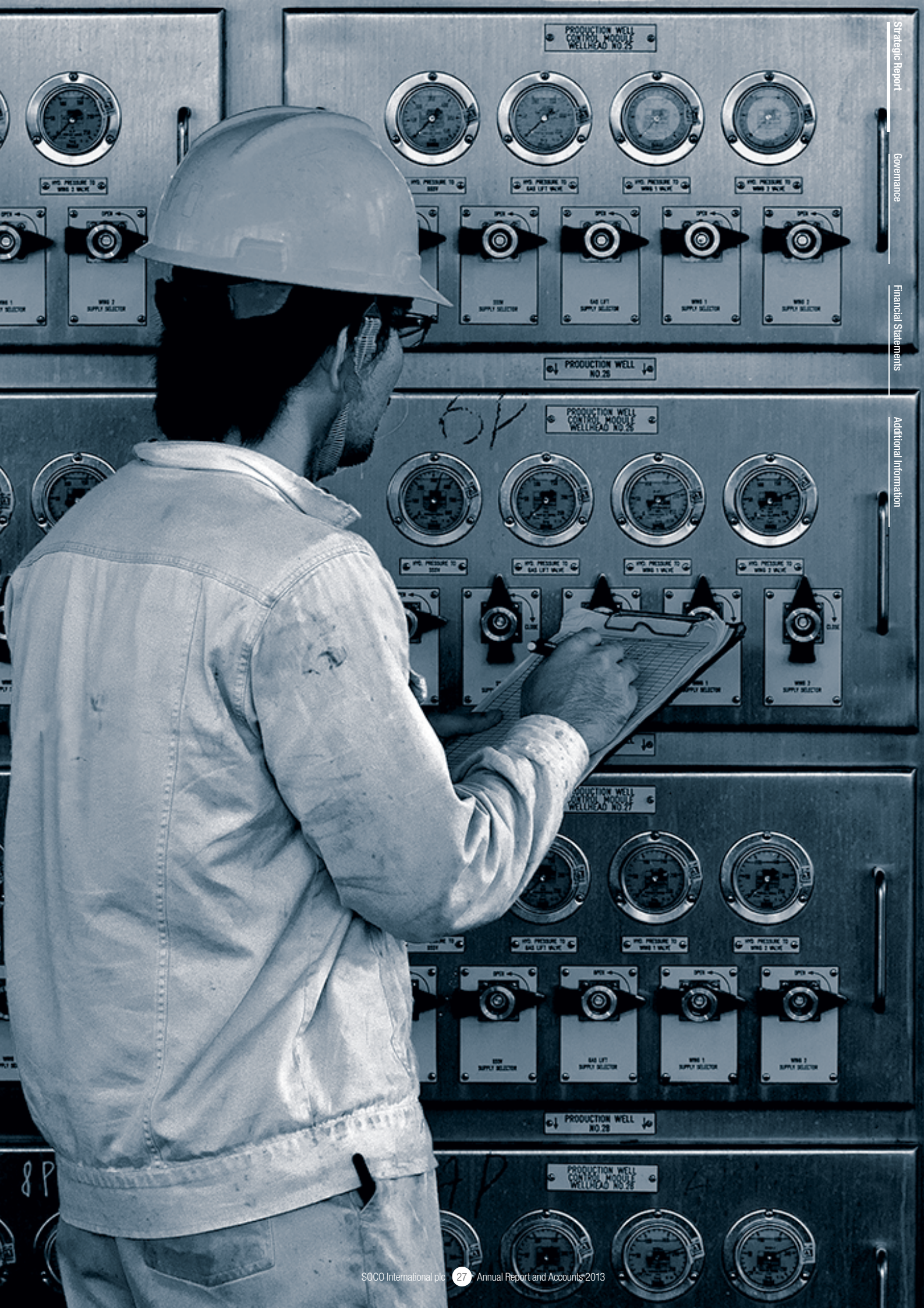
### Own Shares

The SOCO Employee Benefit Trust (the Trust) holds ordinary shares of the Company (Shares) for the purpose of satisfying long term incentive awards for senior management. At the end of 2013, the Trust held 3,666,213 (2012 – 3,666,213) Shares, representing 1.08% (2012 – 1.08%) of the issued share capital (see Note 26 to the financial statements).

In addition, as at 31 December 2013, the Company held 9,122,268 (2012 – 9,122,268) treasury Shares, representing 2.68% of the issued share capital (see Note 26 to the financial statements).

### Going Concern

SOCO's business activities, its financial position, cash flows and liquidity position, together with an outlook of factors likely to affect the Group's future development, performance and position are discussed above and in the Strategic Report on pages 10 and 23. The Group has a strong financial position and based on future cash flow projections should comfortably be able to continue in operational existence for the foreseeable future. Consequently, the Directors believe that the Group is well placed to manage its financial and operating risks successfully and have prepared the accounts on a going concern basis as described in the Annual Report of the Directors on page 46.



## Risk Management Report

Long term shareholder value is dependent on the success of the Group's activities, which are directed towards the search, evaluation and development of oil and gas resources. Exploration for, and development of, hydrocarbons is speculative and involves a significant degree of risk involving multiple factors. Critical to ensuring the ongoing success of the Company in applying its three core strategic objectives of recognising opportunity, capturing potential and realising value is the identification, assessment and mitigation of the various risk factors.

Consequently, SOCO has a formal process in place to identify and mitigate risks applicable to an upstream oil and gas business. The Directors have ultimate responsibility for risk management with the Audit and Risk Committee providing detailed oversight. The Board has designated the Chief Financial Officer as the executive responsible for the Company's risk management function. He is supported in this task by the Chief Operating Officer and the Group Exploration Manager.

There is an ongoing process to identify, monitor and mitigate risk throughout the year with any new risks or changes to existing risks considered at each Audit and Risk Committee meeting. Annually, the Audit and Risk Committee undertakes a rigorous and detailed risk assessment wherein the Group's risk profile, including the mitigation measures in place to reduce risk to acceptable levels, is considered. This risk assessment is then presented to the Directors for full Board approval.

Risk management and the principal risks and uncertainties facing the Group are discussed in Note 4 to the financial statements. The Group's risk management policies and procedures are further discussed in the Corporate Governance Report on page 51 and in the Audit and Risk Committee Report on pages 55 and 56 where the significant issues related to the 2013 financial statements are also reported. Below is a summary of the key risks affecting SOCO and how we mitigate those risks to enable the Company to achieve its strategic objectives.

### Operational Risk

There are inherent risks in conducting exploration, drilling, and construction operations in the upstream industry. The level of risk is potentially impacted by harsh geographical conditions and associated resource availability and costs. SOCO seeks to mitigate its operational risks through the application of industry best practice procedures throughout its operations. Mitigation may also be achieved by transferring risk, for example, by entering into

partnerships or farm-outs and by maintaining, at a minimum, standard industry best practice insurance. The Board of Directors does not believe that it is practical or prudent to obtain third-party insurance to cover all adverse circumstances it may encounter as a result of its oil and gas activities. However, the Board believes that SOCO's comprehensive property, control of well, casualty, liability and other policy cover conforms to industry best practice. As such, it provides substantial protection against typical industry operational risks. The Board believes it has struck an appropriate balance between exposure and coverage.

### Empowerment Risk

The Group's international portfolio comprises oil and gas ventures in widespread, often remote locations with government and industry partners. Conduct of operations requires the delegation of a degree of decision making to partners, contractors and locally based personnel. As operator in a project, SOCO can directly influence operations and decision making. Where SOCO is a co-venturer it seeks to maximise its influence through active participation with management, including direct secondments and application of internal control best practice under a procedural framework.

### Reserves Risk

As discussed in Note 4 to the financial statements, the Company uses standard recognised evaluation techniques to estimate its proven and probable oil and gas reserves. However, such techniques have inherent uncertainties in their application. As the Company has projects with booked reserves in the early stages of production, development or non-conventional fracture basement reservoirs, upward or downward revisions to reserve estimates will be made when new and relevant information becomes available. Such revisions may impact the Group's financial position and results, in particular, in relation to depreciation, depletion and decommissioning costs and impairment. Reserve estimates are reviewed at least twice a year and are regularly reviewed by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

Portfolio management through exploration, appraisal or acquisition may fail to yield reserves in commercial quantities sufficient to replace production. The Group continues to evaluate projects in existing and potentially new areas of interest and will add exploration licences when the appropriate opportunities arise.

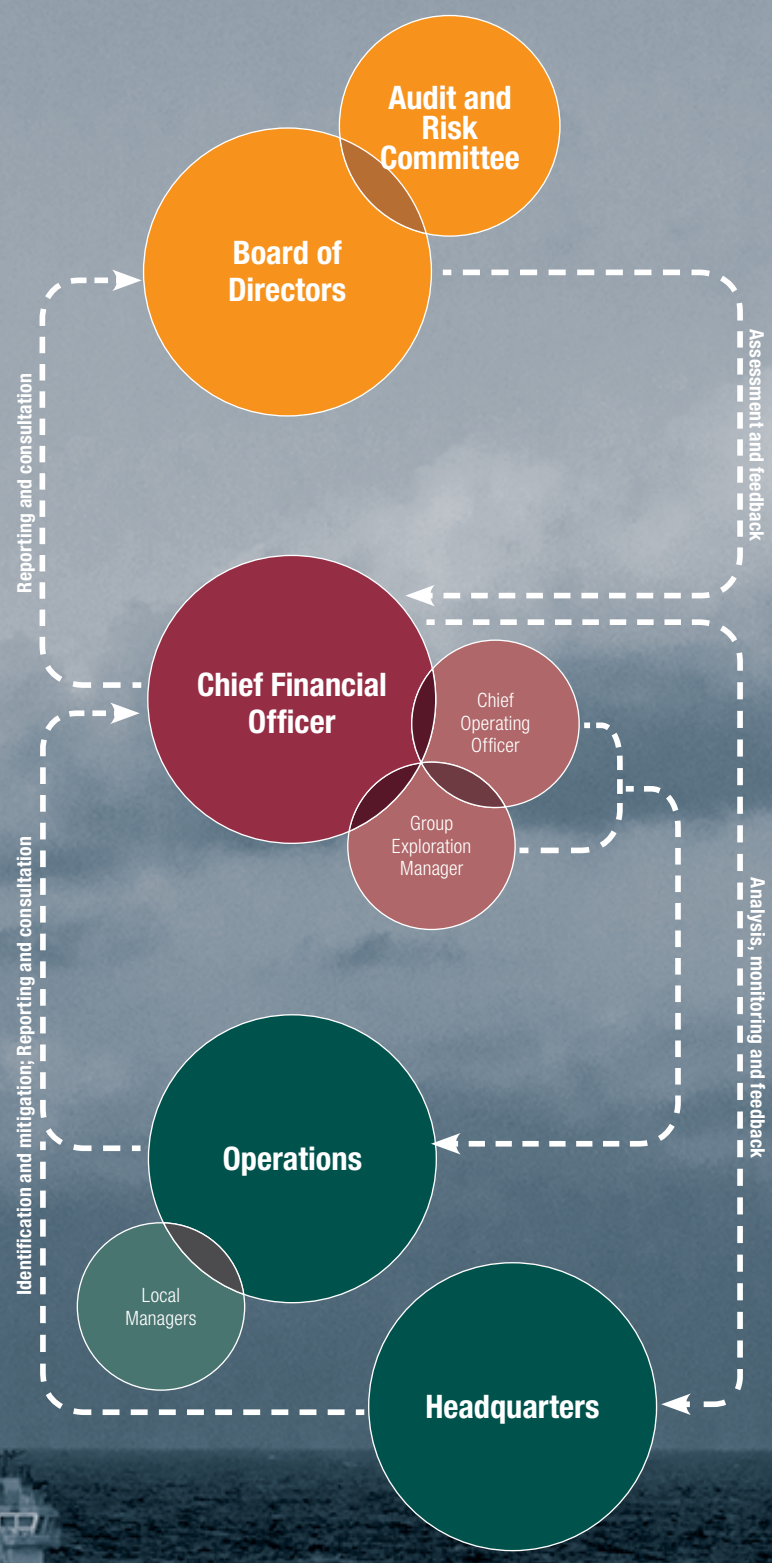
### Health, Safety, Environment and Social Risks

The Group operates in an industry sector with inherent high risks associated with health, safety and the environment. Additionally, it operates in regions where there is a greater risk of economic or social instability and where local attitudes to risk differ compared with nations with more established or developed economies. Accordingly, the Group may be exposed to specific risks in relation to social and environmental factors as well as health and safety matters, including security, and attempts to mitigate such risks by actively engaging with local communities and governments, using specialist consultants and by maintaining appropriate policies and procedures. Further details of how SOCO addresses these risks can be found in the Corporate Social Responsibility Report on pages 32 to 39.

### Political and Regional Risk

Many of the Group's projects are in developing countries or countries with emerging free market systems where the regulatory environment may not

# OUR RISK MANAGEMENT PROCESS



# SOCO HAS A POLICY OF UPHOLDING HUMAN RIGHTS IN ALL AREAS IN WHICH WE OPERATE



be as mature as in more developed countries. There may be a high level of risk in relation to compliance with and interpretation of emerging hydrocarbon law, taxation and other regulations. SOCO seeks to minimise such risks by using in-country professional advisors and by engaging directly with the relevant authorities where appropriate.

Some of the Group's interests are in regions identified as potentially more susceptible to business interruptions due to the consequences of possible unrest. The Group assesses the risks of operating in these areas before beginning operations and has deemed these risks commercially acceptable. SOCO does not currently carry political risk insurance or associated business interruption insurance coverage to mitigate such risks. However, it periodically assesses the cost and benefit of both and future circumstances may lead the Group to acquire such insurance cover.

SOCO has a policy of upholding human rights in all areas in which we operate. Eastern Democratic Republic of Congo, where the Company has an interest in Block V, has a history of conflict. The risk of human rights violations by conflicting parties is heightened in areas of conflict, which may expose SOCO to the risk of accusation of complicity or collusion with alleged perpetrators or expose Company employees or associates to direct abuse. Consequently, SOCO has developed processes to closely engage with the local communities with which we work and procedures for addressing concerns. SOCO examines the risk that it may be associated, either directly or indirectly, with a party accused of violations. Where such an exposure, actual or perceived, exists actions are taken to protect the Company and its personnel from an inappropriate association and reports any relevant findings to the most appropriate authority. Further, the Company may be accused of exploiting poor working conditions and reinforcing discriminatory beliefs. This is directly contrary to SOCO's policy of implementing international labour standards and equal human rights. See the Corporate Social Responsibility Report on pages 32 to 39 for further information.

### Business Conduct and Bribery Risk

SOCO operates both in an industry sector and in certain countries where the promotion of transparent procurement and investment policies is perceived as having a low priority and where customary practice may fall short of the standards expected by the UK Bribery Act. The Group seeks to mitigate these risks by ensuring that it has appropriate procedures in place to eliminate bribery and that all employees, agents and other associated persons are made fully aware of the Group's policies and procedures with regard to ethical behaviour, business conduct and transparency.

Running in parallel with the Group's general risk management process, the Audit and Risk Committee has established a detailed bribery risk

assessment and mitigation reporting procedure. Bribery risks are monitored throughout the year along with implementation of procedures to mitigate any new risks identified. The Company has arrangements for "whistleblowing", whereby staff may raise concerns regarding improprieties in confidence, which would be addressed with appropriate follow-up action. To facilitate such reporting the Company maintains an Ethics Hotline Service using an independent, confidential telephone service that can be used by staff members and other stakeholders to report a suspected breach of SOCO's Code of Business Conduct and Ethics.

### Reputational Risk

The Group operates in locations where social and environmental matters may be highly sensitive both on the ground and as perceived globally. This can potentially lead to a reputational risk which may influence various Group stakeholders. Actions of international bodies may harm the objectives of the Company and its regional partners. To mitigate these risks, SOCO works closely with all of its stakeholders including local communities, governments and non-governmental organisations to ensure that, during operations, any disturbance is minimised and that on completion of the Group's activities the local population and environment will be left in, at least, as good a state as when SOCO first arrived. See the Corporate Social Responsibility Report on pages 32 to 39 for further information.

### Commodity Price Risk

The Group does not currently maintain any fixed price, long term marketing contracts. Production is sold on "spot" or near term contracts, with prices fixed at the time of a transfer of custody or on the basis of an average market price. However the Board may give consideration in certain circumstances to the appropriateness of entering into fixed price, long term marketing contracts. Although oil prices may fluctuate widely, it is the Group's policy not to hedge crude oil sales unless hedging is required to mitigate financial risks associated with debt financing of its assets or to meet its commitments. Accordingly, no price hedging mechanisms were in place during the year. Over time, during periods when the Group sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

### Foreign Currency Risk

Generally, it is the Company's policy to conduct and manage its business in US dollars. Cash balances in Group subsidiaries are primarily held in US dollars, but smaller amounts may be held in GB pounds or local currencies





to meet immediate operating or administrative expenses, or to comply with local currency regulations. From time to time the Company may take short term hedging positions to protect the value of any cash balances it holds in non-US dollar currencies. The Group seeks to minimise the impact that debt financing has on its balance sheet by negotiating borrowings in matching currencies. The impact of a 10% movement in foreign exchange rates on the Group's net assets as at 31 December 2013 would not have been material (2012 – not material) and would not have been material with respect to the Group's profit in 2013 (2012 – not material).

### Liquidity and Credit Risk

The Group carried significant cash balances throughout the year thereby decreasing its exposure to liquidity risk and increasing its exposure to credit risk. To mitigate these risks and to protect the Group's financial position cash balances are generally invested in short term, non-equity instruments or liquidity funds, not exceeding three months forward. On occasion the Company may benefit from higher returns by investing surplus cash into liquid investments not exceeding six months. Investments are generally confined to money market or fixed term deposits in major financial institutions.

The Group's maximum exposure to credit risk as at 31 December 2013 was \$333.0 million (2012 – \$370.8 million). The Group's non-current financial asset that is subject to credit risk comprises a financial asset arising in respect of the Group's disposal of its Mongolia interest (see Note 18 to the financial statements) and a receivable in respect of an accumulating abandonment fund in Vietnam. The Group's and Company's other financial assets comprise investments, trade receivables and cash and cash equivalents. The Group seeks to minimise credit risk by only maintaining balances with creditworthy third parties including major multinational oil companies subject to contractual terms in respect of trade receivables. The credit risk on liquid funds is limited as the Board only selects institutions with high credit ratings assigned by international credit rating agencies and endeavours to spread cash balances and liquid investments to multiple institutions. The level of deposits held by different institutions is regularly reviewed.

The Group's cash requirements and balances are projected for the Group as a whole and for each country in which operations and capital expenditures are conducted. In addition, the Group plans sustainable annual distributions to shareholders with returns targeting 50% of the Group's annual free cash flow. The Group meets these requirements through an appropriate mix of available funds, equity instruments and, when required, debt financing. The Group's ability to pursue its operational objectives is discussed in the Financial Review on pages 24 to 26. The

Group seeks to minimise the impact that any debt financings have on its balance sheet by negotiating borrowings in matching currencies when required. The Group further mitigates liquidity risk by entering into arrangements with industry partners thereby sharing costs and risks, and by maintaining an insurance programme to minimise exposure to insurable losses.

### Interest Rate Risk

The Group earns interest on its cash, cash equivalents and liquid investments at floating and fixed rates. The fair value of the Group's non-current financial asset (see Note 18 to the financial statements) is also dependent on the discount rate used. Management assesses the Group's sensitivity to changes in interest rates. If interest rates had been 0.5% higher or lower and all other variables held constant, the impact on the Group's profit for the year ended, and its net assets at, 31 December 2013 would not have been material (2012 – not material).

### Contractual Risk

The Group enters into various contractual arrangements in the ordinary course of its business. Such contracts may rely on provisional information that is subject to further negotiation at a later date. This may give rise to uncertainty regarding such information. In considering any financial impact on the Group's financial statements, income, expenses, assets and liabilities are recognised in accordance with applicable International Financial Reporting Standards and International Accounting Standards.

### Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 26, 27 and 29 to the financial statements and in the Statement of Changes in Equity. During the year the Company purchased at par value, being \$47.8 million, and cancelled its remaining convertible bonds (see Note 24 to the financial statements).

## Corporate Social Responsibility Report



**Ed Story**  
President and Chief Executive Officer

### Dear Shareholders

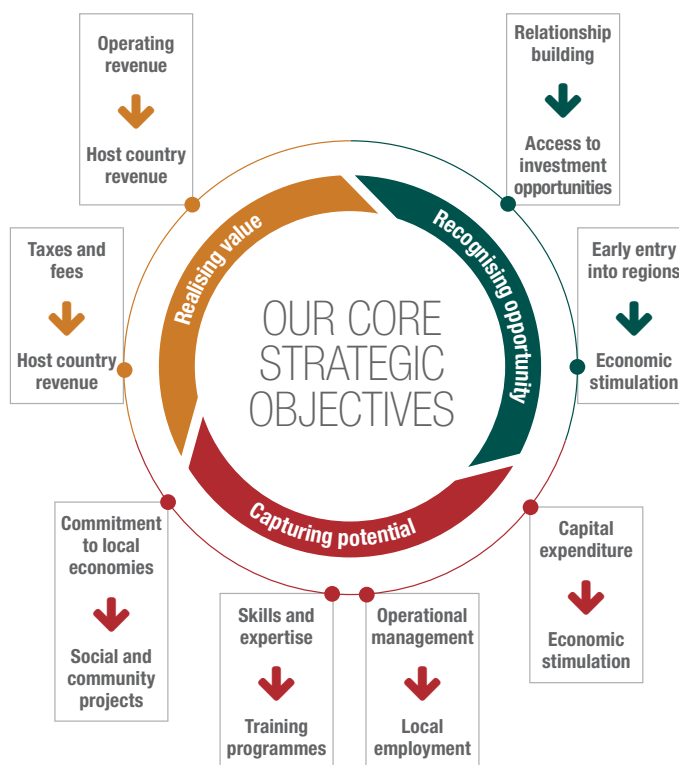
Our sector has the ability to be a powerful force for economic development as hydrocarbons continue to have a central role in today's global energy supply. A successful oil project can transform not only the prospects of a company and its shareholders, but also the economic and social wellbeing of a host country by contributing to its ability to produce and supply its own natural resources.

At SOCO, we recognise that built into the heart of this opportunity is the business imperative to act responsibly and we reflect this in our business strategy. This is based upon our belief that acting responsibly delivers the best value to our shareholders. Ensuring honest and ethical business conduct, the health and safety of people, the protection of the environment and understanding the issues that matter to our stakeholders, whether financial or non-financial, local or international, remain business priorities.

I am pleased to present this introduction to our Corporate Social Responsibility (CSR) Report for 2013 which describes SOCO's approach to CSR where we are the Operator or Joint Operator and how these principles permeate through to our operations on the ground and engagement with our stakeholders. More information is provided on our website, [www.socointernational.com](http://www.socointernational.com), which complements this report.

**Ed Story**  
President and Chief Executive Officer

### Our Three-Part Core Strategy Incorporates Our Corporate Social Responsibility Commitment



### Key Performance Indicators

|  | 2013 | 2012       | 2011       |
|--|------|------------|------------|
| Employee tenure (years)                      | 9    | 10         | 9          |
| Employee turnover                            | -    | -          | -          |
| Lost time injuries frequency                 | -    | -          | -          |
| Emissions (million tonnes CO <sub>2</sub> e) | 0.08 | Negligible | Negligible |

See Additional Information – Key Performance Indicators on page 99 for all KPIs employed and their definitions

SOCO's oil and gas interests are in Vietnam, the Republic of Congo (Brazzaville), the Democratic Republic of Congo (Kinshasa) (DRC) and Angola. All of the Company's production during 2013 was from interests in Vietnam. Our interests in Africa are at the block evaluation phase or the early stages of exploration.

SOCO is committed to being a positive presence in the countries where we operate, guided by a responsible approach to oil and gas exploration and production. Our commitment to corporate social responsibility is an integral part of our business strategy:

- ▶ **Recognising opportunity** relies on building strong relationships and being welcomed as a responsible partner by host governments and local communities.
- ▶ **Capturing potential** means applying our expertise, particularly in the management of risks such as social, health and safety, security and environmental issues.
- ▶ **Realise value** through locking in returns also creates value for society. Our guiding principle is to make a net positive contribution.

### Value Creation Through Responsible Business

Our business creates value for society through investment in developing countries, providing stimulus for local economies, the creation of jobs, training for local people, social investment projects, payment of fees and taxes to host governments and the preservation of the natural environment.

Our host countries are primary stakeholders. This is because a successful oil project has the potential to transform not only the prospects of a company and its shareholders, but also the economic and social wellbeing of a host country by contributing to its ability to produce and supply its own natural resources.

The host country is also a primary stakeholder due to the direct interest that the state retains through its own national oil company. It is usually the case that the national oil company's interest will be carried for all or a portion of the costs prior to production. This allows the state to receive both the financial and non-financial benefits of a successful project without unduly exposing its economy to the risks associated with the capital intensive early phases of a project. SOCO's partnerships with national oil companies are shown in the table below.

### SOCO's Partnerships with National Oil Companies

| Licence blocks   | National Oil Company – State | State Interest | SOCO Interest |
|------------------|------------------------------|----------------|---------------|
| Block 16-1       | PetroVietnam – Vietnam       | 41%            | 30.5%         |
| Block 9-2        | PetroVietnam – Vietnam       | 50%            | 25%           |
| Marine XI        | SNPC – Congo (Brazzaville)   | 15%            | 40.39%        |
| Mer Profonde Sud | SNPC – Congo (Brazzaville)   | 15%            | 60%           |
| Block V          | Cohydro – DRC                | 15%            | 85%           |
| Cabinda North    | Sonangol – Angola            | 20%            | 17%           |

### Making a Contribution to Society Through Taxes and Other Levies

One of the significant ways in which SOCO makes a social contribution is via the payment of taxes. By generating revenues from our operations, we deliver economic value to the countries in which we operate.

IN 2013 SOCO PAID

**\$153,000**

TO FUND TRAINING OF THE VIETNAMESE WORKFORCE

We are committed to the Extractive Industries Transparency Initiative (EITI) in both Congo (Brazzaville) and the DRC. We participate in all EITI forums for those countries and annually provide details of all payments to or on behalf of the relevant government, which are publicly available.

The Company's material impacts during the year were related to its two offshore producing assets in Vietnam, the Te Giac Trang (TGT) and Ca Ngu Vang (CNV) fields, from where the entirety of the Group's sales originate. Additionally, operated and joint operated drilling took place on the H5 fault block of the TGT oil field and on the Marine XI Block offshore the Congo (Brazzaville).

During the year, our stakeholders expressed a high level of interest in SOCO's Block V project in eastern DRC, both in terms of the Company's plans for the project and also the Company's response to a high profile NGO campaign.

DURING 2013 SOCO PAID OVER

**\$258** MILLION

IN VIETNAMESE TAXES AND LEVIES INCLUDING CORPORATION INCOME TAX, ROYALTIES AND EXPORT DUTIES

**i** Details of the Company's involvement in Block V and the Virunga National Park are given on our website.

[www.socointernational.com](http://www.socointernational.com)

### Stakeholders

We engage with stakeholders at an international, national and local level in order to better understand different viewpoints, listen to local concerns, adapt our programmes to meet local needs and communicate the activity that SOCO is undertaking. In addition to our shareholders and the investment community, our stakeholders include:

- ▶ The host country
- ▶ National and local government
- ▶ The international community
- ▶ Local communities where we operate
- ▶ Our employees and contractors
- ▶ Partnering oil companies (including national oil companies)

We have a formal process of stakeholder engagement in place to meet with local communities and we set shared goals with community representatives, ensuring that we get feedback on our approach. Where we do not directly control an operation, we work with our partners to ensure that communities in and around our operations are engaged.

### Partnership and Influence

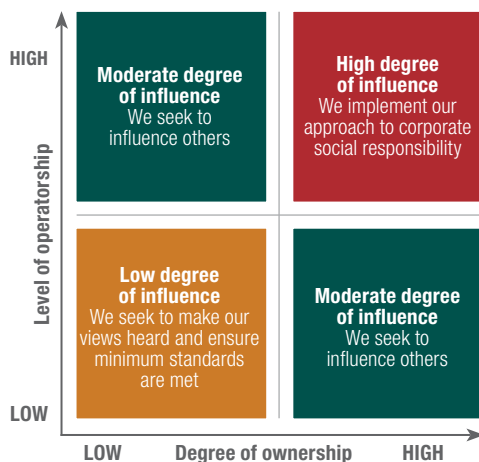
SOCO partners with host governments through their state oil companies in all of its projects, as well as with other oil companies. Our partner alliances mean that our portfolio varies by:

- ▶ Our degree of ownership
- ▶ Our level of operatorship

SOCO applies its values throughout all of its projects. However, our influence and ability to implement is relative to the degree of operatorship held. Where we are the designated Operator, our influence is high. Where we are the joint operator or non-operator, we seek to influence our partners to integrate responsible business practices into the project. (see the diagram below)

In Vietnam, where SOCO has its largest and its only producing assets, the operators of the TGT and CNV fields are the Hoang Long and Hoan Vu Joint Operating Companies, respectively. SOCO's influence is exercised through our membership on the operator's Management Committee as well as through the organisation's key senior staff members who are SOCO secondees. In Congo (Brazzaville) and the DRC, SOCO is the operator of each of its Blocks and accordingly is able to exercise direct control.

### The Degree of Operatorship and the Degree of Influence



| Block  | SOCO Ownership | SOCO Operatorship       |
|--|----------------|-------------------------|
| ● <b>Marine XI:</b> Congo (Brazzaville)        | 40.39%         | Operator                |
| ● <b>Nanga II A Block:</b> Congo (Brazzaville) | 100.00%        | Operator                |
| ● <b>Mer Profonde Sud:</b> Congo (Brazzaville) | 60.00%         | Operator                |
| ● <b>Block V:</b> DRC                          | 85.00%         | Operator                |
| ● <b>Block 9-2:</b> Vietnam                    | 25.00%         | Joint Operating Company |
| ● <b>Block 16-1:</b> Vietnam                   | 30.50%         | Joint Operating Company |
| ● <b>Cabinda North Block:</b> Angola           | 17.00%         | Non-Operator            |

## Managing Social and Environmental Performance

Our Chief Executive Officer is responsible for corporate social responsibility performance. Relevant issues are considered by the Board through a specific agenda item at each meeting. Day-to-day management is implemented through our country managers, led by the Chief Operating Officer. The effectiveness of our risk management and controls over our corporate social responsibility programme is formally assessed annually and reviewed periodically by the Audit and Risk Committee. Through this process of review and feedback, our framework of policies is updated to ensure it reflects important issues for the Company and anticipates future risks. The system has been updated in 2013 to incorporate good international industry practice, in particular in regard to human rights, community engagement and biodiversity management.

SOCO's Code of Business Conduct and Ethics (the Code) sets out our values of honesty and fairness and promoting trust amongst those with whom we work. SOCO expects all staff and contractors to act in accordance with the Code which applies to all our operations, irrespective of our level of ownership and control, and also extends to contractors and agents.

We consider environmental, health and safety, ethical and security criteria in our selection of suppliers and joint venture partners and our contracts contain commitments to ensure that suppliers have read and understood our approach.

We implement our Code through our corporate Health, Safety, Environmental and Social Management System (HSES MS), the original version of which was launched in 2008. The HSES MS was designed to conform to international best practice and was constructed with advice from a reputable and experienced firm of HSES advisors.

This framework of policies and processes allows the Company to manage and mitigate any impacts on local communities or the natural environment in cases where SOCO is the operator or joint operator. Where SOCO is a minority owner and non-operator, the Company seeks to influence its partners to integrate responsible business practice into the project.

The Group operates in an industry sector with inherent high risks associated with health, safety, local communities and the environment. Additionally, it operates in regions where there is a greater risk of economic or social instability and where local attitudes to risk differ compared with nations with more established or developed economies. Accordingly, the Group may be exposed to specific risks in relation to social and environmental factors as well as health and safety matters, including security, and attempts to mitigate such risks by actively engaging with local communities and governments, using specialist consultants and through the implementation of the HSES MS.

We continually update the HSES MS to ensure that it anticipates any future risks and changes to our operating environment. For example, in 2013 SOCO worked closely with its partners in Vietnam to prepare for the mandatory reporting of greenhouse gas emissions in 2014. The most recent review of the HSES MS has aligned our policies with World Bank Standards.

## Providing a Safe and Fair Place to Work

SOCO's first responsibility is to the wellbeing of the people who work for the company and health, safety and fairness are at the heart of SOCO's business code. Responsibility for delivering safe working conditions lies with our executives and senior management who are kept informed of operational safety on a daily basis.

### The Company's Workforce

We have recently updated our staff handbook and in 2013 have prepared human resources guidance for our international operations. This provides a fair, equitable and transparent employment and retrenchment process and provides a grievance mechanism for all employees. The occupational safety of our workforce is managed through our risk management process and appropriate health monitoring programmes, training and equipment is provided. Managing the employment rights and conditions of work for our employees is fundamental to the success of our business and by setting performance indicators and targets, we can track our performance.

## Gender Analysis

|                        |        | 2013 | 2012 | 2011 |
|------------------------|--------|------|------|------|
| <b>Directors</b>       | Female | 2    | 1    | –    |
|                        | Male   | 10   | 10   | 10   |
| <b>Senior managers</b> | Female | –    | –    | –    |
|                        | Male   | 1    | 1    | 1    |
| <b>Employees</b>       | Female | 7    | 7    | 7    |
|                        | Male   | 9    | 7    | 7    |

### An Outstanding Record of Safety Continues

0 LTIs

DURING 2013 IN ANY  
OF OUR LOCATIONS  
WORLDWIDE

0 LTIs

DURING 6 MILLION MAN HOURS  
WORKED ON TGT AND CNV SINCE  
OPERATIONS BEGAN

There were no Lost Time Injuries (LTIs) during 2013 to our staff in any of our locations worldwide and the LTI Frequency was nil.

In Vietnam, the Te Giac Trang and Ca Nu Vang fields are operated by the Hoang Long and Hoan Vu Joint Operating Companies, respectively. Together they make up the second largest producer of oil in Vietnam. SOCO's influence is expressed through its membership on the operators' Management Committees as well as through the organisations' key senior staff members, including the senior managers and technical personnel that are SOCO secondees.

No LTIs have occurred in the six million man hours worked since operations began in Vietnam.

### The Protection of Human Rights is Embedded in our HSES Polices

SOCO's commitment to the fundamental principles of human rights is embedded in our HSES polices and throughout our business processes. We promote the core principles of human rights pronounced in the UN Universal Declaration of Human Rights.

We honour the internationally accepted labour standards of the International Labour Organisation (ILO) and are guided by the ILO Tripartite declaration of principles concerning multinational enterprises and social policy (MNE Declaration). We support and respect the protection of human rights within our sphere of influence. This sphere extends across our internal and external business environment encompassing our own workers, that of our contractors and reaching out to our supply chain, affected communities and other stakeholders.

We respect the indigenous rights and cultures of the communities within our host countries as defined within the ILO Indigenous and Tribal Peoples Convention C169. We recognise the importance of engaging with our communities and set up local engagement programmes in our areas of operation. We have developed processes of engagement and procedures for addressing concerns and grievances.

During the year, the Company was made aware by external sources, including the media in some instances, of allegations of intimidation related to the Block V project in eastern DRC. The Company investigated each of the allegations to the fullest extent possible based on the limited information provided and found that none of the allegations were directed against SOCO personnel or included sufficient detail that could be substantiated.

### Ethical Conduct is a Condition of Working for SOCO

SOCO does not tolerate corruption of any kind. We train our staff and advise our contractors, partners and other stakeholders on our Code of Business Conduct and Ethics (the Code) so there can be no room for doubt about our values and our approach. We believe that responsible and ethical business conduct is essential to protecting shareholder value.

We remain vigilant in enforcing the standards set out in the Code. SOCO has a "zero tolerance" policy in regards to breaches of standards. We further reinforce our standards through robust financial management processes that allow the Company to keep a close track on economic decision making and procurement.

Running in parallel with the Group's general risk management process, the Audit and Risk Committee has established a detailed bribery risk assessment and mitigation reporting procedure. Bribery risks are monitored throughout the year along with implementation of procedures to mitigate any new risks identified.

If an allegation of misconduct is reported to us, it will always be investigated and, depending on the nature and seriousness of the information provided, the investigation may be carried out by an external party. The employment status of staff, who report potential breaches of the Code or assist in ensuing investigations, is protected against reprisals. The Company has arrangements for "whistleblowing", whereby staff may

# WE BELIEVE THAT RESPONSIBLE AND ETHICAL BUSINESS CONDUCT IS ESSENTIAL TO PROTECTING SHAREHOLDER VALUE

raise any concerns in confidence. To enhance these arrangements the Company has introduced an Ethics Hotline Service using an independent, confidential telephone service that can be used by staff members and other stakeholders to report a suspected breach of SOCO's Code of Business Conduct and Ethics. No reports of such breaches were made to the Ethics Hotline during 2013.

## **Engaging with Communities and Setting Expectations**

Managing expectations is an essential part of managing social impacts and SOCO aims to engage with local people from an early stage of a project. It is important to the Company that it understands the communities in which it operates, and that engagement occurs in a way that helps us to ascertain the needs and priorities of that community. Equally, we want to communicate how our operations work, so that communities can develop an informed view on what our operations may mean for them.

Any community is made up of a broad spectrum of individuals and groups, each with its own concerns and we seek to find channels of communication such as collective forums that allow the Company to connect not just with leaders, but with the wider community.

An oil project comprises separate phases, for example evaluation, exploration drilling, appraisal, development and production, each being dependent on the success of the prior phase, lengthy in terms of timescale and intermittent in terms of presence on site. It is also the case that making a commercial oil or gas discovery is not an inevitable outcome. Despite the potential for a short term presence, the Company is committed to local involvement and sustainable development. This was exemplified through the work programme it fulfilled on the Nganzi Block in western DRC between 2009 and 2013.

## **Social and Community Management**

Our social responsibility is embedded in our social policies which include the responsibility to our own workforce, that of our contractors and the communities in which we operate. The consideration we give to the communities includes the protection of their cultural heritage and ecosystems, the services on which they rely, the exposure to health and safety risk from our projects, the protection of their human rights particularly where security provision is required, and the management of their expectations. We identify indigenous communities and apply our policies to enable more informed consultation and participation from such groups.

We identify communities affected by our projects and potentially vulnerable groups. We are working with the Government of the DRC and appointed bodies within Block V in eastern DRC to prepare a compensation action plan for the potentially affected fishing communities around Lake Edward from proposed activity on the lake.

### Social Investment Funding of Commitments by Partners in 2013 (operated projects)

|                       | Congo (Brazzaville)       | DRC                    | DRC               |
|-----------------------|---------------------------|------------------------|-------------------|
|                       | Marine XI Block<br>\$000s | Nganzi Block<br>\$000s | Block V<br>\$000s |
| Roads and transport   | –                         | –                      | 120.0             |
| Telecoms              | –                         | –                      | 69.5              |
| Access to clean water | –                         | –                      | 462.0             |
| Schools               | 509.3                     | 102.8                  | –                 |
| Education             | –                         | –                      | 61.3              |
| Health services       | 130.4                     | 54.5                   | 187.5             |
| Food aid              | –                         | –                      | 25.0              |
| Other                 | 46.6                      | 31.4                   | 60.7              |
| <b>Total</b>          | <b>686.3</b>              | <b>188.7</b>           | <b>986.0</b>      |

### Delivering Lasting Value Through Social Investment

SOCO's social investments fall into two broad categories. The first is support for activities and programmes that are unrelated to our business activities. These typically include health, education, and other services that aim to improve quality of life for the individuals and groups concerned.

The second category of social investment relates to investments in infrastructure directly relevant to our business, for example transportation and communications systems. Infrastructure development can deliver many benefits to a community: not only the utility of the infrastructure itself, but also the opportunity it can bring for training, employment and further external investment.

In order to further support our principle of sustainability we make certain that any social infrastructure we build can operate independently of our support over the long term. For example, we seek to ensure that local organisations have the capacity to staff any clinics or schools we build. Similarly, where we create boreholes for water, we make sure that the water pumps we install are simple to maintain, so that they will continue to benefit the community long after we have completed our project.

#### Social Investment Funding Commitments

The social investments in Vietnam made by SOCO and our joint operating partners support a number of in-country charitable organisations, primarily in health and education.

In Congo (Brazzaville), SOCO's social investment focus has been on social infrastructure projects such as medical and school buildings.

In the DRC, we have been completing our social investment commitments relating to the Nganzi Block licence which was relinquished in 2013. In the east of the country, SOCO launched its social investment projects related to our Block V project in August 2013 after a period of engagement with the local communities and national and local authorities to ascertain the needs and priorities for the people. The projects are being delivered in collaboration with aid support agencies.

The projects include:

- ▶ The installation of a communications mast at Nyakakoma (on the shores of Lake Edward).
- ▶ Water purification facilities.
- ▶ The provision of medical aid programmes (including a mobile hospital and a disease mapping campaign to combat neglected tropical diseases).
- ▶ The rehabilitation of a dilapidated road between Nyakakoma and Ishasha.

**i** Details of the SOCO's social investment projects are given on our website.

[www.socointernational.com](http://www.socointernational.com)



## Managing Environmental Impacts

SOCO's environmental management framework defines a systematic approach to the assessment, management and mitigation of potential environmental impacts arising from SOCO's operations.

At the start of each new phase of a project, the Company carries out an environmental impact assessment relative to the next phase. These assessments highlight the risks that the proposed operational phase could pose to the environment and, importantly, recommend mitigating action to be taken before or during the phase of operation.

To carry out such assessments, SOCO utilises qualified and reputable firms. A local engagement campaign ensues to inform the communities of how they may be impacted by SOCO's activities. SOCO does not usually publish the formal report unless there is specific public interest in the findings, in which case permission is sought from the respective state authority for the document to be made available.

### Greenhouse Gas (GHG) Reporting

SOCO, as part of its annual HSES monitoring programme, reports the emissions of GHG on an annual basis that have been generated as a result of its exploration and production activities. This has been undertaken to meet both:

- ▶ the requirement under the Companies Act 2006 for UK-listed companies to carry out mandatory Carbon reporting; and
- ▶ the internal SOCO requirement under its HSES MS to report GHG emissions annually.

IN 2013, SOCO'S  
SCOPE ONE AND  
SCOPE TWO  
EMISSIONS WERE  
80,546 AND  
27 TONNES CO<sub>2</sub>E  
RESPECTIVELY

SOCO previously has reported GHG emissions from the Vietnam operations. 2013 is however the first year that the Company has extended this reporting to all of its global operated and joint-operated projects. As such it has set 2013 as its base or benchmark year.

The main objectives during 2013 have been to:

- ▶ Generate a reference set of emission data against which future years can be measured; and
- ▶ Identify any issues surrounding the data collection process with the ultimate aim of standardising the GHG emissions reporting methodology across Company operations.

The following criteria have been used in calculating the results:

- ▶ SOCO has reported 100% of the GHG emissions from asset partnerships over which it has operational control (Marine XI, Nganzi and Block V), but only part of the emissions (equating to its equity share) from partnerships where it is not the Operator (Block 16-1 and Block 9-2). GHG emissions are not reported for SOCO's non-operated projects (Cabinda North Block).
- ▶ Scope One direct emissions reported include those from sources within the SOCO organisational boundaries (sources owned, wholly or in part, or leased by SOCO) have been included in the calculations (these include, for example, flaring operations, fuel gas/diesel use to generate power, vehicle use).
- ▶ Scope Two indirect emissions reported include electricity generated via the national grid in the UK.
- ▶ Section 92 of the UK Climate Change Act categorises six GHGs – carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulphur hexafluoride (SF<sub>6</sub>). Of these SOCO has reported calculated levels of CO<sub>2</sub>, CH<sub>4</sub> and N<sub>2</sub>O; all of which are produced during combustion. For simplicity, the results of all three have been reported as a single parameter – carbon dioxide equivalent (CO<sub>2</sub>e). The other greenhouse gases, HFCs, PFCs and SF<sub>6</sub>, are not closely associated with the petroleum industry; the total emission of these gases is therefore expected to be small and has not been calculated.

The total GHG emission for SOCO during 2013, reported as carbon dioxide equivalents (CO<sub>2</sub>e) is 242,624 tonnes overall (or 80,573 tonnes based on equity share). For producing assets, 11 kg of CO<sub>2</sub>e is emitted per barrel of oil produced.

### Tonnes (t) of CO<sub>2</sub>e for 2013 Operations

| Country             | Reported Operations    | Operational Phase                      | CO <sub>2</sub> e (t) |                                    | Normalised emission                                   |      |
|---------------------|------------------------|--|-----------------------|------------------------------------|---|------|
|                     |                        |  | Overall               | Based on equity share <sup>1</sup> | CO <sub>2</sub> e (t) per t oil produced <sup>2</sup> |      |
| UK                  | Corporate              | Administration (electricity usage)     | 27                    | 27                                 |   | n/a  |
|                     | Marine XI              | Exploration/Appraisal                  | 10,371                | 10,371                             |   |      |
| Congo (Brazzaville) | Nanga II A             | Block evaluation                       | –                     | –                                  |   | n/a  |
|                     | Corporate              | Administration                         | 144                   | 144                                |   |      |
|                     | Nganzi Block           | Exploration                            | 333                   | 333                                |   |      |
| DRC                 | Block V                | Evaluation                             | 165                   | 165                                |   | n/a  |
|                     | Corporate              | Administration                         | 210                   | 210                                |   |      |
| Vietnam             | Block 9-2 – CNV field  | Field development/production           | 22,637                | 5,659                              | 0.01  | 0.01 |
|                     | Block 16-1 – TGT field | Appraisal/field development/production | 208,737               | 63,664                             | 0.01  |      |
| <b>Total</b>        |                        |  | <b>242,624</b>        | <b>80,573</b>                      | <b>11 kg of CO<sub>2</sub>e per barrel produced</b>   |      |

<sup>1</sup> Under equity share, SOCO reports 100% of the emissions from partnerships over which it has operational control (Marine XI, Nanga II A, Nganzi and Block V) and a share of the emissions from partnerships which are jointly operated (Block 16-1 and Block 9-2).

<sup>2</sup> Normalised emission is calculated per field, and at country level, based on gross BOEPD produced in 2013 in CNV (8,235 BOEPD) and TGT (48,876 BOEPD) fields.



SOCO IS  
COMMITTED  
TO THE  
HIGHEST  
STANDARDS OF  
CORPORATE  
GOVERNANCE



About the Board

A PROVEN RECORD OF DIVERSE EXPERIENCE AND INSIGHT

Key:

**Committees**

- A Audit and Risk
- R Remuneration
- N Nominations

**Membership**

- Committee chair
- Committee member
- Committee advisor



**1. Rui de Sousa****Non-Executive Chairman, 58****Appointed:** July 1999

Rui de Sousa has approximately 35 years' experience in the energy sector. He was formerly a director of Gazprombank-Invest (Lebanon) SAL, the Chairman of Carbon Resource Management Ltd and the President of Quantic Mining. Rui is currently a director of Quantic Limited.

**2. Ed Story****President and Chief Executive Officer, 70****Appointed:** April 1997

Ed Story has over 45 years' experience in the oil and gas industry, beginning with Exxon Corporation, where he held various positions including seven years resident in the Far East. He was formerly the Vice President and CFO of Superior Oil Company, a co-founder and Vice Chairman of Conquest Exploration Company and a co-founder and President of Snyder Oil Corporation's international subsidiary. Ed was a non-executive director of Cairn Energy PLC until 2008 and is currently a non-executive director of Cairn India Limited.

**3. Roger Cagle****Executive Vice President, Deputy CEO and Chief Financial Officer, 66****Appointed:** April 1997

Roger Cagle has over 40 years of experience in the oil and gas industry including succeeding positions of responsibility with Exxon Corporation and senior management roles with Superior Oil Company. He was formerly the Chief Financial Officer of Conquest Exploration Company and the Chief Financial Officer of Snyder Oil Corporation's international subsidiary.

**4. Robert Gray****Non-Executive and Senior Independent Director, 60****Appointed:** December 2013

Rob Gray has been an advisor to the natural resources sector for more than 30 years. Rob qualified as a solicitor in 1981 at Allen & Overy and then went on to help establish James Capel & Co. Petroleum Services, a successful advisory and mergers and acquisitions practice. Rob's experience includes 13 years at Deutsche Bank where he was latterly a Senior Advisor having been Chairman of UK Investment Banking for five years and formerly Global Head of Natural Resources. Rob was previously a Director and Head of the Natural Resource Group at Robert Fleming & Co. Ltd for four years, a group which he established. Between 2000 and 2010, Rob was an Advisory Board Member for Heerema Marine Contractors. Rob is also one of a number of industry advisors to Bluewater Energy. Rob was a co-founder of RegEnergys, a natural resources investment entity and is currently the principal of ReVysion LLP.

**5. Olivier Barbaroux****Non-Executive Director, 58****Appointed:** July 1999

Olivier Barbaroux has over 25 years' experience in the energy and utilities sector. He was the Chairman and CEO of Dalkia and a member of the Executive Committee of Veolia Environment until 2011. Formerly, he was the Managing Director of Compagnie Générale des Eaux, President and Chief Operating Officer of Vivendi Water S.A., the Head of the Energy Sector of Paribas and the Chief Executive Officer of the oil and gas production and exploration company Coparex International.

**6. Cynthia Cagle****Executive Director, Vice President – Finance and Company Secretary, 59****Appointed:** December 2012

Cynthia Cagle is a Certified Public Accountant with over 35 years' experience in the oil and gas industry. She was one of the founders of SOCO International plc and has been an officer of the Group, and a director of its significant subsidiaries, since its inception in 1997. Prior to joining SOCO, Cynthia gained her industry experience through senior accounting positions in Snyder Oil Corporation's international subsidiary, Conquest Exploration Company and Superior Oil Company, and additional financial experience with Texas Commerce Bancshares.

**7. Robert Cathery****Non-Executive Director, 69****Appointed:** June 2001

Robert Cathery has over 45 years of City experience. He was formerly the Managing Director and Head of Oil and Gas at Canaccord Capital (Europe) Limited, Head of Corporate Sales at SG Securities (London) Ltd., director of Vickers da Costa and director of Schroders Securities. Robert is also currently a non-executive director of Salamander Energy PLC and Central Asia Metals Limited.

**8. Ettore Contini****Non-Executive Director, 39****Appointed:** December 2001

Ettore Contini was formerly a director of Energia E Servizio SpA and an asset manager in the private banking division of Banca del Gottardo. Ettore is currently also a director of Eurowatt-Commerce.

**9. Marianne Daryabegui****Non-Executive Director, 49****Appointed:** October 2013

Marianne Daryabegui is currently the Managing Director of the Corporate Finance Oil and Gas Team at BNP Paribas in Paris, France. Marianne has extensive experience in oil and gas corporate transactions, including structured financing and reserve based lending facilities, and has advised a wide number of oil companies across the sector. Prior to joining the Oil and Gas Team in 2006, Marianne worked for eight years in BNP Paribas' Energy Commodities Export Project Department where she headed the Commodity Structure Finance team for the Middle East, North and West Africa. Prior to joining BNP Paribas, Marianne spent eight years at TOTAL, working amongst other activities on upstream acquisitions and divestments in Europe and Africa. Marianne has a Masters degree in Finance and Capital Markets from Sciences Po University, Paris and a Masters in Tax and Corporate Law.

**10. António Monteiro****Non-Executive Director, 70****Appointed:** June 2009

Ambassador António Monteiro has over 45 years of experience with the Portuguese Ministry of Foreign Affairs, including as Foreign Minister of Portugal, and with international organisations, including as UN High Representative for Elections in Côte d'Ivoire and as a member of the UN Secretary-General's Panel on the Referenda in the Sudan. He was formerly the Ambassador of Portugal to France and the Permanent Representative of Portugal to the United Nations, where posts included being President of the Security Council and of the Security Council's Committee established by Resolution 661 (1990). António is currently also Chairman of the Board of Directors of the Portuguese Bank Millennium BCP (Banco Comercial Português), a non-executive member of the Board of the Angolan Bank BPA (Banco Privado Atlântico), President of the Luso-Brazilian Foundation Curator's Council, and Chairman of the Advisory Council of Gulbenkian's Foundation Program for Development Assistance.

**11. John Norton****Non-Executive Director, 76****Appointed:** April 1997

John Norton is a Chartered Accountant by profession and was a partner at Arthur Andersen, heading the oil and gas practice in Europe, the Middle East and Africa, until his retirement in 1995. John was formerly also a member of the Oil Industry Accounting Committee and a director of the Arab-British Chamber of Commerce.

**12. Mike Watts****Non-Executive Director, 58****Appointed:** August 2009

Dr Mike Watts is currently the Deputy Chief Executive of Cairn Energy PLC and has over 35 years' experience in the oil and gas industry. He was formerly the CEO and Managing Director of the Amsterdam listed Holland Sea Search, which was acquired by Cairn Energy PLC in 1995, and has held senior technical and management roles with Premier, Burmah and Shell.

## Annual Report of the Directors

**Cynthia Cagle**  
Vice President – Finance  
and Company Secretary



The Directors present their annual report, along with the audited financial statements of the Group for the year ended 31 December 2013. Information on pages 40 to 43 and 47 to 69 is incorporated herein by reference and forms part of this Directors' report.

### Developments following the 2013 Reporting Period

An indication of the likely future developments in the business of the Group is included in the Strategic Report on pages 10 to 23.

### Results and Dividends

The audited financial statements for the year ended 31 December 2013 are set out on pages 74 to 97. During the year, the Company announced a return of value to shareholders of 40 pence per Ordinary Share amounting to approximately £133 million (\$213.3 million) in cash by way of a B and C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving cash in the form of income or in the form of capital. The return of value, which was approved by shareholders on 25 September 2013, became effective on 3 October 2013. The Board expects to again recommend a return of capital to shareholders in the third quarter of this year, thereby confirming the sustainability of our capital return policy. The magnitude of the pay out is targeted to equal 50% of 2013 free cash flow.

### Directors

The business of the Company is managed by the Directors who may exercise all powers of the Company subject to the Articles of Association

(Articles) and law. The Directors who held office during the year, and the dates of their current service contracts or letters of appointment, which are available for inspection, are listed in the table on page 45.

All Directors held office throughout the year except as noted in the table. In accordance with the provisions of the 2012 UK Corporate Governance Code, all Directors will retire at the forthcoming Annual General Meeting (AGM) and, being eligible, offer themselves for reappointment. Relevant details of the Directors, which include their Committee memberships, are set out on pages 42 and 43. SOCO provides liability insurance for its Directors and officers. The annual cost of the cover is not material to the Group. The Company's Articles allow it to provide an indemnity for the benefit of its Directors, which is a qualifying indemnity provision for the purpose of section 233 of the Companies Act 2006 (2006 Act).

### Contributions

The Group's policies prohibit political donations.

### Share Capital

Details of changes to share capital in the period are set out in Note 26 to the financial statements.

In October 2013 a return of value was made to all shareholders amounting to approximately £133 million in cash by way of a B and C share scheme. Further information can be found above and in Note 28 to the financial statements.

As part of this scheme, 94,984,376 B shares and 236,847,671 C shares were issued. On 3 October 2013, all of the B shares were redeemed at 40 pence per share and a dividend of 40 pence per share was paid on the C shares. The C shares were then automatically reclassified as deferred shares.

The Company therefore, currently has two classes of shares in issue, ordinary shares of £0.05 each, and deferred shares of 0.0000001 pence each, all of which are fully paid.

Each ordinary share in issue carries equal rights including one vote per share on a poll at general meetings of the Company, subject to the terms of the Articles and law. Shares held in treasury carry no such rights for so long as they are held in treasury. Votes may be exercised by shareholders attending or otherwise duly represented at general meetings. Deadlines for the exercise of voting rights by proxy on a poll at a general meeting are detailed in the notice of meeting and proxy cards issued in connection with the relevant meeting. Voting rights relating to the shares held by the SOCO Employee Benefit Trust are not exercised. The Articles may only be amended by a resolution of the shareholders.

Each deferred share carries no voting rights and no rights to participate in the profits of the Company. On a winding-up or other return of capital, the holders of deferred shares have extremely limited rights. A resolution will be proposed at the 2014 AGM to approve a contract to buy back all of the deferred shares for the aggregate consideration of one pence and, in accordance with the Articles, following such buy back, the deferred shares will be cancelled. Further information regarding this resolution is set out in the circular to shareholders.

No shareholder, unless the Board decides otherwise, is entitled to attend or to vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or she or any person with an interest in shares has been sent a notice under section 793 of the 2006 Act (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or she or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is earlier. The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in shares of that class from taking place on an open or proper basis. The Directors may likewise refuse any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of ordinary shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws); and pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require approval of the Company to deal in the Company's shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights. Resolutions will be proposed at the 2014 AGM, as is customary, to authorise the Directors to exercise all powers to allot shares and approve a limited disapplication of pre-emption rights. Further information regarding these resolutions is set out in the circular to shareholders. A resolution will also be proposed at the 2014 AGM, as is also customary, to renew the Directors' existing authority to make market purchases of the Company's ordinary share capital, and to limit such authority to purchases of up to 34,095,432 ordinary shares of £0.05 each, representing approximately 10% of the Company's issued ordinary share capital at 4 March 2014. Shares purchased under this authority may either be cancelled or held as treasury shares.

## Auditors

A resolution to reappoint Deloitte LLP (Deloitte) as the Company's auditors will be proposed by the Directors at the forthcoming AGM. Deloitte also provide non-audit services to the Group, which are set out in Note 9 to the financial statements. All non-audit services are approved by the Audit and Risk Committee. The Directors are currently satisfied, and will continue to ensure, that this range of services is delivered in compliance with the relevant ethical guidance of the accountancy profession and does not impair the judgement or independence of the auditors. Further details of the Group policy on non-audit services are set out in the Audit and Risk Committee Report on pages 55 and 56.

The Directors at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Each Director has taken all steps that they ought to have taken as a Director, having made such enquiries of fellow Directors and the auditors and taken such other steps as are required under their duties as a Director, to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the 2006 Act.

## Greenhouse Gas Emissions Reporting

Reporting on emission sources, as required under the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013, is included in the Corporate Social Responsibility Report on pages 32 to 39.

### Directors Holding Office During 2013

| Director  | Date of Contract |
|---|------------------|
| <b>Rui C de Sousa</b><br>Chairman   | 12.07.99         |
| <b>Michael C Johns*</b><br>Senior Independent Director<br>(Retired from the Board 30.09.13) | 23.06.11         |
| <b>Robert G Gray*</b><br>Senior Independent Director  | 09.12.13         |
| <b>Olivier M G Barbaroux*</b>   | 12.07.99         |
| <b>Roger D Cagle</b>  | 14.05.97         |
| <b>Cynthia B Cagle</b>  | 14.05.97         |
| <b>Robert M Cathery*</b>  | 19.06.01         |
| <b>Ettore P M Contini</b>   | 11.12.01         |
| <b>Marianne Daryabegui*</b>   | 01.10.13         |
| <b>António V Monteiro*</b>  | 10.06.09         |
| <b>John C Norton*</b>   | 14.05.97         |
| <b>Edward T Story</b>   | 14.05.97         |
| <b>Michael J Watts*</b>   | 21.09.09         |

\* Denotes those determined by the Board to be independent Non-Executive Directors as described in the Corporate Governance Report on pages 49 to 50.

### Substantial shareholdings

As at 4 March 2014, the Company had been notified, in accordance with Chapter 5 of the Transparency Obligations Directive (Disclosure and Transparency Rules) Instrument 2006, of the interests in the shares of the Company as set out in the table below:

| Name of Holder                   | Issued Shares |        |
|----------------------------------|---------------|--------|
|                                  | Number        | % Held |
| Blue Albacore Business Ltd       | 27,444,382    | 8.27   |
| Globe Deals Ltd                  | 27,444,382    | 8.27   |
| Liquid Business Ltd <sup>1</sup> | 27,444,381    | 8.27   |
| Chemsa Ltd                       | 23,528,925    | 7.09   |
| Edward T Story <sup>2</sup>      | 11,398,866    | 3.43   |

<sup>1</sup> 27,444,381 Shares are held through Liquid Business Ltd, a connected person to Mr E Contini. An additional 220,000 Shares are held personally by Mr E Contini. For further information see the Directors' Interests table on page 66.

<sup>2</sup> 11,398,866 Shares are held personally by Mr E Story. 1,675,000 Shares are held through The Story Family Trust, a connected person to Mr E Story. For further information see the Directors' Interests table on page 66.

### Going Concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events which are inherently uncertain. Nevertheless, at the time of preparation of these accounts and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, and taking into consideration the additional factors in the Financial Review on pages 24 to 26, they continue to adopt the going concern basis in preparing the accounts.

### Directors' Responsibilities for the Financial Statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union both for the Group and the Company.

The Directors are required to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company and of the Group and the financial performance and cash flows of the Group for that period. In preparing those accounts the Directors are required to select suitable accounting policies and then apply them consistently; present information and accounting policies in a manner that provides relevant, reliable and comparable information; and state that the Company and the Group have complied with applicable accounting standards, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the accounts comply with relevant legislation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' Responsibility Statement

The Directors confirm that, to the best of each person's knowledge:

- (a) the financial statements set out on pages 74 to 97, which have been prepared in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole;
- (b) this Directors' Report along with the Strategic Report, including each of the management reports forming part of these reports, includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- (c) the annual report and the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Group's performance, business model and strategy.

By order of the Board  
4 March 2014

**Cynthia Cagle**  
Company Secretary





**Rui de Sousa**  
Chairman

## Corporate Governance Report

# HOW WE FULFILL OUR COMMITMENT TO THE UK CORPORATE GOVERNANCE CODE

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## Dear Shareholders

I am pleased to present this introduction to our 2013 Corporate Governance Report, which describes how we have implemented and applied the principles of the 2012 UK Corporate Governance Code (the Code). SOCO is committed to applying the highest standards of corporate governance while pursuing the creation of value for our shareholders. We welcome the continued development of corporate governance guidance, which has further evolved with the introduction of the new Code published in September 2012 and applied throughout 2013.

As Chairman, I remain focused on leading the Board in the effective delivery of our strategy for the long term success of the Company. We have established leadership at the head of the Company through separate but complementary Executive and Non-Executive roles. These roles provide a clearly defined division of responsibilities that allows for oversight and control within a unitary Board. The Board recognises that to be successful it must comprise an appropriate balance of critical attributes including skills, experience, diversity, independence and knowledge of the Company. We have an ongoing process for assessing Board balance, including the specific competencies required to fulfill our roles.

The Board believes that the Company benefits from long-serving Directors who are uniquely qualified to lead the Board through their detailed knowledge and proven competencies. Accordingly, the process for assessing Board balance closely considers whether these benefits are appropriately balanced by the benefits of refreshment. Additionally, the process for the assessment of each Director's independence is of prime importance to ensure that this retention of experience is balanced with a sufficient and appropriate contingent of independents.

The Company's programme for succession has also been conducted in full consideration of the assessment of board balance. The Company previously reported that its succession planning was aimed at increasing both independence and diversity as a priority. This is fully reflected in the Board's recent appointments, including Ms Cynthia Cagle as an Executive Director in December 2012, followed by Ms Marianne Daryabegui as a Non-Executive Director and Mr Rob Gray as the Senior Independent Director in 2013. These combined appointments provide the benefit of gender diversity, and increase Executive representation while also increasing the proportion of independent Non-Executive representation. Additionally, they provide for refreshment of the Board, and add to its international diversity as well as its expertise in our sector and in finance, governance, and strategic thinking.

The Directors place considerable emphasis on the annual assessment of Board effectiveness and attention to its results. For the third successive year the Board has utilised an external facilitator to assist in its evaluation, and believes this has contributed to open and frank discussion in the interest of improving the Board's processes, leadership and effectiveness. Results of the evaluation confirm that the Directors firmly agree that the Board comprises an appropriate balance for the fulfilment of its role, and that the assessment of the independent Directors remains robust and appropriate.

The Board evaluation additionally addressed the manner in which the Board has developed and carried out the business strategy, noting the Directors' satisfaction with the process undertaken to implement its policy for a sustainable return of capital to shareholders.

The following pages provide further detail of how we fulfil our commitment to good corporate governance, and in particular those principles related to the role and effectiveness of the Board.

**Rui de Sousa**  
Chairman

The Company is committed to the principles contained in the UK Corporate Governance Code (the Code) that was issued in 2012 by the Financial Reporting Council and for which the Board is accountable to shareholders.

The Company has applied the principles set out in the Code, including both the Main Principles and supporting principles, by complying with the Code as described within this report, the Directors' Remuneration Report and the Audit and Risk Committee Report.

### Statement of Compliance with the Code

Throughout the year ended 31 December 2013, the Company has complied with the provisions set out in the Code.

## Board of Directors

The Board's role is to provide entrepreneurial leadership and develop strategy, values and standards while maintaining prudent and effective controls to assess and manage risk. The Board is responsible for ensuring that the Company meets its obligations to stakeholders and has adequate resources to meet its strategic objectives. The Board of Directors, whose names and biographical details are set out on pages 42 and 43, comprises 11 Directors in addition to the Chairman. After an assessment process set out in more detail below, seven of these 11, including the Senior Independent Director, have been identified on page 45 as independent Non-Executive Directors, after giving full consideration to those circumstances that the Code states may appear relevant. Notwithstanding this, the Board is satisfied that each of the Company's Directors strictly abides by their legal and ethical duties owed to the Company to act objectively and in the best interests of the Company and its shareholders as a whole.

### Chairman and Chief Executive

The roles of the Chairman and Chief Executive Officer are separated and their responsibilities are clearly established, set out in writing and agreed by the Board. The Chairman and the Chief Executive collectively are responsible for the leadership of the Company. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chief Executive is responsible for leading the executives and ensuring their effectiveness in the running of the Company's business and implementing strategy and policy. Together the Chairman and Chief Executive are responsible for promoting the highest standards of integrity and probity.

### Executive and Non-Executive Directors

Executive Directors are responsible for implementing the Board's agreed strategy through the development of an appropriate business plan and for executing actions approved by the Board in accordance with relevant authorities. The division of responsibilities between the Executive Directors is set by the Board.

The Executive Directors provide the leadership of the senior managers in the day-to-day running of the Group's business and manage the Group's risk programmes including the environmental, health, safety and social performance of the business. They must ensure the Company has adequate financial and human resources to meet its objectives. They are responsible for reporting the performance and strategic direction of the Group to the Board and for providing accurate, timely and clear information to enable the Board to make sound decisions.

The Non-Executive Directors, who undertake a supervisory role, contribute to the development of strategic proposals through constructive probing based on review and analysis that brings to bear the particular skills, experience and knowledge each brings to the Board. The Non-Executive Directors review management's performance and ensure that the systems in place provide adequate and effective financial, operational and compliance controls and risk management. They must be satisfied that they have sufficient information for the discharge of their duties, which may be achieved through dialogue with management, training where appropriate to update their knowledge or skills and consultation with independent professional advisors as required.

### Senior Independent Director

The Senior Independent Director provides an independent leadership role to the Board. The Senior Independent Director is available to the Chairman to discuss and develop ideas to maximise the Board's effectiveness, and as an intermediary to other Directors to ensure each individual's views are fully considered in reaching unitary consensus on Board matters. The Senior Independent Director meets at least annually with other Non-Executive Directors, without the Chairman present, to facilitate a full and open discussion of matters including appraisal of the Board's effectiveness and the performance of the Chairman. The Senior Independent Director is made available to communicate with shareholders, as described more fully under Relations with Shareholders below.

### Company Secretary

The Company Secretary, who is appointed by the Board, is responsible for facilitating the communications and processes of the Board, both within the Board and its committees and with management, in compliance with Board procedures and governance guidelines. The Secretary facilitates an induction programme for new Directors on appointment, which is tailored to the new Director's individual qualifications and experience.

THE BOARD IS  
RESPONSIBLE  
FOR ENSURING  
THE COMPANY  
MEETS ITS  
OBLIGATIONS TO  
STAKEHOLDERS

The Secretary provides advice and service as may be required in the ongoing discharge of the Directors' duties, including ensuring that the Company provides the necessary resources for access to independent advice and any individual professional training and development needs agreed with each Director. Additionally, briefing sessions are provided in the course of regular Board meetings and Committee meetings on relevant issues as deemed appropriate, including in relation to corporate governance and social responsibility as well as new and evolving statutory and other compliance matters.

### Board Balance and Diversity

The Board recognises the need for an appropriate balance of critical attributes, including skills, experience, diversity, independence and knowledge of the Company. The Company has an ongoing process for assessing the specific competencies required on the Board, giving consideration to relevant factors arising from Board and individual Director evaluations, including effectiveness and time commitment. Accordingly, it continually seeks, within an appropriate Board size, to manage a balance between the important elements in its composition, including Executive representation, independence, diversity, tenure and refreshment.

The Board recognises the benefits of diversity, and gender diversity in particular. The Board identified gender diversity as a matter for increased focus in recent externally facilitated Board evaluations, as discussed under the Nominations Committee section on page 53 and in the Succession and Appointments section below.

### Independence, Tenure and Refreshment

The Board embraces the underlying principles of the Code provisions regarding tenure and refreshing of the Board, and seeks to strike an appropriate balance between continuity of experience and succession. The findings of the externally facilitated Board evaluations conducted in each of the last three years (see the Nominations Committee section on page 53) continue to confirm the Board's position concerning independence, which emphasises that an individual's independence cannot be determined arbitrarily on the basis of a set period of time or by a set period of concurrent tenure with an Executive Director. Each of the Non-Executive Directors' tenure has run concurrently with the Chief Executive and Deputy Chief Executive, both of whom have been in office from the Company's initial listing. The Company manages a portfolio of long term, complex projects and considers a Non-Executive Director's most appropriate term of office as generally longer than that envisioned in Code guidelines. The Company benefits from long-serving Directors who are uniquely qualified to contribute leadership through detailed knowledge of the Company's business and with the proven commitment, experience and competence to effectively advise and oversee the Company's management on behalf of the shareholders. The Company seeks to ensure its Directors are focused on a long term approach and, therefore, does not impose fixed term limits as this would result in a loss of experience and knowledge without assuring increased independence. Accordingly, the Board's assessment of independence is of prime importance to ensure that retention of experience does not result in a failure to retain a sufficient contingent of independent Directors.

## 2013 Meeting Attendance by Directors

|              |                           | Board Meeting | Audit and Risk Committee Meeting | Remuneration Committee Meeting | Nominations Committee Meeting | Annual General Meeting |
|--------------|---------------------------|---------------|----------------------------------|--------------------------------|-------------------------------|------------------------|
| R de Sousa   |                           | ●●●●          |                                  |                                | ●●                            | ●                      |
| M Johns      | Retired 30 September 2013 | ○●○           | ○○                               | ○                              | ○                             | ○                      |
| O Barbaroux  |                           | ●●●●          |                                  |                                |                               | ●                      |
| R Cagle      |                           | ●●●●          |                                  |                                |                               | ●                      |
| C Cagle      |                           | ●●●●          |                                  |                                |                               | ●                      |
| R Cathery    |                           | ●●●●          |                                  |                                |                               | ●                      |
| E Contini    |                           | ●○●●          |                                  |                                |                               | ○                      |
| R Gray       | Appointed 9 December 2013 | - - - -       | - - -                            | - -                            |                               | -                      |
| M Daryabegui | Appointed 1 October 2013  | - - - ●       | - - ●                            | - ●                            | - ●                           | -                      |
| A Monteiro   |                           | ●●●●          | ●●●                              | ●●                             | ●●                            | ●                      |
| J Norton     |                           | ●●●●          | ●●●                              |                                |                               | ●                      |
| E Story      |                           | ●●●●          |                                  |                                | ●●                            | ●                      |
| M Watts      |                           | ●●●●          | ●●●                              | ●●                             | ●●                            | ●                      |

● Denotes scheduled meeting attended  
○ Denotes scheduled meeting not attended  
- Precedes Board appointment

The independence of each Non-Executive Director is assessed at least annually. Independence is additionally identified as a matter for increased scrutiny in the externally facilitated Board evaluation, as described more fully in the Nominations Committee section of this report. To be identified as independent a Director must be determined to be independent both in character and in judgement and free from any relationships or circumstances which are likely to affect, or could appear to affect, their judgement including in particular those set out in the Code. Particular scrutiny is applied in assessing the continued independence of Directors having served over nine years, with attention to ensuring that interactions with Executive Directors have not in any way eroded their independence and that their allegiance remains clearly aligned with shareholders. Board refreshment and tenure are considered together, and weighed for relevant benefit in the foreseeable circumstances, given further that the Board should not be enlarged to a size that is unwieldy.

In conducting its current assessment of Non-Executive Director independence, the Board referred to guidance setting out criteria deemed relevant to determining whether a Director continues to exhibit those qualities and behaviours it considers essential to be considered independent. A specific set of focused criteria was applied to the assessment of long-tenured Directors. Consideration was also given to the results of individual evaluation and continued satisfactory performance as well as each Director's ability to allocate sufficient time to discharge their respective Board and Committee responsibilities.

Following assessment, Mr Rob Gray, Ms Marianne Daryabegui, Ambassador António Monteiro and Dr Mike Watts were determined to be independent. After particular scrutiny, Mr John Norton, Mr Olivier Barbaroux and Mr Robert Cathery, each having served on the Board for more than nine years, were also determined to be independent. Each of these Directors continues to display an appropriate independence from Executive Directors. They each continue to express their individual viewpoints, debate issues and objectively scrutinise and challenge management. Each seeks clarification and amplification as deemed required, including through direct access to the Group's employees and external advisors. After careful consideration of the relevant factors, the Board has determined that the tenure of these Directors has not affected their independence or their ability to bring judgement to bear in the discharge of their duties as Board and Committee members. The Board considers that the varied and relevant experience of its independent Directors combined provide an exceptional balance of skills and experience required for the business.

### Succession and Appointments

Board appointments are made in consideration of objective criteria which are developed in the assessment of Board competencies and attributes. Appointments are made through a formal process led by the Nominations Committee, which is set out in more detail in the Nominations Committee section on page 53. Following an appointment, the Company Secretary facilitates a process of induction and assimilation determined appropriate to the appointee's particular role and experience.

The Company's programme for succession takes full account of the principles for board balance, diversity, independence, tenure and refreshment set out in the sections above. In 2011 and 2012, the Company reported that a focus on succession planning, aimed at improving Board balance in both independence and diversity, had been established as a priority in future recruitment. The Board's recent appointments demonstrate progress on achieving these objectives.

In December 2012, the Board appointed Ms Cynthia Cagle as an Executive Director, thereby providing the benefit of gender diversity while additionally increasing Executive representation with sector, finance and governance experience. In October 2013, the Board appointed Ms Marianne Daryabegui as a Non-Executive Director, further increasing the benefits of gender and international diversity. This appointment, along with the December 2013 appointment of Mr Rob Gray as the Senior Independent Director, has also increased Non-Executive representation and the proportion of independent Directors, as well as providing additional expertise in international finance, banking, corporate finance and strategic thinking.

Following these appointments, excluding the Chairman, the Board includes two newly appointed independent Non-Executive Directors, who serve on the Board along with four long-tenured Non-Executive Directors and a further two appointed less than five years ago. The Company considers it has achieved an appropriate balance between the benefits of continuity and refreshment.

After assessment of the competencies required, the Board is satisfied that the current Non-Executive Directors comprise an appropriate balance of knowledge, skills, independence and experience. The Company has additionally sought to maximise the benefits of independence, refreshment and continuity in constituting each of its Committees. The Board will continue to manage its composition in future recruiting, including an appropriate focus on independence and diversity in addition to continued attention to individual merit, experience and complementary Board skills.

THE BOARD'S  
RECENT  
APPOINTMENTS  
DEMONSTRATE  
PROGRESS ON  
ACHIEVING THE  
OBJECTIVES OF  
INCREASING  
INDEPENDENCE  
AND DIVERSITY

## Reappointment

In accordance with the Code, all Directors are subject to annual election by shareholders. Reappointment of each Director is recommended in consideration of the results of individual evaluation and demonstrated continued satisfactory performance, commitment and effectiveness. Consideration is given to the broad capabilities represented on the Board and the ability of these to meet the unique challenges facing the Company. Consideration is additionally given to the balance of the Board's composition and the need for diversity and refreshment. A Non-Executive Director term exceeding six years is subject to particularly rigorous review.

The process for considering reappointments is described more fully in the Nominations Committee section on page 53. Following this process, the Board recommends the reappointment of the retiring Directors, who have each offered themselves for reappointment. The Chairman, having given consideration to the results of the Board's formal evaluation process and other relevant factors, is satisfied that the Non-Executive Directors continue to demonstrate the commitment level appropriate and to be effective in fulfilment of the responsibilities of the role.

## Board Structure and Process

The Board typically has four scheduled meetings a year and holds additional meetings as necessary. During 2013, the Board held four scheduled meetings as deemed required for the effective discharge of its duties during the period. There was full attendance of Directors at scheduled Board meetings and full attendance of members at the Audit and Risk, Remuneration and Nominations Committees as set out in the table below, with the exception of Mr Michael Johns and Mr Ettore Contini. Mr Johns' ability to fully participate became limited at the sudden onset of ill-health, which unfortunately led to his early retirement to more fully focus on recovery. Mr Ettore Contini was unable to attend one Board meeting due to a familial bereavement.

The Board determines the Company's business strategy and provides the entrepreneurial leadership required to ensure its strategic aims can be achieved. The Board operates within a formal framework of decision making designed to reserve matters of establishing the strategy, business plan and nature or scope of the Company's business to the Board. Under this framework, authority for implementing the strategy and decisions taken by the Board is largely delegated to the Executive Directors and management within a system of internal controls designed to enable the risks of the Group to be managed effectively. Additionally, the Board has established clear expectations for the Company's economic, social and environmental conduct to promote the highest level of integrity and honesty in meeting its obligations to its stakeholders. SOCO's Board membership comprises a broad range of skills, knowledge and experience, which is critical to the success of the Company. The Board functions as a unitary body, within which Directors assume certain roles to ensure the Board as a whole fulfils its responsibilities. These roles, including committee memberships, are designed to maximise the effective contribution of each of the Non-Executive Directors to the Board, its committees and to the Executive Directors, while ensuring an appropriate balance is maintained. The composition of the Board and its committees is in accordance with Code guidelines. At least annually, the Non-Executive Directors meet without the Executives present and, led by the Senior Independent Director, meet without the Chairman present. Such meetings are conducted in the spirit of good governance and process, and are intended to ensure a forum for open dialogue without disruption of Board unity.

## Conflicts of Interest

Directors have power to authorise, where appropriate, a situation where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. Such authority is in accordance with section 175 of the Companies Act 2006. Procedures are in place for ensuring that the Board's powers of authorisation are operated effectively. Directors are required to notify the Company of any conflicts of interest or potential conflicts of interest that may arise, before they arise either in relation to the Director concerned or their connected persons. The decision to authorise each situation is considered separately on its particular facts. Only Directors who have no interest in the matter are able to take the relevant decision and must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will impose such limits or conditions as they deem appropriate when giving authorisation or when an actual conflict arises. These may include provisions relating to confidential information, attendance at Board meetings and availability of Board papers, along with other measures as determined appropriate. The Board reviews its conflict authorisations at least annually.

## Accountability and Audit

### Directors' and Auditors' Responsibilities

The responsibilities of the Directors and auditors are set out in the Annual Report of the Directors on pages 44 to 46 and in the Independent Auditor's Report on pages 71 to 73.

### Going Concern

The Group's financial statements have been prepared on a going concern basis as described in the Financial Review on page 26 and the Annual Report of the Directors on page 46.

### Risk Management and Internal Control

The Directors are responsible for establishing, maintaining and reviewing the effectiveness of a sound system of internal control which is designed to provide reasonable assurance regarding the reliability of financial information and to safeguard the shareholders' investment and the assets of the Company and Group. Given the inherent limitations in any system of internal control, even a sound system can only provide reasonable assurance, and not absolute assurance, that the Company will not be hindered in achieving its business objectives or be protected against material misstatement or loss. The Board has put in place formally defined lines of responsibility and delegation of authority and has delegated to executive management the implementation of material internal control systems. Documented policies and procedures are in place for key systems and processes and the authority of the Directors is required for key matters.

A comprehensive budgeting process is in place for all items of expenditure and an annual budget is approved by the Board. Actual results are reported against budget on a regular basis. Revised forecasts for the year and longer term financial projections are produced regularly throughout the year.

The Board has the primary responsibility for identifying the major business risks facing the Company and Group and developing appropriate policies to manage those risks. The risk management approach is used to focus attention on the Group's most significant areas of risk and to determine

key control objectives. The Board has applied Principle C.2 of the Code, by establishing a continuous process, which has been in place throughout the year to the date of this report and which is in accordance with revised guidance on internal control published by the Financial Reporting Council in 2005 (the Turnbull Guidance), for identifying, evaluating and managing the significant risks the Group faces.

The Board regularly reviews the process, which is constantly evolving to meet the demands of a dynamic environment.

In compliance with Provision C.2.1 of the Code, the effectiveness of the Group's system of internal control, including financial, operational and compliance controls and risk management, is regularly reviewed by the Directors. The review is based principally on discussions with management and on reviewing reports provided by management to consider whether significant risks are identified, evaluated, managed and controlled, but also may include independent interaction with employees or third parties. Particular scrutiny is applied to the review of controls applicable to new or evolving areas of risks as they are identified.

The Board considers whether appropriate actions are taken promptly to correct any significant weaknesses identified, and if more extensive monitoring may be required. The Board confirms that such actions as deemed necessary and appropriate have been or are being taken to remedy any significant failings or weaknesses identified in its review. The Board seeks to ensure that internal control and risk management processes, including dealing with any identified areas of improvement, are embedded within the business.

The Board has performed a specific assessment for the purpose of this Annual Report and Accounts, which considers all significant aspects of internal control arising during the period, and is satisfied with the process employed and the results thereof. The Audit and Risk Committee spearheads the Board in discharging its review responsibilities. Audit and Risk Committee membership comprises highly experienced professionals with complementary areas of expertise in the oil and gas sector and each Committee member makes an important contribution to the assurance process. Each member undertakes specific review processes in their areas of financial and audit, technical and operating, diplomatic and commercial expertise and reports the results of their work to the full Committee and to the Board.

### Internal Audit Function

Although the Company does not currently have an internal audit function, the Directors review at least annually the need to establish such a function. The Company's current staff size limits the ability to form an effective internal audit function and, accordingly, the Company outsources any internal audit requirements.

### Relations with Shareholders

The Executive Directors are responsible for ensuring effective communication is maintained with key stakeholders and partners, including establishing an appropriate level of contact with major shareholders and ensuring that their views are communicated to the Board. The Non-Executive Directors are responsible for taking sufficient steps to understand these views, including any issues or concerns.

SOCO maintains an open and active dialogue with shareholders. The Company maintains a website wherein important information can be posted and disseminated promptly to a wide audience and through which

shareholders can electronically interface with executive management. At a minimum, the Company provides three personal communication forums annually – the Annual General Meeting (AGM), the presentation of Annual Results and the presentation of Half Year Results whereby shareholders can directly interface with Company executive management. Notice of the AGM is circulated to all shareholders at least 20 working days prior to the meeting, and resolutions are proposed for each substantially separate issue. The result of proxy voting is announced after votes are taken on a show of hands. Directors including the Chairmen of the Audit and Risk, Remuneration and Nominations Committees are available to answer shareholder questions and to respond to any specific queries.

The Company has assigned a senior executive the responsibility for investor relations and has employed an outside agency, both to provide assistance in the dissemination of information to shareholders and the general public and to actively solicit feedback as to the effectiveness of such efforts. Additionally, the Company maintains an ongoing, active dialogue with institutional shareholders, specifically and proactively seeking opportunities for face-to-face meetings at least twice a year, coincident with half-year and full-year results, between fund managers and Company executive management. In 2013, the Company has continued an increased dialogue with shareholders and other stakeholders regarding its corporate social responsibility policies and procedures.

Brokers' reports are discussed at scheduled Board meetings and public relations and analysts' reports are distributed to the full Board. Non-Executive Directors are made available to communicate with SOCO's major institutional shareholders, and particularly to be responsive when additional communication from the Chairman, Senior Independent Director or other Non-Executive Directors has been requested. The Chairman regularly interfaces with other principal shareholders. The Board considers whether additional communication may be appropriate or desirable. In particular, the delegated role of the Senior Independent Director includes being available to shareholders if they have concerns which cannot be fully or appropriately addressed by the Chairman or the Executive Directors.

THE COMPANY  
HAS ASSIGNED  
A SENIOR  
EXECUTIVE THE  
RESPONSIBILITY  
FOR INVESTOR  
RELATIONS

## Committees

The Board has established three Committees, as described below, each having formal terms of reference (TOR) approved by the Board which set out its delegated role and authority. The TORs, which are available on the Company's website ([www.socointernational.com](http://www.socointernational.com)), are set in consideration of the provisions of the Code and are reviewed from time to time in the context of evolving guidance. Committee memberships are reviewed in order to ensure optimum utilisation of competencies on the Board while maintaining a balance between the benefits of refreshment and continuity. Each Director's specific Committee memberships, including as Chairmen, are set out on page 42. Attendance at scheduled committee meetings by all members serving during the period is set out in the table on page 49. While only Committee members are entitled to attend meetings and vote, Directors in advisory roles are generally invited to attend and other Directors may be invited to attend from time to time to ensure the Committees' responsibilities are undertaken with access to the Board's full breadth of knowledge and experience. The Company Secretary ensures that the Company additionally provides such resources as the Committees require in the discharge of their duties.

### Audit and Risk Committee

The name of this Committee has been expanded to highlight that its responsibilities extend beyond audit, and include the important role of reviewing the effectiveness of the Group's overall risk management systems. The Audit and Risk Committee is chaired by Dr Mike Watts and additionally comprises Mr Rob Gray, who is the Senior Independent Non-Executive Director, and Ms Marianne Daryabegui, Ambassador António Monteiro and Mr John Norton, all of whom are independent Non-Executive Directors. Mr Olivier Barbaroux acts as an Advisor to the Committee. The qualifications of each of the members are set out on page 43. The Board is satisfied that the collective experience of the members provides the complement of skills required for the effective discharge of its functions. Dr Watts, with extensive exploration and technical expertise in the sector, is a strong leader for the Committee's oversight of the Group's business risks, and in particular those which could have a significant impact on the financial statements. Mr Norton has extensive experience as a Chartered Accountant in the oil and gas sector, and is supremely qualified to lead the Committee's oversight of the external audit. Although Mr Norton is a longstanding Director, his professional experience has fully prepared him for maintaining independence and objectivity in this circumstance and the Board is completely satisfied that these attributes are diligently applied in the discharge of his duties. In particular, the other Committee members who work alongside him in the conduct of Committee duties are completely satisfied that he has demonstrated continued independence in performing his role. The appointments of Ms Daryabegui and Mr Gray have refreshed the Committee's independent membership and have added relevant financial experience to the Committee.

The Audit and Risk Committee meets at least three times a year. The Chief Financial Officer and a representative of the external auditors are normally invited to attend meetings. Other Directors are invited to attend as determined appropriate or beneficial. At least once a year the Committee meets with the external auditors without executive Board members present.

The Committee held three meetings in 2013 and has conducted one meeting to date in 2014, all of which were attended by executive management and external auditors. A private session, without the

Executives present, was held during two of these meetings. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members, external auditors and the Company's executives and employees.

As part of the Board Evaluation process described on page 54, the Committee considered its performance and continued effectiveness. The Committee performed a review of its TOR as part of this process.

A separate Report of the Audit and Risk Committee is set out on pages 55 and 56 and provides details of the role and activities of the Committee and its relationship with the external auditors.

### Nominations Committee

The Nominations Committee is chaired by Mr Rui de Sousa, the Non-Executive Chairman of the Company. Mr Ed Story, the Chief Executive Officer, serves as a Committee member along with independent Non-Executive Directors Dr Mike Watts, Ambassador António Monteiro and Ms Marianne Daryabegui. In addition, Mr John Norton, Mr Olivier Barbaroux and Mr Robert Cathery act as Advisors to the Nominations Committee.

The Committee meets at least once a year. Its primary responsibilities include making recommendations to the Board regarding the appointment and reappointment of Directors and Committee memberships. It is responsible for review and recommendations regarding overall Board structure and composition, succession planning and establishing an ongoing process for evaluating the Board and its members. Further details of the discharge of these responsibilities are set out below in addition to sections above regarding in particular board balance, independence, diversity, succession and appointments.

The Committee held two meetings in 2013 and has conducted one meeting to date in 2014. Other Non-Executive Directors were in attendance at a portion of these meetings by invitation. Certain Committee functions were delegated to a subcommittee, which acted on behalf of the Committee after an appropriate dialogue among Committee members to ensure a consensus of views. A number of other informal meetings and communications took place between the Chairman, various Committee and Board members and the Company's executives and employees. Additionally, the Chairman led discussions of certain Committee matters in view of the full Board to expedite unitary decision making.

During the year the Committee reviewed Board structure, size and composition, including a profile of the skills, knowledge, experience and diversity represented on the Board, which was utilised to facilitate the Board's review of Director independence, including tenure in particular. The Committee made recommendations to the Board concerning plans for succession reflecting the need for refreshment while taking into account the skills, experience and diversity needed on the Board to best meet the specific challenges and opportunities facing the Company. The results of these reviews were in turn utilised in developing the Committee's recommendations regarding potential Board appointments as well as for continuation in office and reappointment of retiring Directors.

After giving consideration to Board structure and composition, evaluations, time commitments, length of service, individual contributions, refreshment and the requirements of the Board, the Committee recommended that each of the retiring Directors be proposed for reappointment by the Board at the forthcoming AGM.

### Process for Board Appointments

The Board has a policy in place for succession planning, which addresses its approach to maintaining a balanced Board, including the benefits of diversity. The Committee has a process in place for identifying and nominating candidates to fill vacancies which may arise from time to time, including ensuring Board membership is sufficiently refreshed and retains an appropriate balance of skills and experience. The Committee develops an appropriate description of the role, estimated time commitment and the capabilities and attributes which would complement the composition of the Board and its Committees. The Committee would expect to utilise an independent external advisor to facilitate any search. A diverse list of candidates is compiled and a rigorous review process undertaken, involving other Board members as deemed appropriate. Committee recommendations, which are to be made on merit set against objective criteria and with due regard for the benefits of diversity, are submitted for full Board approval. The Company Secretary facilitates induction upon appointment.

As noted in the Succession and Appointments section at page 50, in 2011 and 2012 the Company reported that a focus on succession planning, aimed at increasing Board balance in both independence and diversity, had been established as a priority in future recruitment. Over an extended period of time, Directors were encouraged to be attentive to identifying candidates who would meet one or both of these objectives. This was established as an agenda item at Board meetings, in preparation for expansion of the Board at an appropriate time, and intended to be utilised as an aid in instructing an external search firm in due course. As a result, upon the unfortunate and unexpected retirement of Mr Michael Johns due to illness, the Board already had an active list of high quality potential candidates. In this instance, it was agreed to progress discussions in the immediate term with two of these candidates, which the Board believed would further its objectives with regards to gender diversity and independence and add complementary skills to the Board. A process for formal interviews, due diligence and decision taking was established.

While independent external advisors were utilised to aid in the due diligence and vetting process, these were not strictly acting in the capacity of an external search firm. It was agreed that an external search firm would be engaged for this process if either of these two candidates did not progress to appointment in the near term. Additionally, the Board would continue to expect to utilise an external advisor to facilitate any future search in accordance with its usual practice.

Following the process described above, in October 2013, the Committee recommended to the Board that Ms Marianne Daryabegui be appointed as a Non-Executive Director. Ms Daryabegui is currently the Managing Director of the Corporate Finance Oil & Gas team at BNP Paribas in France, and has additionally been appointed as a member of the Audit and Risk Committee, as well as the Remuneration and Nominations Committees. In December 2013, the Committee recommended to the Board that Mr Rob Gray be appointed as a Non-Executive Director and as the Senior Independent Director and a member of the Audit and Risk Committee and the Remuneration Committee. Mr Gray brings a wide range of skills to the Board having been an advisor to the natural resources sector for more than 30 years.

The Committee additionally put recommendations before the Board for the appointment of Ambassador António Monteiro and Dr Mike Watts to chair the Remuneration Committee and the Audit and Risk Committee, respectively.

### Board Evaluation

During 2013, the Committee led the Board in evaluating its own performance and that of its Committees and individual Directors. For the third successive year the evaluation was externally facilitated in confidence by Nautilus Management Limited, an independent firm that has provided secretariat and governance advice to the Company. The evaluation entailed both questionnaires and interviews including discussion regarding any changes to answers provided in the previous evaluations. The external facilitator sought evaluation of the Board and its effectiveness as a whole, but with an emphasis on the critical issues the Board will face in the next three to five years and with increased scrutiny in areas including Board balance, strategy, corporate social responsibility, Director independence, recruitment and training.

The process was undertaken to enhance the quality of the Board and to improve its procedures through identifying and addressing strengths and weaknesses. The Chairman led discussions with the Committee and the full Board regarding the results, which included a commitment by the Board to continue its primary focus on corporate strategy and corporate social responsibility. The Board confirmed its commitment to a rigorous process for the assessment of independence and remains satisfied that it has led to an appropriate designation of independent Directors. The Board was satisfied with the measured achievements of its objectives to increase Board balance in both independence and diversity, and maintains a focus on succession planning. Management committed to continue to develop its reporting to the Board on governance and corporate social responsibility programmes, including detailed and regular reporting to the Board on the Company's extensive stakeholder engagement. Additionally, the evaluation results were utilised to assess Director effectiveness, time commitments of Non-Executive Directors and training and development needs of each Director, which were reviewed by the Chairman. The Committee performed a review of its TOR as part of this process.

### Remuneration Committee

The Remuneration Committee is chaired by Ambassador António Monteiro and additionally comprises Mr Rob Gray, who is the Senior Independent Director, and independent Non-Executive Directors Ms Marianne Daryabegui and Dr Mike Watts. In addition Mr Olivier Barbaroux and Mr Robert Cathery act as Advisors. The qualifications of each of the members are set out on page 43.

The Committee held two meetings in 2013 and has held one meeting to date in 2014. The Committee additionally held informal meetings with management and advisors, in particular to review the implementation of the revised Accounting Regulations of the Companies Act 2006 relating to the requirements for the contents of the Directors' Remuneration Report.

As part of the Board Evaluation process described above, the Committee considered its performance and continued effectiveness. The Committee performed a review of its TOR as part of this process.

The Committee is responsible for setting the remuneration of the Chairman and the Executive Directors, and is responsible for appointing any consultants it may utilise in carrying out its duties. Details of the Committee's activities, policies and objectives are set out in the Directors' Remuneration Report on pages 57 to 69.



# Report of the Audit and Risk Committee

## Responsibilities of the Audit and Risk Committee

The Audit and Risk Committee's primary responsibilities include reviewing the effectiveness of the Company's and the Group's systems of internal control, overseeing the selection of and relationship with external auditors and the review and monitoring of the integrity of financial statements. The Committee is responsible for review of the Group's major financial, operational and corporate social responsibility risk management processes. The effectiveness of these processes is monitored on a continuous basis and a formal assessment is conducted at least annually. The Committee has been delegated the responsibility for advising the full Board on compliance with the 2012 UK Corporate Governance Code (the Code), including its risk management and internal control requirements, as well as compliance with evolving guidance on corporate governance issues generally. Additionally, the Committee reports to the Board on whether, taken as a whole, the annual report and accounts are fair, balanced and understandable and provide information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee's activities undertaken in the discharge of its duties are regularly reported to the Board.

## Matters Reported to the Board

### External Auditors – Assurance Services

The Committee reviewed and approved the terms and scope of the audit engagement, the audit plan and the results of the audit with the external auditors, including the scope of services associated with audit-related regulatory reporting services. An assessment of the effectiveness of the audit process was made, giving consideration to reports from the auditors on their internal quality procedures. Additionally, auditor independence and objectivity were assessed, giving consideration to the auditors' confirmation that their independence is not impaired, the overall extent of non-audit services provided by the external auditors (as described below) and the past service of the auditors who were first appointed, following a tendering process, in 2002. Fees payable to the auditors were reviewed and approved by the Committee and are set out in Note 9 to the financial statements.

The Committee has noted the changes to the Code and the recent report of the Competition Commission into the audit market, which should require FTSE 350 companies to put their audit out to tender every ten years, as well as the draft EU Regulation on auditor rotation. Accordingly, the Committee will consider the appropriate timeframe within which to carry out a formal tender process in respect of the external audit, in light of the regulatory requirements as well as performance and independence. The Committee does not currently anticipate that this will be earlier than the date of rotation of the incumbent senior statutory auditor, after the 31 December 2015 year end.

There are no contractual obligations which restrict the Committee's choice of external auditor. The Committee also considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditors. The Board concurred with the Committee's recommendation for the reappointment of Deloitte LLP as the Company's auditors for 2014, which will be proposed to shareholders at the forthcoming Annual General Meeting.

### External Auditors – Non-Audit Services

The external auditors are appointed primarily to carry out the statutory audit and their continued independence and objectivity is fundamental to that role. In view of their knowledge of the business, there may be occasions when the external auditors are best placed to undertake other services on behalf of the Group. The Audit and Risk Committee has a policy which sets out those non-audit services which the external auditors may provide and those which are prohibited. Within that policy, any non-audit service must be approved by the Committee. Before approving a non-audit service, consideration is given to whether the nature of the service, materiality of the fees, or the level of reliance to be placed on it by SOCO would create, or appear to create, a threat to independence. If it is determined that such a threat might arise, approval will not be granted unless the Audit and Risk Committee is satisfied that appropriate safeguards are applied to ensure independence and objectivity are not impaired. The auditor is prohibited from providing any services which result in certain circumstances that have been deemed to present such a threat, including auditing their own work, taking management decisions for the Group or creating either a mutuality or conflict of interest. The Company has taken steps to develop resources and relationships in order to establish availability of alternate advisors for financial and other matters. Additionally, the Committee closely monitors the terms on which the Remuneration Committee, with approval of the Audit and Risk Committee, has independently appointed the Company's auditors as advisors. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence and the scope and value of services to the Group is under continuous review.

The Committee approved the non-audit services provided by the external auditors in 2013, having concluded such services were compatible with auditor independence and were consistent with relevant ethical guidance. Details of non-audit services are set out in Note 9 to the financial statements.

### Risk Assessment

The Committee undertook a detailed risk assessment whereby it reviewed existing risks and identified new risks as appropriate. The likelihood and significance of each risk was considered along with associated mitigating factors and was reported to the Board. Any new risks or changes to existing risks were monitored throughout the year and considered at each Audit and Risk Committee meeting. As part of this process, the Committee maintains a detailed bribery risk assessment and mitigation procedure designed to ensure that the Company has appropriate procedures in place to eliminate bribery and that all employees, agents and other associated persons are made fully aware of the Group's policies and procedures. The Committee has reviewed and is satisfied with the Company's arrangements for "whistleblowing", whereby staff may raise concerns regarding improprieties in confidence, which would be addressed with appropriate follow-up action. To facilitate such reporting the Company maintains an Ethics Hotline Service using an independent, confidential telephone service that can be used by staff members and other stakeholders to report a suspected breach of SOCO's Code of Business Conduct and Ethics. The Committee reviews these arrangements annually.

### Internal Controls and Risk Management Systems

On behalf of the Board, the Committee has reviewed the effectiveness of the Company's internal controls and risk management systems, including consideration of an internal audit function, which is more fully described in the Risk Management and Internal Control section of the Corporate Governance Report on page 51. The Committee has reviewed and approved the related compliance statements set out therein. The Committee has additionally reviewed and approved the statements regarding compliance with the Code. The Committee reviewed and discussed with management and the auditors the Company's relevant financial information prior to recommendation for Board approval. This included in particular the financial statements and other material information presented in the annual and half year reports. The Committee considered the significant financial reporting issues, accounting policies and judgements impacting the financial statements, and the clarity of disclosures. The Committee conducted a review of its Terms of Reference for continued appropriateness.

### Narrative Reporting

For the 2013 Annual Report and Accounts the Board requested the Audit and Risk Committee to review the implementation of the new narrative reporting requirements set out in the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 and in the Code. The Committee also advised the Board whether the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. The Directors have confirmed this in their Responsibility Statement set out in the Annual Report of the Directors on page 46.

### Significant Issues Related to the 2013 Financial Statements

For the year ended 31 December 2013 the Audit and Risk Committee identified the significant issues that should be considered in relation to the financial statements, being areas which may be subject to heightened risk of material misstatement.

The Group's estimates of oil and gas reserves have a significant impact on the financial statements, in particular in relation to depletion, depreciation and decommissioning (DD&A) and impairment. Oil and gas reserves, as discussed in the Risk Management Report, are calculated using standard evaluation techniques which have inherent uncertainties in their application. The Committee has discussed with management and the auditors the results to date of ongoing third party (RPS) reserve assessments which, during 2013, specifically focussed on the Te Giag Trang field, offshore Vietnam, and which are discussed further in the Review of Operations on pages 18 to 23. These assessments have been scrutinised by management, taking into account the current stage of the field's development, to satisfy itself that the current reserve estimates are appropriate and that the related DD&A calculations are correct. Management also reviewed its estimate of future costs (including decommissioning costs) associated with producing the reserves as estimated by SOCO. Management prepared sensitivities based on the range of STOIP and recovery factors estimated by RPS and using their assumptions on the number of wells required to access the reserves and based on the information available to date. Following discussions with management and the auditors, including discussing the range of sensitivities, the Committee is satisfied that the estimates are reasonable and that there is currently no indication of impairment of the Group's producing assets and that there would be no material impact on the results or position of the Group at 31 December 2013 based on the range of sensitivities. However, reserves estimates are inherently uncertain,

especially in the early stages of a field's life, and are routinely revised over the producing lives of oil and gas fields as new information becomes available and as economic conditions evolve. The Committee acknowledges that such revisions may impact the Group's future financial position and results, in particular, in relation to DD&A and impairment testing of oil and gas property plant and equipment.

The Committee considered the Group's intangible exploration and evaluation assets individually for any indicators of impairment including those indicators set out in IFRS 6 Exploration for and Evaluation of Mineral Resources. During 2013, the Group's intangible exploration and evaluation assets comprised its Africa licences which are subject to ongoing activity, as described in the Review of Operations on pages 18 to 23. The Committee has not found any evidence for the existence of any indicators of impairment except that, following a full evaluation of the Nganzi licence, onshore the Democratic Republic of Congo, the parties decided not to apply to extend the exploration period and relinquished the Block in the last quarter of 2013. The Nganzi Block is not part of a wider cash generating unit and the costs incurred on the Block have been written off in 2013 as discussed more fully in the Financial Review on page 25 and in Note 15 to the financial statements. The Committee has discussed the Group's exploration and evaluation assets with both management and the auditors and concur with the treatment adopted.

## Annual Statement from the Remuneration Committee Chairman

**António Monteiro**  
Remuneration  
Committee Chairman



## Dear Shareholders

On behalf of the Board, we are pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2013. This report has been prepared in accordance with section 421 of Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and is set out in two parts:

- ▶ The Directors' Policy Report which sets out details of our Directors' remuneration policy. It is intended that this will apply for the next three years and will be subject to a binding shareholder vote at the 2014 Annual General Meeting (AGM).
- ▶ The Annual Report on Remuneration which provides details on how Directors were paid in 2013 and the link between remuneration and SOCO's performance. This section of the report also outlines how we intend to implement the remuneration policy in 2014. This section of the report will be subject to an advisory shareholder vote at the 2014 AGM.

### Performance of the Group

In 2012, we noted this as the most important period in the Group's history, with the Te Giac Trang (TGT) field set to provide significant future cash generation from stable production capacity. We have delivered on that outlook in 2013, reporting over \$600 million in turnover and over \$300 million in operating cash flow for the second straight year. Importantly, the TGT well drilled in 2013 was a spectacular success, one of the highest flow rate wells ever in Vietnam, exceeding all pre-test expectations, and flowing at a combined average maximum production from the three zones tested at over 27,600 barrels of oil equivalent per day. A fast track development on this portion of the field should further increase stable production capacity by next year. Even more importantly, in October 2013, SOCO completed a return of £133 million to shareholders, and has committed to a policy of meaningful annual cash returns whilst retaining gearing to growth through a focused exploration programme. Accordingly, SOCO remains well set to continue its strategic goal of building and recognising value for shareholders.

### How this Performance was Reflected in the Pay of our Executive Directors

Full details on incentive payments for performance achieved to December 2013 are provided in the Annual Report on Remuneration, however in summary they are as follows:

- ▶ Annual bonus – In light of exceptional Company and individual performance, the maximum amount (100% of salary) has been awarded for performance in 2013.
- ▶ Long Term Incentive Plan (LTIP) – 66% of the potential maximum has vested in respect of LTIP awards made in December 2010. This reflects total shareholder return (TSR) performance against the comparator group of between median and upper quartile in the three year period to December 2013.

### Key Decisions Around Remuneration for 2014

The Committee believes that a uniquely qualified and motivated executive team is vital to the effective management of the Company's international portfolio and the successful execution of the Company's stated strategy for building shareholder value. It is the Committee's objective to be able to attract, motivate and retain high calibre executives through market competitive remuneration that is appropriate to those individuals' positions, experience and value to the Company.

Given that our last full review of total compensation positioning was undertaken in 2009, and that no changes have been made to incentive opportunities for over ten years, the Committee determined that it was appropriate to re-consider the remuneration framework ahead of shareholder approval of the policy at the 2014 AGM.

The outcome of this review showed that we had fallen behind market competitive levels of variable remuneration. Therefore, after taking account of best practice and following a shareholder consultation process, we are proposing, in our remuneration policy, to introduce a deferred annual bonus opportunity of 50% of salary. This is intended to increase our total bonus opportunity from 100% of salary to 150% of salary from 2014. Any bonus earned above 100% of salary will be deferred into SOCO shares which will vest after two years. Malus will apply to the shares in certain circumstances as explained in more detail later in this report.

No other change is being made to the remuneration framework and there is no increase being proposed to Executive Directors' salaries for 2014.

We take an active interest in shareholder views and the voting on the remuneration report. We look forward to receiving your support at the upcoming AGM.

**António Monteiro**  
Remuneration Committee Chairman

### Policy Report (Unaudited)

This remuneration policy will be effective from 12 June 2014 subject to shareholder approval at the 2014 AGM. The policy is intended to apply for three years. However, the Committee monitors the remuneration policy on a continuing basis including consideration of evolving market practice and relevant guidance; shareholder views and results of previous voting; policies applied to the wider employee base; and with due regard to the current economic climate. Should the Committee resolve that the remuneration policy should be revised; such revisions will be subject to a binding shareholder vote.

#### Policy Table for Executive Directors

The table below summarises our policy for each component of Executive Directors' Remuneration:

#### Fixed pay

##### Base salary

**Purpose and link to strategy:** Core element of remuneration set at a sufficient level to attract and retain people of the necessary calibre to shape and execute the Company's strategy.

##### Operation

- ▶ Contractual fixed cash amount paid monthly.
- ▶ Particular care is given in fixing the appropriate salary level considering that incentive pay is generally set at a fraction or multiple of base salary.
- ▶ The Committee takes into account a number of factors when setting salaries, including (but not limited to):
  - Size and scope of individual's responsibilities
  - Skills and experience of the individual
  - Performance of the Company and the individual
  - Appropriate market data
  - Pay and conditions elsewhere in SOCO.
- ▶ Base salaries are normally reviewed annually.
- ▶ Results of benchmarking exercises are monitored for indications of potential unwarranted upward ratcheting.

##### Maximum

- ▶ Although the Committee do not consider it appropriate to set a maximum salary level, any salary adjustments will normally be in line with those of the wider workforce.
- ▶ The Committee retains discretion to award higher increases in certain circumstances such as increased scope and responsibility of the role, or in the case of new Executive Directors who are positioned on a lower salary initially, as they gain experience over time.

##### Benefits

**Purpose and link to strategy:** To provide Executive Directors with market competitive benefits consistent with the role.

##### Operation

- ▶ Executive Directors receive benefits which may include (but are not limited to) medical care and insurance, permanent health insurance, life assurance cover, critical illness cover, travel benefits, expatriate benefits, car benefits and relocation expenses.

##### Maximum

- ▶ Although the Committee do not consider it appropriate to set a maximum benefits level, benefits are positioned at an appropriate market level for the nature and location of the role.

##### Pension

**Purpose and link to strategy:** To provide retirement benefits consistent with the role.

##### Operation

- ▶ Pension benefits are delivered through contributions to SOCO's money purchase plan up to relevant plan limits and/or a cash supplement.

##### Maximum

- ▶ 20% of base salary per annum.

## Variable pay

### Annual bonus

**Purpose and link to strategy:** Incentivises and rewards for the delivery of the strategic plan on an annual basis.

#### Operation

- ▶ Payments are based on performance in the relevant financial year.
- ▶ At the beginning of the year, the Committee sets objectives which it considers are critical to the delivery of the business strategy.
- ▶ Performance against these key strategic objectives is assessed by the Committee at the end of the year.
- ▶ The Committee retains the discretion to amend the bonus payout (negatively or positively) to ensure it reflects the performance of either the individual or the Company.
- ▶ Payments up to 100% of salary are normally made in cash.
- ▶ Any bonus above 100% of salary will normally be deferred into awards of SOCO shares which vest after at least two years.

#### Maximum

- ▶ 150% of base salary per annum, including cash and deferred components.

#### Performance framework

- ▶ The annual bonus is based on individual and corporate performance during the year.
- ▶ Corporate goals are set annually and may include monitored measures for particular projects; portfolio objectives; corporate strategic goals; safety, social and environmental measures; financial measures and other measures as may be deemed appropriate and relevant to the period for delivery of the business strategy.
- ▶ If the Committee determines that a minimum level of performance has not been achieved, no bonus will be payable. Thereafter the bonus will begin paying out, up to the maximum of 150% of salary.
- ▶ The Committee determines the appropriate weighting of the metrics each year.

### LTIP

**Purpose and link to strategy:** Incentivises and rewards for the Company's strategic plan of building shareholder value.

#### Operation

- ▶ Typically a contingent award of shares is made annually in December, in the course of the annual review cycle.
- ▶ Vesting of the awards is dependent on the achievement of performance targets, which are typically measured over a three year performance period.

#### Maximum

- ▶ Usually 200% of base salary per annum.
- ▶ In circumstances which the Committee determines to be exceptional, annual awards of up to 400% of base salary per annum may be made.
- ▶ The maximum limit set out above applies to the total grants made each year under both the LTIP and share option plan per annum.

#### Performance framework

- ▶ Awards vest based on performance against financial, operational and/or share price measures, as set by the Committee, which are aligned with the long term strategic objectives of SOCO.
- ▶ No less than 50% of the award will be based on share price measures. The remainder will be based on financial, operational or share price measures.
- ▶ If an event occurs which causes the Committee to consider that a waiver of, or amendment to, the performance conditions would be a fairer measure of performance and there has been a sustained improvement in financial performance, the performance conditions may be waived or amended.
- ▶ For 'threshold' levels of performance, 25% of the award vests. 100% of the award will vest for maximum performance. Pro-rating applies between these points and between ranking positions.

### Share option plan

**Purpose and link to strategy:** Incentivises and rewards for the Company's strategic plan of building shareholder value.

#### Operation

- ▶ Although Executive Directors are not currently granted market value options under the plan, flexibility is being maintained to do so if determined appropriate.
- ▶ Operation of the plan for Executive Directors would generally be consistent with the principles for operation of the LTIP set out above.
- ▶ Options may be exercised between three and ten years following grant, subject to the satisfaction of the relevant performance conditions.

#### Maximum

- ▶ If determined appropriate, awards may be made in lieu of awards under the LTIP.
- ▶ The maximum limit set out in the LTIP section above applies to the total grants made under both the LTIP and share option plan per annum.

#### Performance framework

- ▶ Awards vest based on performance against performance conditions as the Committee determine to be appropriate at that time.
- ▶ Taking into account the interests of shareholders, the Committee may vary the performance conditions in certain circumstances following the grant of an award so as to achieve their original purpose, but not to make their achievement any more or less difficult to satisfy.
- ▶ For 'threshold' levels of performance, 25% of the award vests. 100% of the award will vest for maximum performance.

### Other Policy

#### Shareholding guidelines

**Purpose and link to strategy:** Further increases alignment between Executive Directors and shareholders.

#### Operation

- ▶ The Board has a policy requiring Executive Directors to build a minimum shareholding in SOCO shares equivalent to 100% of salary.

#### Notes to the Policy Table

##### Discretion

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) that are not in line with the policy set out above where the terms of the payment were agreed:

- ▶ Before the policy came into effect; or
- ▶ At a time when the relevant individual was not an Executive Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive Director of the Company.

For these purposes, (i) "payments" includes the Committee satisfying awards of variable remuneration and (ii) an award over shares is "agreed" at the time the award is granted.

The Committee will operate the deferred bonus, LTIP and share option plan in accordance with the relevant plan rules. The Committee retains discretion on the operation and administration of these plans, including as follows:

- ▶ Dividend equivalents may be paid on awards up to the point of vesting.
- ▶ Awards may be subject to malus and therefore may be reduced at the discretion of the Committee where an individual has engaged in an activity amounting to serious misconduct, fraud or leading to a misstatement of the Company's financial results (as determined by the Committee).
- ▶ The Committee may settle an award in cash.
- ▶ In the event of a variation of share capital or any other exceptional event which, in the reasonable opinion of the Committee requires an adjustment, the Committee may adjust the number of shares or the exercise price.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

##### Takeover or other Equivalent Corporate Event

On a takeover or other equivalent corporate event, outstanding deferred bonus awards will vest in full as soon as practicable after the date of the event, unless the Committee determines otherwise.

For outstanding LTIP and share option awards, on a takeover or other equivalent corporate event, generally the performance period will end on the date of the event. The Committee will determine the extent to which performance conditions have been achieved at this point, taking into account relevant factors as appropriate. Unless the Committee determines otherwise, awards will generally vest on a time pro-rata basis taking into account the shortened performance period.

Alternatively, outstanding LTIP and share option awards may be subject to rollover, with the agreement of the acquiring company.

##### Minor Changes

The Committee may make minor amendments to the policy set out in this report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for the amendment.

#### Performance Measures and Target Setting

The policy table for Executive Directors above describes the policy for setting performance measures used for the annual bonus, which are intended to ensure that executives are appropriately focused on the successful delivery of the strategic plan over the following 12 months. During this process, the Committee take into account a number of internal and external reference points that are linked to SOCO's strategic priorities, as well as the economic environment.

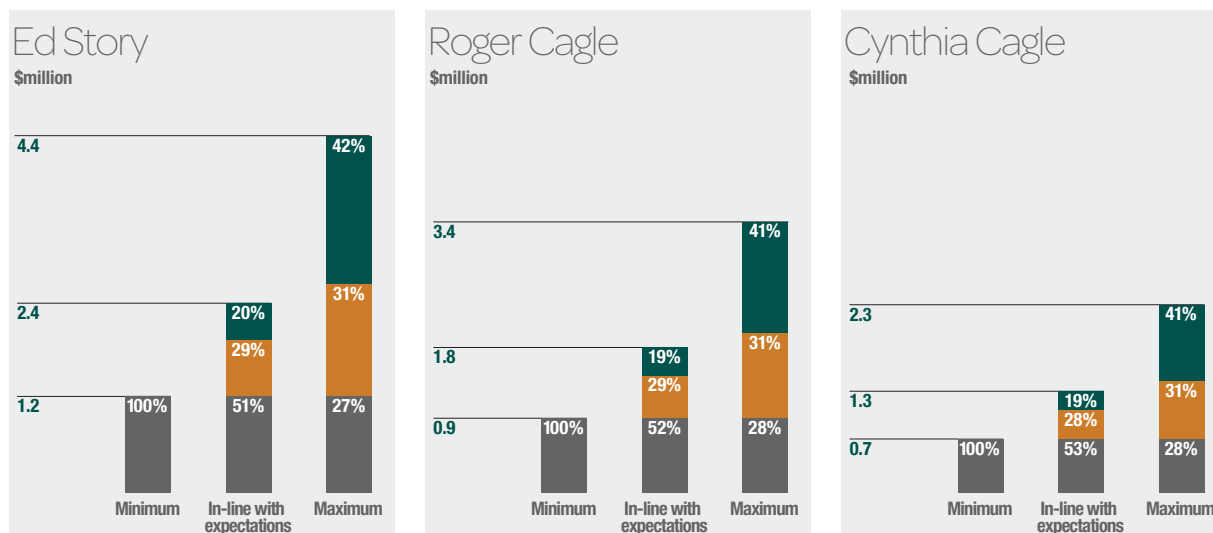
Given the competitive nature of the oil and gas exploration and production sector, the detailed annual bonus targets are considered commercially sensitive and likely to remain so and are accordingly not disclosed in detail. However, the level of achievement against each measure in respect of the financial year ended 31 December 2013 is discussed on page 68. The Committee will aim to provide a consistent level of disclosure in future years.

SOCO's overarching objective is to build shareholder value and therefore the relative TSR measure chosen for our December 2013 LTIP awards ensures alignment between shareholders and executives for the three year performance period of 2014 to 2016. Targets for the LTIP are set with reference to wider market practice and are positioned at a level which the Committee considers to be stretching.

## Illustrations of Remuneration Policy

● Fixed pay  
● Annual bonus  
● Long term incentive

The charts below illustrate the application of the Remuneration Policy set out in the Policy Table for the Executive Directors.



### The assumptions used for the above charts are as follows:

| Levels of performance | Assumptions   |
|-----------------------|---|
| Fixed pay             | <ul style="list-style-type: none"> <li>All scenarios</li> <li>Total fixed pay comprises base salary, benefits and pension.</li> <li>Base salary – effective as at 1 January 2014.</li> <li>Benefits – amount received by each Executive Director in 2013 as per single figure table on page 64.</li> <li>Pension<sup>1</sup> – 15% base salary pension contributions.</li> </ul>  |
| Variable pay          | <ul style="list-style-type: none"> <li>Minimum performance <ul style="list-style-type: none"> <li>No payout under the annual bonus.</li> <li>No vesting under the LTIP.</li> </ul> </li> <li>Performance in line with expectations <ul style="list-style-type: none"> <li>50% of the maximum payout under the annual bonus (i.e. 75% of salary).</li> <li>25% vesting under the LTIP (i.e. 50% of salary).</li> </ul> </li> <li>Maximum performance <ul style="list-style-type: none"> <li>100% of the maximum payout under the annual bonus (i.e. 150% of salary). 100% vesting under the LTIP (i.e. 200% of salary).</li> </ul> </li> </ul> |

<sup>1</sup>The charts illustrate pension contributions at 15% of salary, being the actual benefit set for all current Executive Directors. By policy, the pension contribution benefit can be set up to a maximum of 20%.

LTIP awards have been shown at face value with no dividend, share price growth or discount rate assumptions.

### Differences in Remuneration Policy for Executive Directors Compared with Other Employees

As for our Executive Directors, it is intended that a meaningful amount of employee pay is weighted towards variable remuneration. All employees participate in the annual bonus plan, with the emphasis between corporate and individual goals dependent on the role and its level of direct influence on SOCO's Group-wide results.

All employees have an opportunity to share in the success of the Company through participation in the share option plan which, for this purpose, is operated similarly to an all employee share scheme. Individuals with the greatest ability to directly influence SOCO's Group-wide results also receive additional discretionary awards under the plan. Currently, the Executive Directors do not receive awards under the Share option plan.

### Policy Table for Non-Executive Directors

| Component                   | SOCO's approach   |
|-----------------------------|---|
| Chairman fees               | <ul style="list-style-type: none"> <li>▶ Comprises an all-inclusive fee for all Board and Committee responsibilities.</li> <li>▶ Determined by the Remuneration Committee and approved by the Board.</li> </ul>   |
| Non-Executive Director fees | <ul style="list-style-type: none"> <li>▶ Comprises a basic fee in respect of their Board duties.</li> <li>▶ Further fees may be paid in respect of additional Board or Committee duties.</li> <li>▶ Recommended by the Chairman and Chief Executive Officer (CEO) and approved by the Board.</li> </ul> |

No Director plays a role in determining their own remuneration. The Committee consults with the CEO in determining the Chairman's fee. Fees for all Non-Executive Directors reflect the time commitment and responsibilities of the role, and are set at a level sufficient to attract and retain individuals with the required skills, experience and knowledge to allow the Board to carry out its duties. The fees set out above are the sole element of Non-Executive Director remuneration. They are not eligible for participation in the Company's incentive or pension plans.

The fees have been set within the aggregate limits set out in the Company's Articles of Association and approved by shareholders.

### Approach to Remuneration on Recruitment

#### Principles

On the appointment of a new Executive Director, we seek to apply the following principles when determining the remuneration arrangements:

- ▶ The package should be competitive to facilitate the recruitment of individuals of the calibre needed to shape and execute SOCO's strategy and build shareholder value.
- ▶ The Committee will consider all relevant factors as appropriate. This may include, but is not limited to, the calibre of the individual, market practice and the current remuneration policy. The Committee will be mindful that any arrangements must be structured in the interests of SOCO's shareholders without paying more than is necessary.
- ▶ Typically, a new appointment will have (or be transitioned onto) the same framework that applies to other Executive Directors as set out in the policy table above. Salaries would reflect the skills and experience of the individual, and may be set at a level to allow future salary progression to reflect performance in the role.
- ▶ An Executive Director may initially be hired on a contract requiring up to 24 months' notice which then reduces pro-rata over the course of the first year of the contract, to requiring not more than 12 months' notice.
- ▶ It would be expected that the structure and quantum of the variable pay elements would reflect those set out in the Policy Table above.

However, at recruitment, the Committee would retain the discretion to flex the balance between annual and long-term incentives and the measures used to assess performance for these elements, with the intention that a significant portion would be delivered in shares. In addition, at recruitment, variable pay could, in exceptional circumstances, be delivered via alternative structures, again with the intention that a significant portion would be share-based, but in all circumstances subject to an over-riding cap at the maximum limits set out in the Policy Table.

- ▶ In the remuneration report following appointment, the Committee will explain the rationale for any such relevant arrangements.
- ▶ The Committee retains discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances of recruitment when:
  - An interim appointment is made to fill an Executive Director role on a short term basis.
  - Exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis.

#### Buy-outs

To facilitate recruitment, the Committee may make compensatory payments and/or awards for any remuneration arrangements subject to forfeit on leaving a previous employer. Such payments or awards could include cash as well as performance and non-performance related share awards, and would be in such form as the Committee considers appropriate taking into account all relevant factors such as the form, expected value, anticipated vesting and timing of the forfeited remuneration. There is not a specified limit on the value of such awards, but the Committee's intention is that the estimated value awarded would be equivalent to the value forfeited.

#### Recruitment of Non-Executive Directors

On the appointment of a new Chairman or Non-Executive Director, remuneration arrangements will be consistent with the policy set out in this report.



## Policy on Payment for Loss of Office

Where an Executive Director leaves employment, the Committee's approach to determining any payment for loss of office will normally be based on the following principles:

- ▶ The Committee's objective is to find an outcome which is in the best interests of both SOCO and its shareholders while taking into account the specific circumstances of cessation of employment.
- ▶ The Committee must satisfy any contractual obligations agreed with the Executive Director. This is dependent on the contractual obligations (i) not being in contradiction with the policy set out in this report, or (ii) if so, not having been entered into on a date later than 27 June 2012, in accordance with the relevant legislation.
- ▶ The Committee may make an annual bonus payment for the year of cessation depending on the reason for leaving. Typically, the Committee will take into consideration the period served during the year and the individual's performance up to cessation. Any such payment is at the discretion of the Committee.
- ▶ The treatment of outstanding share awards will be governed by the relevant plan rules as set out in the table below:

| Plan                       | Automatic Good Leaver categories  | Treatment for Good Leavers   | Treatment for all other reasons for leaving  |
|----------------------------|---|--|--|
| Deferred bonus             | <ul style="list-style-type: none"> <li>▶ Death</li> <li>▶ Ill-health, injury or disability</li> <li>▶ Redundancy</li> <li>▶ Retirement with agreement by employer</li> <li>▶ Any other reason as determined at the discretion of the Committee</li> </ul> | <ul style="list-style-type: none"> <li>▶ Awards will usually vest on the normal vesting date.</li> <li>▶ The Committee retains the discretion to accelerate vesting so that awards vest as soon as practicable following cessation.</li> </ul>   | <ul style="list-style-type: none"> <li>▶ Awards will normally lapse in full (unless otherwise determined by the Committee).</li> </ul>   |
| LTIP and share option plan | <ul style="list-style-type: none"> <li>▶ Death</li> <li>▶ Ill-health, injury or disability</li> <li>▶ Redundancy</li> <li>▶ Retirement with agreement by employer</li> <li>▶ Any other reason as determined at the discretion of the Committee</li> </ul> | <ul style="list-style-type: none"> <li>▶ The Committee will determine the proportion of the award that will vest, normally taking into account the achievement of the relevant performance conditions at the vesting date and the time elapsed between the date of grant and cessation of employment.</li> <li>▶ The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment.</li> <li>▶ Where options are granted, vested options will be exercisable within a period of six months, or twelve months in the event of death, commencing on the date on which such options vest (being either the date of cessation or the original vesting date as determined by the Committee as per above).</li> <li>▶ The Committee has the discretion to vary the period in which vested options are exercisable.</li> </ul> | <ul style="list-style-type: none"> <li>▶ For grants under the share option plan, vested options will remain exercisable for six months.</li> <li>▶ All other awards will normally lapse in full (unless otherwise determined by the Committee).</li> </ul> |

## Service Contracts

Executive Directors' contracts are for an indefinite period and are terminable by either party on giving one year's notice, which may be satisfied with a payment in lieu of notice. The contracts do not contain specific termination provisions.

The Committee has a duty to prevent the requirement to make payments that are not strictly merited, and endorses the principle of mitigation of damages on early termination of a service contract. Any payment on early termination will be assessed on the basis of the particular circumstances, but in any event will not be in respect of any period beyond the notice period specified by the contract.

The Non-Executive Directors' appointments are terminable at the will of the parties but are envisaged to establish an initial term of three years after which they will be reviewed annually.

The Executive Directors' service contracts and the Non-Executive Directors' letters of appointment are available at the Company's registered office.

## Consideration of Pay and Employment Conditions Elsewhere in SOCO

The Committee monitors the remuneration of senior management and makes recommendations as deemed appropriate. Pay and employment conditions elsewhere in the Company are taken into account to ensure the relationship between the pay of the Executive Directors and its employees is consistent throughout the Company. Similar benchmarking techniques are applied to non-Board employees using relevant market data and the Committee monitors staff remuneration packages during the review of Executive Directors' remuneration packages.

The Committee does not consult with employees when formulating the remuneration policy for Executive Directors.

## Consideration of Shareholder Views

The Committee takes an active interest in shareholder views and these help shape the structure of the Directors' remuneration arrangements at SOCO. As a significant shareholder, Mr Rui de Sousa (SOCO's Chairman) and Mr Ettore Contini (Non-Executive Director) would generally be invited to attend Remuneration Committee meetings to provide valuable insight into likely shareholder concerns around executive remuneration.

The Committee also monitors published shareholder guidelines and will incorporate further requirements and best practice features as appropriate.

## Annual Report on Remuneration (Audited)

### Single Total Figure of Remuneration

The table below sets out the total remuneration in respect of qualifying services for both Executive and Non-Executive Directors for the financial year 2013. It also provides comparative figures for 2012:

|                                    | 2013                  |                                 |                 |                             |                   |                 | 2012                  |                    |                 |                             |                   |                 |
|------------------------------------|-----------------------|---------------------------------|-----------------|-----------------------------|-------------------|-----------------|-----------------------|--------------------|-----------------|-----------------------------|-------------------|-----------------|
|                                    | Fees/Salary<br>\$000s | Benefits <sup>1</sup><br>\$000s | Bonus<br>\$000s | LTIP <sup>2</sup><br>\$000s | Pension<br>\$000s | Total<br>\$000s | Fees/Salary<br>\$000s | Benefits<br>\$000s | Bonus<br>\$000s | LTIP <sup>2</sup><br>\$000s | Pension<br>\$000s | Total<br>\$000s |
| <b>Executive</b>                   |                       |                                 |                 |                             |                   |                 |                       |                    |                 |                             |                   |                 |
| E Story                            | 924                   | 137                             | 924             | 1,268                       | 139               | 3,392           | 880                   | 167                | 880             | 1,147                       | 132               | 3,206           |
| R Cagle                            | 693                   | 133                             | 693             | 951                         | 104               | 2,574           | 660                   | 113                | 660             | 859                         | 99                | 2,391           |
| C Cagle <sup>3</sup>               | 473                   | 118                             | 473             | 219                         | 71                | 1,354           | 18                    | 4                  | 18              | 6                           | 3                 | 49              |
| <b>Non-Executive<sup>4,5</sup></b> |                       |                                 |                 |                             |                   |                 |                       |                    |                 |                             |                   |                 |
| R de Sousa                         | 282                   | –                               | –               | –                           | –                 | 282             | 285                   | –                  | –               | –                           | –                 | 285             |
| O Barbaroux                        | 70                    | –                               | –               | –                           | –                 | 70              | 71                    | –                  | –               | –                           | –                 | 71              |
| R Cathery                          | 70                    | –                               | –               | –                           | –                 | 70              | 71                    | –                  | –               | –                           | –                 | 71              |
| E Contini                          | 70                    | –                               | –               | –                           | –                 | 70              | 71                    | –                  | –               | –                           | –                 | 71              |
| M Daryabegui                       | 18                    | –                               | –               | –                           | –                 | 18              | –                     | –                  | –               | –                           | –                 | –               |
| R Gray                             | 5                     | –                               | –               | –                           | –                 | 5               | –                     | –                  | –               | –                           | –                 | –               |
| M Johns                            | 65                    | –                               | –               | –                           | –                 | 65              | 79                    | –                  | –               | –                           | –                 | 79              |
| A Monteiro                         | 70                    | –                               | –               | –                           | –                 | 70              | 71                    | –                  | –               | –                           | –                 | 71              |
| J Norton                           | 70                    | –                               | –               | –                           | –                 | 70              | 71                    | –                  | –               | –                           | –                 | 71              |
| M Watts                            | 70                    | –                               | –               | –                           | –                 | 70              | 71                    | –                  | –               | –                           | –                 | 71              |
| <b>Total</b>                       | <b>2,880</b>          | <b>388</b>                      | <b>2,090</b>    | <b>2,438</b>                | <b>314</b>        | <b>8,110</b>    | <b>2,348</b>          | <b>284</b>         | <b>1,558</b>    | <b>2,012</b>                | <b>234</b>        | <b>6,436</b>    |

<sup>1</sup> The benefits received by Executive Directors include private medical insurance, permanent health insurance, life assurance cover, critical illness cover, travel and expatriate benefits and car benefits.

<sup>2</sup> The annual average exchange rate to 31 December 2013 of 1.56 has been used to convert share price from GB pounds to US dollars. Note that the same exchange rate has been used for both 2013 and 2012 to ensure consistency.

<sup>3</sup> Ms C Cagle was appointed to the Board on 5 December 2012. Therefore her remuneration in respect of qualifying services set out for 2012 and for LTIPs vesting in 2013 reflects the period from the date of appointment to 31 December 2012 and to the end of the LTIP performance period, respectively.

<sup>4</sup> Non-Executive Directors' fees are set in GB pounds and are reported in US dollars at the annual average exchange rate.

<sup>5</sup> Fees paid to Ms M Daryabegui, Mr R Gray and Mr M Johns are in proportion to their dates of service.

### Notes to the Single Figure Table

#### Annual Bonus

The table below sets out the annual bonuses paid to Executive Directors in respect of performance in 2013:

|         | 2013<br>Annual Bonus<br>\$000s | % of<br>Maximum |
|---------|--------------------------------|-----------------|
| E Story | 924                            | 100%            |
| R Cagle | 693                            | 100%            |
| C Cagle | 473                            | 100%            |

In the 2012 Annual Report, the Committee set out specific areas of emphasis in setting performance measures for 2013, noting each goal is ranked against a scale of expectations. It was stated that the amount of bonus paid out would consider the relative importance of the achievements

and the actual contribution of these towards furthering the Company's strategic plan. Performance against each of these areas is described below, in order of the weighting applied in determining the amount of bonus paid out.

#### Progressing the Vietnam Development Drilling and Exploitation Programmes

Drilling of the high potential step-out well on the TGT field H5 fault block was moved to top priority in the 2013 programme, an important achievement to accelerate the potential value enhancement of a discovery and increased production capacity. The well was a spectacular success, one of the largest discovery wells ever in Vietnam, exceeding all pre-test expectations, and flowing at a combined average maximum production from the three zones tested at over 27,600 barrels of oil equivalent per day. Activity was initiated to fast-track the project to bring H5 on-stream in 2015. Successful signing of the TGT Associated Gas Gathering and Sales Agreement had a positive impact on resource assessment, and the negotiated rates were realised for gas production recorded from inception.

## A Focus on Future Implementation of the Corporate Strategy

In 2012, we stated our intent to put in place a strategy for sustainable return of value to shareholders. In October 2013, SOCO completed a return of £133 million, structured to give shareholders a choice between receiving cash in the form of income or in the form of capital. This was stated to be the first of a sustainable annual payout to shareholders with subsequent returns targeting 50% of annual free cash flow. This execution of the Company's strategy has positioned SOCO to make meaningful cash returns to shareholders whilst retaining gearing to growth through a focused exploration programme.

### Progressing the Portfolio

During 2013, the portfolio has been progressed to provide opportunities that can deliver on this strategy to retain gearing to growth through drilling. The cornerstone is the evaluation and planning undertaken for continued development and appraisal of the TGT field to realise its full value. In Africa, the 2013 Lideka East Marine 1 discovery well is under evaluation to provide a potential follow-up appraisal opportunity. A technical evaluation has been progressed towards drilling the potential extension of the Litchendjili oil and gas discovery onto SOCO's Marine XI Block. We farmed into a 60% interest as operator of Mer Profonde Sud, offshore Republic of

Congo, providing a relatively near term and high potential drilling opportunity. While we have additionally progressed potential opportunities with a continued focus on organic growth, further details are considered commercially sensitive.

### Stewardship of the Company's Resources Appropriate to the Current Economic Environment

The Group ended the year with cash, cash equivalents and liquid investments of \$210.0 million, dropping only \$48 million despite the large return to shareholders and the retirement of the convertible bonds. At year end 2013, SOCO was completely debt free.

### Safety and Environmental

We are pleased to report another year free of any loss time incidents. As the Company expects only the highest standards of performance against safety and environmental measures, their weighting in determining bonus payout is not proportionate to the importance placed on achieving them.

Against the above measures the Committee recommended, and the Board approved, Executive Director bonuses at 100% of salary.

### LTIP Awards Vesting in Respect of 2013

The LTIP value shown in the single figure table relates to the LTIP award granted in December 2010, which vested subject to SOCO's relative TSR performance for the three year period ended 10 December 2013 against a group of comparator companies set out in the TSR comparator group table below.

The table below sets out an overview of SOCO's relative TSR performance over the relevant performance period and the level of vesting achieved in 2013 as a result:

| Vesting schedule | Performance Against Comparator Group |                              |
|------------------|--------------------------------------|------------------------------|
|                  | 25% vesting                          | Median (50th percentile)     |
|                  | 100% vesting                         | Upper 16th (84th percentile) |
| Actual vesting   | 66%                                  | 66th percentile              |

### LTIP Awards Granted in 2013

LTIP awards in the form of conditional share awards made during the year to Executive Directors are summarised in the table below. Further details are given in the outstanding share awards table on page 67.

|         | Date of Grant | Number of Shares Granted | Face Value <sup>1</sup> (£000s) | Face Value <sup>1</sup> (% of Salary) | Threshold Vesting (% of Face Value) | End of Performance Period |
|---------|---------------|--------------------------|---------------------------------|---------------------------------------|-------------------------------------|---------------------------|
| E Story | 06.12.13      | 273,000                  | 1,074                           | 181%                                  | 25%                                 | 06.12.16                  |
| R Cagle | 06.12.13      | 205,000                  | 806                             | 181%                                  | 25%                                 | 06.12.16                  |
| C Cagle | 06.12.13      | 140,000                  | 551                             | 181%                                  | 25%                                 | 06.12.16                  |

<sup>1</sup> Face Value is calculated using the last closing share price of £3.933 preceding the date of grant. The annual average exchange rate to 31 December 2013 has been used to convert salaries from US dollar to GB pound.

These awards will be subject to SOCO's relative TSR performance over a three year period against a group of comparator companies set out in the table below. 25% of the awards will vest for median performance, with full vesting for performance in the upper 16th percentile. Pro-rating applies between these points and between ranking positions.

### TSR Comparator Group

|              |                             |                     |                  |                      |              |                   |                 |            |
|--------------|-----------------------------|---------------------|------------------|----------------------|--------------|-------------------|-----------------|------------|
| Afren        | Coastal Energy <sup>1</sup> | Gulfsands Petroleum | JXX Petroleum    | Newfield Exploration | Oil Search   | Regal Petroleum   | Santos          | Tullow Oil |
| Bowleven     | DNO International           | Hardy Oil & Gas     | Lundin Petroleum | Nexen <sup>3</sup>   | Ophir Energy | ROC Oil           | Sterling Energy |            |
| Cairn Energy | Enquest <sup>2</sup>        | Heritage Oil        | Maurel & Prom    | Niko Resources       | Premier Oil  | Salamander Energy | Talisman Energy |            |

<sup>1</sup> Until delisting in 2013

<sup>2</sup> From 2011

<sup>3</sup> Until delisting in 2012

### Directors' Interests as at 31 December 2013

The Board has a policy requiring Executive Directors to build a minimum shareholding equivalent to their annual salary. This is intended to emphasise a commitment to the alignment of Executive Directors with shareholders and a focus on long term stewardship. The current Executive Directors have held, and continue to build, a meaningful shareholding since founding the Company in 1997. The table below sets out the Directors' interests as at 31 December 2013:

|                         | Shareholding requirement<br>(% of salary) | Achieved<br>(Yes/No) | Beneficially<br>owned shares | Options subject<br>to performance<br>conditions | Options vested<br>but not<br>exercised |
|-------------------------|---|----------------------|------------------------------|---|--|
| <b>Executive</b>        |   |                      |                              |   |  |
| E Story <sup>1</sup>    | 100%                                      | Yes                  | 13,073,866                   | 989,225   | 202,007                                |
| R Cagle <sup>2,4</sup>  | 100%                                      | Yes                  | 5,083,299                    | 742,168   | 151,505                                |
| C Cagle <sup>3,4</sup>  | 100%                                      | Yes                  | 2,914,962                    | 506,381   | 103,332                                |
| <b>Non-Executive</b>    |   |                      |                              |   |  |
| R de Sousa <sup>5</sup> |   |                      | 9,058,820                    |   |  |
| O Barbaroux             |   |                      | 88,000                       |   |  |
| R Cathery               |   |                      | 450,000                      |   |  |
| E Contini <sup>6</sup>  |   |                      | 27,664,381                   |   |  |
| M Daryabegui            |   |                      | –                            |   |  |
| R Gray                  |   |                      | –                            |   |  |
| A Monteiro              |   |                      | –                            |   |  |
| J Norton <sup>7</sup>   |   |                      | 460,000                      |   |  |
| M Watts <sup>8</sup>    |   |                      | 89,473                       |   |  |

<sup>1</sup> 11,398,866 Shares are held personally by Mr E Story. 1,675,000 Shares are held through The Story Family Trust, a connected person to Mr E Story.

<sup>2</sup> 162,714 Shares are held personally by Mr R Cagle. 4,920,585 Shares are held through C Minor Ltd, a connected person to Mr R Cagle.

<sup>3</sup> 110,923 Shares are held personally by Ms C Cagle. 2,804,039 Shares are held through C Major Ltd, a connected person to Ms C Cagle.

<sup>4</sup> Mr R Cagle and Ms C Cagle are connected persons to each other, and are jointly interested in their combined total holdings.

<sup>5</sup> 350,000 Shares are held personally by Mr de Sousa. 8,708,820 Shares are held through Palamos Ltd, a connected person to Mr de Sousa.

<sup>6</sup> 220,000 Shares are held personally by Mr E Contini. 27,444,381 Shares are held through Liquid Business Ltd, a connected person to Mr Contini.

<sup>7</sup> 400,000 Shares are held personally by Mr J Norton. 60,000 Shares are held by his spouse.

<sup>8</sup> Subsequent to 31 December 2013, Dr M Watts bought 1,413 Shares in the open market, subject to a trading plan that was entered into on 26 March 2013.

While the Executive Directors, as potential beneficiaries, are technically deemed to have an interest in all ordinary shares held by the SOCO Employee Benefit Trust (Trust), the table above only includes those ordinary shares held by the Trust which are potentially transferable to the Directors and their families pursuant to Options which have been granted to them under the Company's incentive schemes. Details of the Trust and its holdings are set out in Note 27 to the financial statements.

There have been no changes to the Directors' interests subsequent to 31 December 2013 other than as described in the notes to the table above.

# Annual Report on Remuneration (Unaudited Section)

## Share Awards Outstanding at 31 December 2013

|         | As at 1 Jan 2013 | Granted/<br>Awarded | Adjusted <sup>1</sup> | Exercised | Lapsed    | As at<br>31 Dec 2013 | Date from which<br>exercisable <sup>2</sup> | Expiry date |
|---------|------------------|---------------------|-----------------------|-----------|-----------|----------------------|---|-------------|
| E Story | 277,600          | –                   | 28,471                | –         | (104,064) | 202,007              | 10.12.13                                    | –           |
|         | 344,000          | –                   | 35,282                | –         | –         | 379,282              | 9.12.14                                     | –           |
|         | 305,600          | –                   | 31,343                | –         | –         | 336,943              | 5.12.15                                     | –           |
|         | –                | 273,000             | –                     | –         | –         | 273,000              | 6.12.16                                     | –           |
| R Cagle | 208,200          | –                   | 21,353                | –         | (78,048)  | 151,505              | 10.12.13                                    | –           |
|         | 258,000          | –                   | 26,461                | –         | –         | 284,461              | 9.12.14                                     | –           |
|         | 229,200          | –                   | 23,507                | –         | –         | 252,707              | 5.12.15                                     | –           |
|         | –                | 205,000             | –                     | –         | –         | 205,000              | 6.12.16                                     | –           |
| C Cagle | 142,000          | –                   | 14,564                | –         | (53,232)  | 103,332              | 10.12.13                                    | –           |
|         | 176,000          | –                   | 18,051                | –         | –         | 194,051              | 9.12.14                                     | –           |
|         | 156,300          | –                   | 16,030                | –         | –         | 172,330              | 5.12.15                                     | –           |
|         | –                | 140,000             | –                     | –         | –         | 140,000              | 6.12.16                                     | –           |

<sup>1</sup> Outstanding awards under the Company's share schemes were adjusted in accordance with plan rules to take account of a variation in share capital during the year (see Note 30 to the financial statements).

<sup>2</sup> The outstanding LTIP awards potentially exercisable from a future date will vest subject to SOCO's relative TSR performance against a group of comparator companies as set out in the table above.

## Historical TSR Performance and CEO Outcomes

### Historical TSR Performance

The chart below illustrates SOCO's five year TSR performance against the FTSE Oil & Gas Index being a broad market index which is sector specific. Note that this does not represent either the comparator group or time period against which performance is assessed under the LTIP.



### CEO Outcomes

The table below shows the total remuneration paid to the CEO over the same five year period. In addition, the annual bonus and LTIP payouts are set out in respect of each year as a percentage of the maximum:

|  | 2013  | 2012  | 2011  | 2010  | 2009  |
|--|-------|-------|-------|-------|-------|
| ▶ CEO single figure of remuneration (\$000s) | 3,392 | 3,206 | 2,478 | 1,521 | 2,055 |
| ▶ Annual bonus payout (% of maximum)         | 100%  | 100%  | 100%  | 25%   | 50%   |
| ▶ LTIP vesting (% of maximum)                | 66%   | 71%   | 53%   | 34%   | 59%   |

### Percentage Change in Remuneration of the CEO

The table below illustrates the percentage change in salary, benefits and annual bonus for the CEO and all other employees.

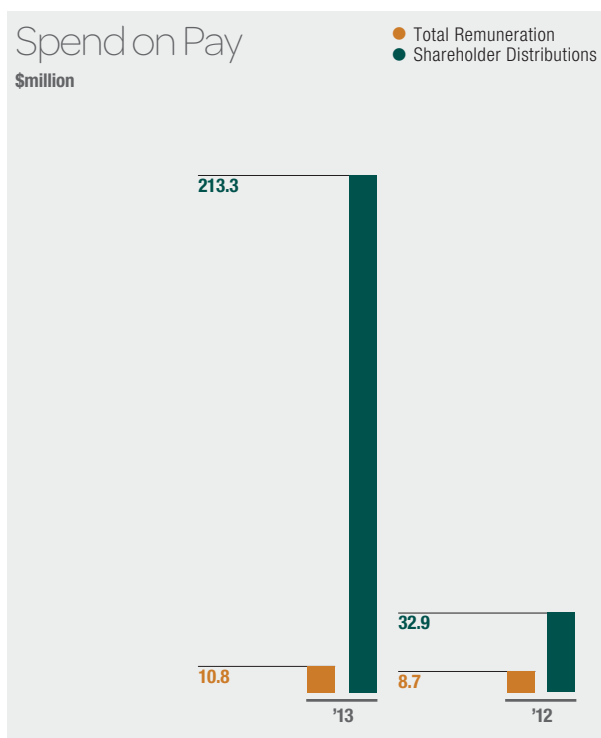
|                       | % Change in Base Salary (2013/2012) | % Change in Benefits (2013/2012) <sup>1</sup> | % Change in Annual Bonus (2013/2012) <sup>2</sup> |
|-----------------------|-------------------------------------|---|---|
| ▶ CEO                 | 5%                                  | -18%  | 0%  |
| ▶ All other employees | 8%                                  | 14%   | 6%  |

<sup>1</sup> There have been no changes to the Company's benefits packages during the year. Variances reflect other factors, including employee demographics and the level to which available allowances are taken up in a given year.

<sup>2</sup> The CEO's bonus is awarded in respect of the calendar year. Bonuses awarded to all other employees include a combination of awards in respect of the calendar year and in respect of the fiscal year ending 31 March 2013.

### Relative Importance of Spend on Pay

The chart below illustrates the year on year change in total remuneration as per Note 10 to the financial statements compared to the change in shareholder returns, which would include capital returns, dividends and share buybacks.



### Annual Bonus

As we consider the next phase of SOCO's development, it is important that we are able to attract and motivate high calibre executives who can successfully manage the Company's international portfolio and execute our stated strategy of building shareholder value. Remuneration is an important part of this. Since we have not made any changes to the annual bonus or LTIP opportunities for over ten years, there was some concern that SOCO have fallen behind market competitive levels in the oil & gas sector. The Committee determined that it was appropriate to reconsider the remuneration framework ahead of shareholder approval of the remuneration policy at the 2014 AGM.

The Committee therefore reviewed total compensation positioning of our Executive Directors, the first full review since 2009. The outcome of this review showed that we had fallen behind market competitive levels of variable remuneration. Therefore, after taking account of best practice and following a shareholder consultation process, we are proposing to make a change to our variable pay framework.

We are proposing in our remuneration policy to increase our total bonus opportunity from 100% of salary to 150% of salary from 2014. The Committee believes that this will help to address the issue of SOCO's positioning against market competitive levels and will also enhance our ability to recruit the calibre of individuals required for the purposes of succession planning. To provide alignment with best practice and the performance of SOCO over the longer term, any bonus earned over 100% of salary will be deferred into SOCO shares to be held for two years. Normally, delivering these shares will be contingent on continued employment, although good leaver provisions will apply as explained on page 63.

In line with best practice, a malus provision will apply to the deferred shares so that they may be reduced in certain circumstances, such as where an individual has engaged in an activity amounting to serious misconduct, fraud or misstatement, as determined by the Committee.

### External Appointments

With prior approval of the Board, Executive Directors are allowed to accept non-executive appointments on other boards and to retain the associated directors' fees. Under this policy Mr Ed Story serves on the board of Cairn India Limited for which he retained associated fees for 2013 in the amount of \$35,000 (2012 – \$1,000).

No other change is being made to the remuneration framework and there is no increase being proposed to Executive Directors' salaries for 2014.

### Implementation for 2014

#### Base salary

Executive Directors' salaries have not been increased for 2014.

Annual bonus payments will continue to be dependent on individual and corporate targets linked to SOCO's strategic plan. Due to commercial sensitivity, we are not disclosing bonus targets prospectively but, in line with our current practice, we will provide retrospective disclosure on achievement against measures following year end. However we can broadly indicate that performance measures for 2014 will emphasise goals associated with progressing the Vietnam development and appraisal programmes, progressing the portfolio, delivering the corporate strategy, and stewardship of the Company's resources and an attention to safety, social and environmental matters.

|         | 2014<br>Base Salary<br>\$000s | 2013<br>Base Salary<br>\$000s | % Increase<br>from 2013 |
|---------|-------------------------------|-------------------------------|-------------------------|
| E Story | 924                           | 924                           | 0%                      |
| R Cagle | 693                           | 693                           | 0%                      |
| C Cagle | 473                           | 473                           | 0%                      |

The Committee retains discretion over the amount of bonus paid out to ensure that appropriate consideration is given to the relative importance of the achievements in the year and the actual contribution of these towards furthering the Company's strategic plan.

#### Benefits

For 2014, benefits available to Executive Directors will be consistent with those set out in the policy and provided in 2013 as described above.

#### LTIP

It is intended that grants will be made to Executive Directors in December 2014 in line with the policy set out above. The Committee's selection of performance criteria is kept under review to ensure the long term measures used remain appropriate to SOCO's circumstances and strategy,

and most effectively support the delivery of value creation over time. For awards to be made in 2014, not less than 50% of the award will be dependent on a share price based measure, with the remainder dependent on either a share price based or financial measure.

### Pension

For 2014, a pension benefit at 15% of salary will be provided through contributions to SOCO's money purchase plan up to plan limits and a cash supplement.

### Non-Executive Director Remuneration

During the year, Non-Executive Director fees were reviewed to ensure that they continued to accurately reflect the time commitment involved for the relevant roles. As a consequence of that review, there has been an increase to the Chairman's fee and basic Non-Executive Director fee as shown below. In addition, we have introduced an additional fee for chairing the Audit and Risk Committee and the Remuneration Committee to reflect the time commitment that is required for these responsibilities.

|  | Fee from<br>1 January 2014 | Fee from<br>1 January 2013 |
|--|----------------------------|----------------------------|
| Chairman of the Company                              | £190,000                   | £180,000                   |
| Non-Executive Director                               | £50,000                    | £45,000                    |
| Additional fee: for Senior Independent Director      | £10,000                    | £10,000                    |
| Additional fee: Chairman of Audit and Risk Committee | £5,000                     | –                          |
| Additional fee: Chairman of Remuneration Committee   | £5,000                     | –                          |

The fees have been set within the aggregate limits set out in the Company's Articles of Association and approved by shareholders. Non-Executive Directors are not eligible for participation in the Company's incentive or pension schemes.

### Consideration of Matters Relating to Executive Directors' Remuneration

The Directors who were members of the Remuneration Committee when matters relating to Directors' remuneration for the year were being considered included Mr Michael Johns, Ambassador António Monteiro and Dr Mike Watts.

The Committee received assistance from Mr Ed Story (CEO) and Ms Cynthia Cagle (Company Secretary), except when matters relating to their own remuneration were being discussed.

Deloitte LLP, who has voluntarily signed up to the Remuneration Consultants' Code of Conduct, were originally retained independently by the Committee as advisors following a tender process. In the year they provided advice on executive remuneration in terms of relevant current market practice and developments in best practice, and on the testing and setting of performance criteria for incentive plans. Deloitte also provide audit services to the Group, as set out in Note 9 to the financial statements. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence; the scope and

value of services to the Group is under continuous review to ensure it is not material to the assessment of independence. Advice is developed with use of established methodologies and the advisors are not involved in the decision making process. Advisory partners and staff have no involvement in audit, and are not involved in the preparation of audited information. The Committee is satisfied that the remuneration advice it receives from Deloitte is independent. Total fees for advice provided to the Committee during the year were £21,000.

When setting the policy for Executive Directors' remuneration, the Committee takes into account pay conditions elsewhere in the Company and, as appropriate, any external market reference points.

The Committee reviews all aspects of remuneration on an annual basis and with respect to individual and corporate performance during the year. Benchmarking is generally conducted on a three year cycle or upon an indication of a change in market ranges. During this exercise, the Group's size and complexity and relative positioning within those ranges are taken into account in the context of the Executive Directors' critical value to the Company and demonstrated performance over time.

Results of benchmarking exercises are monitored for indications of potential unwarranted upward ratcheting. Prior to 2013, the last benchmarking exercise took place in 2009.

### Shareholder Voting

At the last AGM held on 13 June 2013, the Directors' Remuneration Report received the following votes from shareholders:

|                  | Votes       | %     |
|------------------|-------------|-------|
| Votes in favour  | 113,948,068 | 95.4% |
| Votes against    | 5,459,097   | 4.6%  |
| Total votes cast | 119,407,165 | 100%  |

### Shareholder Dilution

SOCO monitors the number of shares issued under employee share plans and their impact on dilution limits. These will not exceed the limits set by the Association of British Insurers in respect of all share plans (10% in any rolling ten year period) and executive share plans (5% in any rolling ten year period).

An employee benefit trust currently holds sufficient SOCO shares to satisfy all shares conditionally awarded under the current and previous LTIP, as more fully described in Note 27 to the financial statements. Decisions governing acquisitions of shares into the trust are considered and approved by the full Board.

### Approval

This Report was approved by the Board of Directors on 4 March 2014 and signed on its behalf by:

**Cynthia Cagle**  
Company Secretary

FOR THE SECOND  
SUCCESSIVE  
YEAR SOCO HAS  
GENERATED  
REVENUES IN EXCESS  
OF \$600 MILLION



**Robert Harris**  
Corporate Financial  
Controller



**Neil Gibson**  
Manager – Group Reporting,  
Taxation & Treasury



# Independent Auditor's Report to the Members of SOCO International plc

## Opinion on financial statements of SOCO International plc

### In our opinion:

- ▶ the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- ▶ the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- ▶ the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statements and the related Notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Going concern

As required by the Listing Rules we have reviewed the Directors' statement on page 26 that the Group is a going concern. We confirm that:

- ▶ we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- ▶ we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

#### Impairment of intangible exploration and evaluation (E&E) assets

In accordance with relevant accounting standards, E&E costs are assessed for impairment at least annually. This is considered a key risk due to the significant judgments and estimates that are required to be assessed, and the highly material nature of the related balances in the financial statements.

#### How the scope of our audit responded to the risk

We evaluated management's assessment of whether there were any indicators of impairment for any of the Group's material E&E assets, taking into consideration the impairment indicators outlined in IFRS 6 "Exploration for and Evaluation of Mineral Resources" such as:

- ▶ expiry or relinquishment of exploration or evaluation licences;
- ▶ no expenditure for further exploration and evaluation in the specific area is planned or budgeted for;
- ▶ whether exploration and evaluation activities have not led to the discovery of commercially viable quantities of mineral resources; or
- ▶ whether data exists to suggest that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

These procedures included interviews with key operational and finance staff in London, checking whether all capitalised assets are included in future budgets and plans, and identifying any fields where the Group's right to explore is either at, or close to, expiry. We corroborated material facts where evidence existed, for example by agreement to approved internal or operator budgets and work programmes, or contractual agreements such as rig contracts. In the current year, particular focus was given to the Group's interest in the Nganzi licence, given the relinquishment of the licence in late 2013.

Details of the Group's policy on exploration and evaluation assets is given in Note 2 and details of impairments to exploration and evaluation assets recorded by the Group in year are given in Note 15.

#### Oil and gas reserves estimates

This was considered to be a key risk due to the subjective nature of reserves estimates and their impact on the financial statements through impairment and depreciation, depletion and amortisation ("DD&A") calculations, and because the TGT field, which contributes the substantial majority of SOCO's estimated reserves and DD&A, is particularly complex and in a relatively early stage of production and overall development.

Management has engaged third party experts in connection with the estimation of reserves and has engaged another consultant to develop a simulation model of the TGT field, however, this work is ongoing and no third party reserve estimate is yet available. As discussed on page 21 the third party has provided a range of preliminary estimates of oil and gas initially in place and recovery factors, for which the recovery factors are generally lower than management's estimates.

#### How the scope of our audit responded to the risk

We compared the oil and gas reserves figures used in the DD&A calculation to the range of estimates produced by the third party, and interviewed the experts from the third party to evaluate their assumptions and findings as well as to confirm their qualifications, objectivity and independence. We evaluated management's assertion that there remains a high level of uncertainty around any estimate of reserves at this stage.

We evaluated a sensitivity analysis which assessed whether the effect of aligning management's calculation of DD&A with the third party's

estimates would result in a material increase in the DD&A charge for the year. We also evaluated management's assessment that there were no indicators of impairment based on discounted cash flow calculations prepared.

Management's reserves estimates are included on page 100 to the annual report. In addition, management has explained the scope of work of the third party and their findings on page 21 in the review of operations, as well as highlighting oil and gas reserves as a key source of estimation uncertainty in Note 4 to the financial statements. We assessed whether these disclosures fairly describe the differences between management's estimates and the third party's estimates, and the impact of the estimation uncertainty.

### Accounting for depletion, depreciation and amortisation of producing oil and gas assets

This is considered a key risk due to the calculation including judgmental estimates of the remaining commercial oil & gas reserves and the estimation of future capital works and related expenditure required to extract those reserves.

### How the scope of our audit responded to the risk

As well as the work performed on the reserves quantities included in the DD&A calculation, as above, we also compared the estimates of future capital expenditure to plans and budgets. We checked that the development scenarios from which capital expenditure estimates were derived are consistent with the scenario on which reserves estimates are based. We re-performed the DD&A calculation to check for mechanical accuracy.

The Audit and Risk Committee's consideration of these risks is set out on page 56.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

When setting materiality, among other factors we considered the Group's pre-tax profit in the current period as well as that in recent periods; the occurrence of any non-recurring gains and losses (such as exploration write offs) which might need to be taken into account in setting materiality, and the level of consolidated shareholders equity. We determined materiality for the Group to be \$27,000,000, which is below 6.5% of adjusted pre-tax profit and 3% of equity.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of \$595,000, as well as differences below that threshold that, in our view, warranted reporting

on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused primarily on the Group's two key business units, being Vietnam (which is accounted for in Vietnam and in London) and Africa (which is accounted for in Africa and London), together with the head office function in London. These locations account for all of the Group's net assets, revenue and profit before tax. All of these locations were subject to a full scope audit.

The Group audit team assesses each year how best to be appropriately involved in the audit work undertaken in Vietnam. In the current year, in addition to regular interaction and review through correspondence, telephone and other electronic media, the Senior Statutory Auditor visited the Vietnam component during the audit planning phase.

### Opinion on other matters prescribed by the Companies Act 2006

#### In our opinion:

- ▶ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

#### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- ▶ we have not received all the information and explanations we require for our audit; or
- ▶ adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- ▶ the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

### Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- ▶ materially inconsistent with the information in the audited financial statements; or
- ▶ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- ▶ otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

### Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Bevan Whitehead ACA (Senior statutory auditor) for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor  
London, United Kingdom  
4 March 2014

# Financial Statements

## Consolidated Income Statement for the year to 31 December 2013

|                                   | Notes | 2013<br>\$ million | 2012<br>\$ million |
|-----------------------------------|-------|--------------------|--------------------|
| Revenue                           | 5, 6  | <b>608.1</b>       | 621.6              |
| Cost of sales                     |       | <b>(169.1)</b>     | (161.1)            |
| <b>Gross profit</b>               |       | <b>439.0</b>       | 460.5              |
| Administrative expenses           |       | <b>(13.2)</b>      | (12.3)             |
| Exploration costs written off     | 15    | <b>(92.0)</b>      | –                  |
| <b>Operating profit</b>           |       | <b>333.8</b>       | 448.2              |
| Investment revenue                | 5     | <b>1.0</b>         | 1.0                |
| Other gains and losses            | 7     | <b>1.3</b>         | 1.5                |
| Finance costs                     | 8     | <b>(2.8)</b>       | (5.1)              |
| <b>Profit before tax</b>          | 6     | <b>333.3</b>       | 445.6              |
| Tax                               | 6, 11 | <b>(229.2)</b>     | (238.6)            |
| <b>Profit for the year</b>        |       | <b>104.1</b>       | 207.0              |
| <b>Earnings per share (cents)</b> | 14    |                    |                    |
| <b>Basic</b>                      |       | <b>31.7</b>        | 62.7               |
| <b>Diluted</b>                    |       | <b>31.6</b>        | 62.6               |

## Consolidated Statement of Comprehensive Income for the year to 31 December 2013

|  | Note | 2013<br>\$ million | 2012<br>\$ million |
|--|------|--------------------|--------------------|
| Profit for the year  |      | <b>104.1</b>       | 207.0              |
| Items that may be subsequently reclassified to profit or loss: |      |                    |                    |
| Unrealised currency translation differences                    |      | <b>9.3</b>         | (0.2)              |
| <b>Total comprehensive income for the year</b>                 | 29   | <b>113.4</b>       | 206.8              |

|  | Notes | Group              |                    | Company            |                    |
|--|-------|--------------------|--------------------|--------------------|--------------------|
|  |       | 2013<br>\$ million | 2012<br>\$ million | 2013<br>\$ million | 2012<br>\$ million |
| <b>Non-current assets</b>                                      |       |                    |                    |                    |                    |
| Intangible assets  | 15    | 215.7              | 199.7              | –                  | –                  |
| Property, plant and equipment                                  | 16    | 801.3              | 816.6              | 0.9                | 1.0                |
| Investments  | 17    | –                  | –                  | 884.6              | 811.4              |
| Financial asset  | 18    | 43.4               | 42.1               | –                  | –                  |
| Other receivables  | 19    | 15.0               | –                  | –                  | –                  |
|  |       | <b>1,075.4</b>     | 1,058.4            | <b>885.5</b>       | 812.4              |
| <b>Current assets</b>  |       |                    |                    |                    |                    |
| Inventories  | 21    | 7.3                | 11.1               | –                  | –                  |
| Trade and other receivables                                    | 22    | 68.9               | 72.2               | 0.8                | 0.6                |
| Tax receivables  |       | 0.9                | 0.6                | 0.4                | 0.2                |
| Assets classified as held for sale                             | 12    | –                  | 36.3               | –                  | –                  |
| Liquid investments   |       | 80.1               | 50.0               | –                  | –                  |
| Cash and cash equivalents                                      | 31    | 129.9              | 208.5              | 0.3                | 0.2                |
|  |       | <b>287.1</b>       | 378.7              | <b>1.5</b>         | 1.0                |
| <b>Total assets</b>  |       | <b>1,362.5</b>     | 1,437.1            | <b>887.0</b>       | 813.4              |
| <b>Current liabilities</b>                                     |       |                    |                    |                    |                    |
| Trade and other payables                                       | 23    | (36.1)             | (34.3)             | (1.7)              | (5.2)              |
| Tax payable  |       | (18.5)             | (21.4)             | (0.1)              | (0.1)              |
| Convertible bonds  | 24    | –                  | (47.2)             | –                  | –                  |
| Liabilities associated with assets classified as held for sale | 12    | –                  | (1.6)              | –                  | –                  |
|  |       | <b>(54.6)</b>      | (104.5)            | <b>(1.8)</b>       | (5.3)              |
| <b>Net current assets (liabilities)</b>                        |       | <b>232.5</b>       | 274.2              | <b>(0.3)</b>       | (4.3)              |
| <b>Non-current liabilities</b>                                 |       |                    |                    |                    |                    |
| Deferred tax liabilities                                       | 20    | (184.2)            | (113.3)            | –                  | –                  |
| Long term provisions   | 25    | (42.9)             | (42.7)             | –                  | –                  |
|  |       | <b>(227.1)</b>     | (156.0)            | –                  | –                  |
| <b>Total liabilities</b>                                       |       | <b>(281.7)</b>     | (260.5)            | <b>(1.8)</b>       | (5.3)              |
| <b>Net assets</b>  |       | <b>1,080.8</b>     | 1,176.6            | <b>885.2</b>       | 808.1              |
| <b>Equity</b>  |       |                    |                    |                    |                    |
| Share capital  | 26    | 27.6               | 27.6               | 27.6               | 27.6               |
| Share premium account  | 26    | 11.1               | 73.0               | 11.1               | 73.0               |
| Other reserves   | 27    | 226.5              | 105.5              | 183.1              | 60.8               |
| Retained earnings  | 29    | 815.6              | 970.5              | 663.4              | 646.7              |
| <b>Total equity</b>  |       | <b>1,080.8</b>     | 1,176.6            | <b>885.2</b>       | 808.1              |

The financial statements were approved by the Board of Directors on 4 March 2014 and signed on its behalf by:

**Rui de Sousa**

Chairman

**Roger Cagle**

Director

# Financial Statements

## Statements of Changes in Equity for the year to 31 December 2013

|   | Notes  |  |  |   |   | Group               |
|---|--------|--|--|---|---|---------------------|
|   |        | Called up<br>share capital<br>\$ million | Share premium<br>account<br>\$ million | Other reserves<br>(see Note 27)<br>\$ million | Retained<br>earnings<br>(see Note 29)<br>\$ million | Total<br>\$ million |
| As at 1 January 2012  |        | 27.5                                     | 72.7                                   | 140.8   | 857.1   | 1,098.1             |
| New shares issued   |        | 0.1                                      | 0.3                                    | –   | –   | 0.4                 |
| Purchase of own shares into treasury                              |        | –  | –                                      | (32.9)  | –   | (32.9)              |
| Share-based payments  |        | –  | –                                      | (0.8)   | –   | (0.8)               |
| Acquisition of non-controlling interest in subsidiary undertaking |        | –  | –                                      | –   | (95.0)  | (95.0)              |
| Transfer relating to share-based payments                         |        | –  | –                                      | (1.1)   | 1.1   | –                   |
| Transfer relating to convertible bonds                            |        | –  | –                                      | (0.5)   | 0.5   | –                   |
| Unrealised currency translation differences                       |        | –  | –                                      | –   | (0.2)   | (0.2)               |
| Retained profit for the year                                      |        | –  | –                                      | –   | 207.0   | 207.0               |
| <b>As at 1 January 2013</b>                                       |        | <b>27.6</b>                              | <b>73.0</b>                            | <b>105.5</b>                                  | <b>970.5</b>  | <b>1,176.6</b>      |
| Distributions   | 28, 29 | –  | –                                      | –   | (210.9)   | (210.9)             |
| Issue and redemption of B shares                                  | 26, 27 | –  | (61.9)                                 | 61.9  | –   | –                   |
| Share-based payments  | 27     | –  | –                                      | 1.4   | –   | 1.4                 |
| Transfer relating to share-based payments                         | 27, 29 | –  | –                                      | (0.7)   | 0.7   | –                   |
| Transfer relating to share-based payments in prior years          | 27, 29 | –  | –                                      | 58.3  | (58.3)  | –                   |
| Transfer relating to convertible bonds                            | 27, 29 | –  | –                                      | (0.2)   | 0.2   | –                   |
| Unrealised currency translation differences                       | 29     | –  | –                                      | 0.3   | 9.3   | 9.6                 |
| Retained profit for the year                                      |        | –  | –                                      | –   | 104.1   | 104.1               |
| <b>As at 31 December 2013</b>                                     |        | <b>27.6</b>                              | <b>11.1</b>                            | <b>226.5</b>                                  | <b>815.6</b>  | <b>1,080.8</b>      |

|   | Notes  |  |  |   |   | Company             |
|---|--------|--|--|---|---|---------------------|
|   |        | Called up<br>share capital<br>\$ million | Share premium<br>account<br>\$ million | Other reserves<br>(see Note 27)<br>\$ million | Retained<br>earnings<br>(see Note 29)<br>\$ million | Total<br>\$ million |
| As at 1 January 2012                                      |        | 27.5                                     | 72.7                                   | 93.8  | 432.9   | 626.9               |
| New shares issued   |        | 0.1                                      | 0.3                                    | –   | –   | 0.4                 |
| Purchase of own shares into treasury                      |        | –  | –                                      | (32.9)  | –   | (32.9)              |
| Share-based payments                                      |        | –  | –                                      | (0.1)   | –   | (0.1)               |
| Unrealised currency translation differences               |        | –  | –                                      | –   | 31.2  | 31.2                |
| Retained profit for the year                              | 13     | –  | –                                      | –   | 182.6   | 182.6               |
| <b>As at 1 January 2013</b>                               |        | <b>27.6</b>                              | <b>73.0</b>                            | <b>60.8</b>                                   | <b>646.7</b>  | <b>808.1</b>        |
| Distributions   | 28, 29 | –  | –                                      | –   | (213.3)   | (213.3)             |
| Issue and redemption of B shares                          | 26, 27 | –  | (61.9)                                 | 61.9  | –   | –                   |
| Share-based payments                                      | 27     | –  | –                                      | 1.4   | –   | 1.4                 |
| Transfer relating to share-based payments                 | 27, 29 | –  | –                                      | (0.7)   | 0.7   | –                   |
| Transfers relating to share-based payments in prior years | 27, 29 | –  | –                                      | 59.7  | (54.3)  | 5.4                 |
| Unrealised currency translation differences               | 29     | –  | –                                      | –   | 27.8  | 27.8                |
| Retained profit for the year                              | 13     | –  | –                                      | –   | 255.8   | 255.8               |
| <b>As at 31 December 2013</b>                             |        | <b>27.6</b>                              | <b>11.1</b>                            | <b>183.1</b>                                  | <b>663.4</b>  | <b>885.2</b>        |

# Cash Flow Statements for the year to 31 December 2013

|   | Notes | Group              |                    | Company            |                    |
|---|-------|--------------------|--------------------|--------------------|--------------------|
|   |       | 2013<br>\$ million | 2012<br>\$ million | 2013<br>\$ million | 2012<br>\$ million |
| <b>Net cash from (used in) operating activities</b>         | 31    | <b>314.4</b>       | 334.8              | <b>(13.7)</b>      | (7.0)              |
| <b>Investing activities</b>                                 |       |                    |                    |                    |                    |
| Purchase of intangible assets                               |       | <b>(63.1)</b>      | (47.6)             | –                  | –                  |
| Purchase of property, plant and equipment                   |       | <b>(36.0)</b>      | (62.3)             | <b>(0.1)</b>       | (1.0)              |
| Increase in liquid investments <sup>1</sup>                 |       | <b>(30.1)</b>      | (50.0)             | –                  | –                  |
| Payment to abandonment fund                                 | 19    | <b>(15.0)</b>      | –                  | –                  | –                  |
| Investment in subsidiary undertakings                       | 17    | –                  | (95.0)             | <b>(90.7)</b>      | (152.8)            |
| Dividends received from subsidiary undertakings             |       | –                  | –                  | <b>309.7</b>       | 193.0              |
| Proceeds on option to dispose of subsidiary                 | 12    | –                  | 4.0                | –                  | –                  |
| <b>Net cash (used in) from investing activities</b>         |       | <b>(144.2)</b>     | (250.9)            | <b>218.9</b>       | 39.2               |
| <b>Financing activities</b>                                 |       |                    |                    |                    |                    |
| Purchase of own shares into treasury                        |       | –                  | (32.9)             | –                  | (32.9)             |
| Share-based payments  | 27    | –                  | (1.9)              | –                  | (1.9)              |
| Repayment/repurchase of convertible bonds                   | 24    | <b>(47.8)</b>      | (0.9)              | –                  | –                  |
| Distributions   | 28    | <b>(210.9)</b>     | –                  | <b>(213.3)</b>     | –                  |
| Proceeds on issue of ordinary share capital                 | 26    | –                  | 0.4                | –                  | 0.4                |
| <b>Net cash (used in) financing activities</b>              |       | <b>(258.7)</b>     | (35.3)             | <b>(213.3)</b>     | (34.4)             |
| <b>Net (decrease) increase in cash and cash equivalents</b> |       | <b>(88.5)</b>      | 48.6               | <b>(8.1)</b>       | (2.2)              |
| <b>Cash and cash equivalents at beginning of year</b>       |       | <b>208.5</b>       | 160.1              | <b>0.2</b>         | 2.6                |
| Effect of foreign exchange rate changes                     |       | <b>9.9</b>         | (0.2)              | <b>8.2</b>         | (0.2)              |
| <b>Cash and cash equivalents at end of year<sup>1</sup></b> |       | <b>129.9</b>       | 208.5              | <b>0.3</b>         | 0.2                |

<sup>1</sup> Liquid investments comprise short term liquid investments of between three to six months maturity while cash and cash equivalents comprise cash at bank and other short term highly liquid investments of less than three months maturity. The combined cash and cash equivalents and liquid investments balance at 31 December 2013 was \$210.0 million (2012 – \$258.5 million).

### 01 General information

SOCO International plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in Note 6 and in the Review of Operations and Financial Review on pages 18 to 23 and 24 to 26, respectively.

### 02 Significant accounting policies

#### (a) Basis of preparation

The financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have also been prepared on a going concern basis of accounting for the reasons set out in the Annual Report of the Directors on page 46 and in the Financial Review on page 26. The financial statements have been prepared under the historical cost basis, except for the valuation of hydrocarbon inventory and the revaluation of certain financial instruments. The financial statements are presented in US dollars as it is the functional currency of each of the Company's subsidiary undertakings and is generally accepted practice in the oil and gas sector. The functional currency of the Company remains GB pounds although its financial statements are presented in US dollars to be consistent with the Group. The principal accounting policies adopted are set out below.

#### (b) Adoption of new and revised accounting standards

At the date of authorisation of these financial statements, the following IFRS, International Accounting Standards (IAS), which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):

- IFRS 1, 2, 3, 8, 13 as a result of the Annual Improvements 2010–2012 and 2011–2013 Cycles
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 16, 24, 38, 40 as a result of the Annual Improvements 2010–2012 and 2011–2013 Cycles
- IAS 19 (amended) Employee Benefits – Defined Benefit Plans: Employee contributions
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 (amended) Financial Instruments – Presentation: Offsetting financial assets and financial liabilities
- IAS 36 (amended) Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 (amended) Financial Instruments – Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except potentially as follows:

- IFRS 9 will impact both the measurement and disclosures of financial instruments
- IFRS 12 will impact the disclosure of interests the Group has in other entities.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

#### (c) Basis of consolidation

The Group financial statements consolidate the accounts of SOCO International plc and entities controlled by the Company (its subsidiary undertakings) drawn up to the balance sheet date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method whereby the assets, liabilities and contingent liabilities acquired and the consideration given are recognised in the Group accounts at their fair values as at the date of the acquisition.

#### (d) Investments

Except as stated below, non-current investments are shown at cost less provision for impairment. Liquid investments comprise short term liquid investments of between three to six months maturity.



#### (e) Interests in joint ventures

Jointly controlled entities are those entities for which the Group exercises joint control over the operating and financial policies. These investments are dealt with by proportionate consolidation whereby the consolidated financial statements include the appropriate share of these companies' assets, liabilities, income and expenses on a line by line basis.

Where a consolidated member of the Group participates in unincorporated joint ventures, that member accounts directly for its share of the jointly controlled assets, liabilities and related income and expenses which are then similarly included in the consolidated financial statements of the Group.

#### (f) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and no depreciation is charged from the point of reclassification. Liabilities associated with such assets are also classified separately, within current liabilities.

#### (g) Revenue

Revenue represents the fair value of the Group's share of oil and gas sold during the year on an entitlement basis. To the extent revenue arises from test production during an evaluation programme, an amount is charged from evaluation costs to cost of sales so as to reflect a zero net margin.

Investment revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

#### (h) Tangible and intangible non-current assets

##### Oil and gas exploration, evaluation and development expenditure

The Group uses a full cost based method of accounting for exploration, evaluation and development expenditure, whereby all expenditures incurred in connection with the acquisition, exploration, evaluation and development of oil and gas assets, including directly attributable overheads, interest payable and certain exchange differences if directly related to financing development projects, are capitalised in separate geographical cost pools.

Cost pools are established on the basis of geographical area having regard to the operational and financial organisation of the Group. Intangible acquisition, exploration and evaluation costs incurred in a geographical area where the Group has no established cost pool are initially capitalised as intangible non-current assets except where they fall outside the scope of IFRS 6 Exploration for and Evaluation of Mineral Resources whereby they are expensed as incurred subject to other guidance under IFRS. Tangible non-current assets used in acquisition, exploration and evaluation are classified with tangible non-current assets as property, plant and equipment. To the extent that such tangible assets are consumed in exploration and evaluation the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Upon successful conclusion of the appraisal programme and determination that commercial reserves exist, such costs are transferred to tangible non-current assets as property, plant and equipment. Exploration and evaluation costs carried forward are assessed for impairment as described below.

Proceeds from the disposal of oil and gas assets are credited against the relevant cost centre. Any overall surplus arising in a cost centre is credited to the income statement.

##### Depreciation and depletion

Depletion is provided on oil and gas assets in production using the unit of production method, based on proven and probable reserves, applied to the sum of the total capitalised exploration, evaluation and development costs, together with estimated future development costs at current prices. Oil and gas assets which have a similar economic life are aggregated for depreciation purposes.

##### Impairment of value

Where there has been a change in economic conditions or in the expected use of a tangible non-current asset that indicates a possible impairment in an asset, management tests the recoverability of the net book value of the asset by comparison with the estimated discounted future net cash flows based on management's expectations of future oil prices and future costs. Any identified impairment is charged to the income statement.

Intangible non-current assets are considered for impairment at least annually by reference to the indicators in IFRS 6. Where there is an indication of impairment of an exploration and evaluation asset which is within a geographic pool where the Group has tangible oil and gas assets with commercial reserves, the exploration asset is assessed for impairment together with all other cash generating units and related tangible and intangible assets in that geographic pool and any balance remaining after impairment is amortised over the proven and probable reserves of the pool. Where the exploration asset is in an area where the Group has no established pool, the exploration asset is tested for impairment separately and, where determined to be impaired, is written off.

##### Other tangible non-current assets

Other tangible non-current assets are stated at historical cost less accumulated depreciation. Depreciation is provided on a straight line basis at rates calculated to write off the cost of those assets, less residual value, over their expected useful lives of three to seven years.

##### Decommissioning

The decommissioning provision is calculated as the net present value of the Group's share of the expenditure which is expected to be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place. The cost of recognising the decommissioning provision is included as part of the cost of the relevant property, plant and equipment and is thus charged to the income statement on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current assets. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in finance costs.

### 02 Significant accounting policies continued

#### **(i) Changes in estimates**

The effects of changes in estimates on the unit of production calculations are accounted for prospectively over the estimated remaining proven and probable reserves of each pool.

#### **(j) Inventories**

Inventories, except for inventories of hydrocarbons, are valued at the lower of cost and net realisable value.

Physical inventories of hydrocarbons, which are held for trading purposes, are valued at net realisable value and recorded as inventory. Underlifts and overlifts are valued at market value and are included in prepayments and accrued income and accruals and deferred income, respectively. Changes in hydrocarbon inventories, underlifts and overlifts are adjusted through cost of sales.

#### **(k) Leases**

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

#### **(l) Share-based payments**

Equity-settled awards under share-based incentive plans are measured at fair value at the date of grant and expensed on a straight line basis over the performance period along with a corresponding increase in equity. Fair value is measured using an option pricing model taking into consideration management's best estimate of the expected life of the option and the estimated number of shares that will eventually vest.

#### **(m) Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that sufficient taxable profits will be available to recover the asset. Deferred tax is not recognised where an asset or liability is acquired in a transaction which is not a business combination for an amount which differs from its tax value.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **(n) Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group does not currently utilise derivative financial instruments.

Other than the convertible bonds there are no material financial assets and liabilities for which differences between carrying amounts and fair values are required to be disclosed. The classification of financial instruments as required by IFRS 7 is disclosed in Notes 18, 22, 23 and 24.

#### **Financial asset at fair value through profit or loss**

Where a financial instrument is classified as a financial asset at fair value through profit or loss it is initially recognised at fair value. At each balance sheet date the fair value is reviewed and any gain or loss arising is recognised in the income statement. Changes in the net present value of the financial asset arising from discounting are included in other gains and losses.

#### **Trade receivables**

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

#### **Trade payables**

Trade payables are stated at their nominal value.

### Convertible bonds

The net proceeds received from the issue of convertible bonds are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not remeasured. The liability component is carried at amortised cost.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

Upon redemption of convertible bonds, in accordance with their terms at inception, the carrying amount of the liability is adjusted through the income statement to match the redemption amount. Where bonds are repurchased in the market, the repurchase cost is allocated between the repurchased liability and the repurchased embedded option to convert, using the same method described above. The difference between the amount allocated to the liability and the carrying amount of the liability is recorded in the income statement, and the amount allocated to the repurchase of the embedded option to convert is debited to equity.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Equity instruments repurchased are deducted from equity at cost.

### (o) Foreign currencies

The individual financial statements of each Group company are stated in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are recorded at the rates of exchange prevailing at that date, or if appropriate, at the forward contract rate. Any resulting gains and losses are included in net profit or loss for the period.

For the purpose of presenting consolidated financial statements the results of entities denominated in currencies other than US dollars are translated at the average rate of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on retranslation at the closing rate of the opening net assets and results of entities denominated in currencies other than US dollars are dealt with through equity and transferred to the Group's retained earnings reserve.

### (p) Pension costs

The contributions payable in the year in respect of pension costs for defined contribution schemes and other post-retirement benefits are charged to the income statement. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

## 03 Financial risk management

The Board reviews and agrees policies for managing financial risks that may affect the Group. In certain cases the Board delegates responsibility for such reviews and policy setting to the Audit and Risk Committee. The main financial risks affecting the Group are discussed in the Risk Management Report on pages 28 to 31.

### 04 Critical judgements and accounting estimates

#### (a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies described in Note 2, management has made judgements that may have a significant effect on the amounts recognised in the financial statements. These are discussed below:

##### Oil and gas assets

Note 2(h) describes the judgements necessary to implement the Group's policy with respect to the carrying value of intangible exploration and evaluation assets and tangible property, plant and equipment. Management considers these assets for impairment at least annually with reference to indicators in IFRS 6 and IAS 36, respectively. Note 15 discloses the carrying value of intangible exploration and evaluation assets and Note 16 discloses the carrying value of property, plant and equipment. Further, Note 2(h) describes the Group's policy regarding reclassification of intangible assets to tangible assets. Management considers the appropriateness of asset classification at least annually.

##### Financial asset

Note 2(n) describes the accounting policy with respect to financial assets at fair value through profit or loss. The key judgements that are used in calculating the fair value of the Group's financial asset arising on the disposal of its Mongolia interest are described in Note 18 and are reviewed at least annually. The only market risk assumption that has a significant impact on the fair value of this asset is the discount rate, as described in the Risk Management Report on page 31.

#### (b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, other than those mentioned above, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

##### Oil and gas reserves

Note 2(h) sets out the Group's accounting policy on depreciation and depletion (DD&A). Proven and probable reserves are estimated using standard recognised evaluation techniques and are disclosed on page 100. The estimate is reviewed at least twice a year and is regularly reviewed by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers. As discussed in the Review of Operations on page 21, independent consultants (RPS) have been retained to provide an interim update of stock tank oil initially in place (STOIP) and gas initially in place (GIIP) and recovery factors. Management has prepared sensitivities based on the range of STOIP/GIIP and recovery factors estimated by RPS based on the information available to date, and have concluded that there would be no material impact on the results or position of the Group at 31 December 2013. However, reserves estimates are inherently uncertain, especially in the early stages of a field's life, and are routinely revised over the producing lives of oil and gas fields as new information becomes available and as economic conditions evolve. Such revisions may impact the Group's future financial position and results, in particular, in relation to DD&A and impairment testing of oil and gas property plant and equipment.

##### Decommissioning provision

The accounting policy for decommissioning is discussed in Note 2(h). The cost of decommissioning is estimated by reference to operators, where applicable, and internal engineers. Further details are provided in Note 25.

### 05 Total revenue

An analysis of the Group's revenue is as follows:

|                                | 2013<br>\$ million | 2012<br>\$ million |
|--------------------------------|--------------------|--------------------|
| Oil and gas sales (see Note 6) | <b>608.1</b>       | 621.6              |
| Investment revenue             | <b>1.0</b>         | 1.0                |
|                                | <b>609.1</b>       | 622.6              |

## 06 Segment information

The Group has one principal business activity being oil and gas exploration and production. The Group's operations are located in South East Asia and Africa (the Group's operating segments) and form the basis on which the Group reports its segment information. There are no inter-segment sales.

|                                       |                       |                                   |                           | 2013                |
|---------------------------------------|-----------------------|-----------------------------------|---------------------------|---------------------|
|                                       | SE Asia<br>\$ million | Africa <sup>2</sup><br>\$ million | Unallocated<br>\$ million | Group<br>\$ million |
| Oil and gas sales (see Note 5)        | 608.1                 | –                                 | –                         | 608.1               |
| Profit (loss) before tax <sup>1</sup> | 437.7                 | (92.0)                            | (12.4)                    | 333.3               |
| Tax charge (see Note 11)              | 229.0                 | –                                 | 0.2                       | 229.2               |
| Depletion and depreciation            | 44.6                  | –                                 | 0.2                       | 44.8                |

|                                       |                       |                                   |                           | 2012                |
|---------------------------------------|-----------------------|-----------------------------------|---------------------------|---------------------|
|                                       | SE Asia<br>\$ million | Africa <sup>2</sup><br>\$ million | Unallocated<br>\$ million | Group<br>\$ million |
| Oil and gas sales                     | 621.6                 | –                                 | –                         | 621.6               |
| Profit (loss) before tax <sup>1</sup> | 459.4                 | –                                 | (13.8)                    | 445.6               |
| Tax charge                            | 238.6                 | –                                 | –                         | 238.6               |
| Depletion and depreciation            | 45.1                  | –                                 | 0.2                       | 45.3                |

<sup>1</sup> Unallocated amounts included in profit before tax comprise corporate costs not attributable to an operating segment, investment revenue, other gains and losses and finance costs.

<sup>2</sup> Costs associated with the Africa segment are capitalised in accordance with the Group's accounting policy.

The accounting policies of the reportable segments are the same as the Group's accounting policies as described in Note 2.

Included in revenues arising from South East Asia are revenues of \$240.3 million, \$102.2 million and \$64.9 million (2012 – South East Asia \$347.9 million, \$86.1 million, \$75.2 million and \$64.2 million) which arose from the Group's largest individual customers who have contributed 10% or more to the Group's revenue.

### 06 Segment information continued

#### Geographical information

Group revenue and non-current assets (excluding the financial asset and other receivables) by geographical location are separately detailed below where they exceed 10% of total revenue or non-current assets, respectively:

#### Revenue

All of the Group's revenue is derived from foreign countries. The Group's revenue by geographical location is determined by reference to the final destination of oil or gas sold.

|             | 2013<br>\$ million | 2012<br>\$ million |
|-------------|--------------------|--------------------|
| Malaysia    | 146.9              | 231.8              |
| Australia   | 137.5              | 144.1              |
| China       | 86.0               | 20.5               |
| Vietnam     | 74.7               | 87.8               |
| Japan       | 58.3               | –                  |
| South Korea | 49.6               | 96.1               |
| Other       | 55.1               | 41.3               |
|             | <b>608.1</b>       | <b>621.6</b>       |

#### Non-current assets

|                | 2013<br>\$ million | 2012<br>\$ million |
|----------------|--------------------|--------------------|
| United Kingdom | 0.9                | 1.0                |
| Vietnam        | 800.6              | 815.8              |
| Congo          | 116.7              | 80.5               |
| Other – Africa | 98.8               | 119.0              |
|                | <b>1,017.0</b>     | <b>1,016.3</b>     |

### 07 Other gains and losses

|   | 2013<br>\$ million | 2012<br>\$ million |
|---|--------------------|--------------------|
| Change in fair value of financial asset (see Note 18) | 1.3                | 1.5                |

### 08 Finance costs

|  | 2013<br>\$ million | 2012<br>\$ million |
|--|--------------------|--------------------|
| Interest payable in respect of convertible bonds (see Note 24) | 1.4                | 3.7                |
| Other interest payable and similar fees                        | 0.1                | 0.2                |
| Unwinding of discount on provisions (see Note 25)              | 1.3                | 1.2                |
|  | <b>2.8</b>         | <b>5.1</b>         |

## 09 Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

|   | 2013<br>\$ million | 2012<br>\$ million |
|---|--------------------|--------------------|
| Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts | <b>0.2</b>         | 0.2                |
| Audit related assurance services – half year review   | <b>0.1</b>         | 0.1                |
| Other assurance services  | <b>0.1</b>         | 0.1                |
| <b>Total non-audit fees</b>   | <b>0.2</b>         | 0.2                |

Other assurance services includes advisory services relating to remuneration and agreed upon procedures relating to the Group's Africa and South East Asia regions.

Details of the Company's policy on the use of auditors for non-audit services are set out in the Audit and Risk Committee Report on pages 55 to 56.

Fees payable to Deloitte LLP for non-audit services to the Company are not required to be disclosed separately because the consolidated financial statements disclose such fees on a consolidated basis.

## 10 Staff costs

The average monthly number of employees of the Group including Executive Directors was 16 (2012 – 14), of which 12 (2012 – 12) were administrative personnel and 4 (2012 – 2) were operations personnel. Their aggregate remuneration comprised:

|  | <b>Group</b>       |                    |
|--|--------------------|--------------------|
|  | 2013<br>\$ million | 2012<br>\$ million |
| Wages and salaries                               | <b>7.9</b>         | 6.5                |
| Social security costs                            | <b>0.3</b>         | 0.3                |
| Share-based payment expense (see Note 30)        | <b>1.4</b>         | 1.1                |
| Other pension costs under money purchase schemes | <b>0.6</b>         | 0.5                |
| Other benefits                                   | <b>0.6</b>         | 0.3                |
|  | <b>10.8</b>        | 8.7                |

In accordance with the Group's accounting policy \$3.8 million of the Group's staff costs above have been capitalised (2012 – \$2.8 million).

### 11 Tax

|                            | 2013<br>\$ million | 2012<br>\$ million |
|----------------------------|--------------------|--------------------|
| Current tax                | 158.3              | 162.8              |
| Deferred tax (see Note 20) | 70.9               | 75.8               |
|                            | <b>229.2</b>       | 238.6              |

The Group's corporation tax is calculated at 50% (2012 – 50%) of the estimated assessable profit for the year in Vietnam. During 2013 and 2012 both current and deferred taxation have arisen in overseas jurisdictions only.

The charge for the year can be reconciled to the profit per the income statement as follows:

|  | 2013<br>\$ million | 2012<br>\$ million |
|--|--------------------|--------------------|
| Profit before tax                                      | 333.3              | 445.6              |
| Profit before tax at 50% (2012 – 50%)                  | 166.7              | 222.8              |
| Effects of:  |                    |                    |
| Non-taxable income and non-deductible expenses         | 11.0               | (0.2)              |
| Tax losses not recognised                              | 5.6                | 13.4               |
| Non-deductible exploration write off                   | 46.0               | –                  |
| Adjustments to tax charge in respect of previous years | (0.1)              | 2.6                |
| <b>Tax charge for the year</b>                         | <b>229.2</b>       | 238.6              |

The prevailing tax rate in the jurisdictions in which the Group produces oil and gas is 50%. The tax charge in future periods may also be affected by the factors in the reconciliation.

### 12 Option to sell majority interest in SOCO Cabinda Limited to non-controlling interest holder

In September 2012, SOCO announced that it had entered into a conditional agreement (the Disposal) with Quill Trading Corporation (Quill) wherein SOCO will sell its 80% majority interest in SOCO Cabinda Limited (SOCO Cabinda) to Quill, which holds the remaining 20% interest. SOCO Cabinda has a 17% participating interest in the Cabinda North Block, onshore the Angolan enclave of Cabinda. Quill paid a non-refundable deposit to the Company for the option to acquire SOCO's entire shareholding in SOCO Cabinda. Consequently, as at 31 December 2012 SOCO Cabinda was classified as held for sale. Although discussions continued with Quill regarding the possible sale of SOCO's majority interest, it was determined that there was no certainty that a transaction would occur. Accordingly, SOCO Cabinda has been reclassified as an intangible asset.

### 13 Profit attributable to SOCO International plc

The profit for the financial year dealt with in the accounts of the Company was \$255.8 million inclusive of dividends from subsidiary undertakings (2012 – profit of \$182.6 million). As provided by section 408 of the Companies Act 2006, no income statement or statement of comprehensive income is presented in respect of the Company.



## 14 Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

|  | 2013<br>\$ million         | 2012<br>\$ million |
|--|----------------------------|--------------------|
| Earnings for the purposes of basic and diluted earnings per share                        | <b>104.1</b>               | 207.0              |
|  | Number of shares (million) |                    |
|  | 2013                       | 2012               |
| Weighted average number of ordinary shares for the purpose of basic earnings per share   | <b>328.2</b>               | 330.2              |
| Effect of dilutive potential ordinary shares – Share awards and options                  | <b>0.8</b>                 | 0.7                |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | <b>329.0</b>               | 330.9              |

## 15 Intangible assets

|  | Group<br>\$ million |
|--|---------------------|
| <b>Exploration and evaluation expenditure</b>    |                     |
| As at 1 January 2012                             | 193.1               |
| Additions  | 42.9                |
| Transfer to assets held for sale (see Note 12)   | (36.3)              |
| As at 1 January 2013                             | <b>199.7</b>        |
| Additions  | <b>71.7</b>         |
| Transfer from assets held for sale (see Note 12) | <b>36.3</b>         |
| Exploration costs written off                    | <b>(92.0)</b>       |
| <b>As at 31 December 2013</b>                    | <b>215.7</b>        |

Intangible assets comprise the Group's exploration and evaluation projects which are pending determination.

The Nganzi licence, onshore Democratic Republic of Congo, expired in 2013 and partners decided, following exhaustive studies, not to apply to extend the exploration period and relinquished the Block in the last quarter of 2013. As a result costs incurred on the Block in the amount of \$92.0 million were written-off in the income statement in accordance with the Group's accounting policy on oil and gas exploration and evaluation expenditure.

### 16 Property, plant and equipment

|                               | Group                                |                     |                     | Company             |
|-------------------------------|--------------------------------------|---------------------|---------------------|---------------------|
|                               | Oil and gas properties<br>\$ million | Other<br>\$ million | Total<br>\$ million | Other<br>\$ million |
| <b>Cost</b>                   |                                      |                     |                     |                     |
| As at 1 January 2012          | 835.7                                | 1.5                 | 837.2               | 1.1                 |
| Additions                     | 67.2                                 | 1.0                 | 68.2                | 1.0                 |
| Disposals                     | –                                    | (0.5)               | (0.5)               | (0.5)               |
| Currency exchange             | –                                    | 0.1                 | 0.1                 | 0.1                 |
| As at 1 January 2013          | <b>902.9</b>                         | <b>2.1</b>          | <b>905.0</b>        | <b>1.7</b>          |
| Additions                     | <b>29.4</b>                          | <b>0.1</b>          | <b>29.5</b>         | <b>0.1</b>          |
| As at 31 December 2013        | <b>932.3</b>                         | <b>2.2</b>          | <b>934.5</b>        | <b>1.8</b>          |
| <b>Depreciation</b>           |                                      |                     |                     |                     |
| As at 1 January 2012          | 42.2                                 | 1.4                 | 43.6                | 1.1                 |
| Charge for the year           | 45.1                                 | 0.2                 | 45.3                | 0.1                 |
| Disposals                     | –                                    | (0.5)               | (0.5)               | (0.5)               |
| As at 1 January 2013          | <b>87.3</b>                          | <b>1.1</b>          | <b>88.4</b>         | <b>0.7</b>          |
| Charge for the year           | <b>44.6</b>                          | <b>0.2</b>          | <b>44.8</b>         | <b>0.2</b>          |
| As at 31 December 2013        | <b>131.9</b>                         | <b>1.3</b>          | <b>133.2</b>        | <b>0.9</b>          |
| <b>Carrying amount</b>        |                                      |                     |                     |                     |
| <b>As at 31 December 2013</b> | <b>800.4</b>                         | <b>0.9</b>          | <b>801.3</b>        | <b>0.9</b>          |
| As at 31 December 2012        | 815.6                                | 1.0                 | 816.6               | 1.0                 |

Other fixed assets comprise plant and machinery, computer equipment and fixtures and fittings.

### 17 Fixed asset investments

#### Principal Group investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2013 which principally affected the profits or net assets of the Group, all of which are indirectly held.

|                                 | Country of incorporation | Country of operation | Principal activity                     | Percentage holding |
|---------------------------------|--------------------------|----------------------|--|--------------------|
| OPECO Vietnam Limited           | Cook Islands             | Vietnam              | Oil and gas exploration and production | 100                |
| SOCO Congo Limited <sup>1</sup> | Cayman Islands           | Congo (Brazzaville)  | Investment holding                     | 85                 |
| SOCO DRC Limited <sup>2</sup>   | Cayman Islands           | Congo (Kinshasa)     | Investment holding                     | 85                 |
| SOCO Vietnam Ltd                | Cayman Islands           | Vietnam              | Oil and gas exploration and production | 100                |

<sup>1</sup> SOCO Congo Limited (SOCO Congo) owns 100% of SOCO Exploration and Production Congo SA which holds the Group's working interest in its Congo (Brazzaville) asset. The Group funds 100% of SOCO Congo and is entitled to receive 100% of the distributions made by SOCO Congo until it has recovered such funding including a rate of return. The 15% non-controlling interest is held by Quantic Upstream Congo SAL (Holding) (see Note 34).

<sup>2</sup> SOCO DRC Limited (SOCO DRC) owns 99% of SOCO Exploration and Production DRC Sprl which holds the Group's working interest in its D R Congo (Kinshasa) asset. The Group funds 100% of SOCO DRC and is entitled to receive 100% of the distributions made by SOCO DRC until it has recovered such funding including a rate of return. The 15% non-controlling interest is held by Quantic Limited.

The Company's investments in subsidiary undertakings include contributions to the SOCO Employee Benefit Trust (see Note 27) and are otherwise held in the form of share capital.

## 18 Financial asset

In 2005, the Group disposed of its Mongolia interest to Daqing Oilfield Limited Company. Under the terms of the transaction the Group will receive a subsequent payment amount of up to \$52.7 million, once cumulative production reaches 27.8 million barrels of oil, at the rate of 20% of the average monthly posted marker price for Daqing crude multiplied by the aggregate production for that month. The subsequent payment amount is included in non-current assets as a financial asset at fair value through profit or loss. The timescale for the production of crude oil in excess of 27.8 million barrels and the price of Daqing marker crude oil are factors that cannot accurately be predicted. However, based upon the Directors' current estimates of proven and probable reserves from the Mongolia interests and the development scenarios as discussed with the buyer, the Directors believe that the full subsequent payment amount will be payable. The fair value of the subsequent payment amount was determined using a valuation technique as there is no active market against which direct comparisons can be made (Level 3 as defined in IFRS 7). Assumptions made in calculating the fair value include the factors mentioned above, risked as appropriate, with the resultant cash flows discounted at a commercial risk free interest rate. The fair value of the financial asset at the date of completion of the sale was \$31.5 million. As at 31 December 2013 the fair value was \$43.4 million (2012 – \$42.1 million) after accounting for the change in fair value (see Note 7).

## 19 Other receivables

During the year the partners in the Hoang Long JOC initiated payments into an abandonment security fund for the purpose of ensuring that sufficient funds exist to meet future abandonment obligations on the TGT field. The fund is operated by PetroVietnam and partners retain the legal rights to the funds pending commencement of abandonment operations. As at 31 December 2013 the Group had contributed \$15.0 million to the fund.

## 20 Deferred tax

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting period:

|                                | Accelerated tax<br>depreciation<br>\$ million | Other<br>temporary<br>differences<br>\$ million | Group<br>\$ million |
|--------------------------------|---|---|---------------------|
| As at 1 January 2012           | 24.8  | 12.7  | 37.5                |
| Charge to income               | 70.3  | 5.5   | 75.8                |
| As at 1 January 2013           | <b>95.1</b>                                   | <b>18.2</b>                                     | <b>113.3</b>        |
| Charge to income (see Note 11) | <b>67.1</b>                                   | <b>3.8</b>                                      | <b>70.9</b>         |
| <b>As at 31 December 2013</b>  | <b>162.2</b>                                  | <b>22.0</b>                                     | <b>184.2</b>        |

There are no unprovided deferred taxation balances at either balance sheet date except in relation to gross losses that are not expected to be utilised in the amount of \$99.3 million (2012 – \$88.3 million).

## 21 Inventories

Inventories comprise crude oil and condensate.

## 22 Other financial assets

|  | Group              |                    | Company            |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | 2013<br>\$ million | 2012<br>\$ million | 2013<br>\$ million | 2012<br>\$ million |
| <b>Amounts falling due within one year</b> |                    |                    |                    |                    |
| Trade receivables                          | <b>57.3</b>        | 68.0               | –                  | –                  |
| Other receivables                          | <b>6.4</b>         | 1.6                | <b>0.2</b>         | 0.2                |
| Prepayments and accrued income             | <b>5.2</b>         | 2.6                | <b>0.6</b>         | 0.4                |
|  | <b>68.9</b>        | 72.2               | <b>0.8</b>         | 0.6                |

There are no amounts overdue or allowances for doubtful debts in respect of trade or other receivables. There is no material difference between the carrying amount of trade and other receivables and their fair value. The above financial assets are held at amortised cost.

### 23 Other financial liabilities

|                              | Group              |                    | Company            |                    |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
|                              | 2013<br>\$ million | 2012<br>\$ million | 2013<br>\$ million | 2012<br>\$ million |
| Trade payables               | 9.9                | 10.2               | –                  | –                  |
| Other payables               | 8.6                | 7.4                | 0.1                | 0.3                |
| Accruals and deferred income | 17.6               | 16.7               | 1.6                | 4.9                |
|                              | <b>36.1</b>        | 34.3               | <b>1.7</b>         | 5.2                |

There is no material difference between the carrying value of trade payables and their fair value. Accruals and deferred income includes interest payable of \$nil (2012 – \$0.3 million) in respect of convertible bonds (see Note 24). The above financial liabilities are held at amortised cost and are not discounted as the impact would not be material.

### 24 Convertible bonds

In May 2006, the Group issued bonds at a par value of \$250 million convertible into ordinary shares of the Company, at the option of the bondholder, from June 2006 until six days before their maturity date of 16 May 2013. At the initial conversion price of £5.46 per share there were 24,952,000 ordinary shares of the Company underlying the bonds. Prior to 2012, bonds with a par value of \$201.3 million were either redeemed at the option of the bondholder or repurchased and subsequently cancelled by the Company. In 2012, the Company repurchased and subsequently cancelled bonds with par and carrying values of \$0.9 million for consideration of \$0.9 million resulting in no gain or loss.

On 16 May 2013 the remaining convertible bonds, with par value of \$47.8 million, were purchased at par value and cancelled. Interest of 4.5% per annum was paid semi-annually up to that date.

|   | 2013<br>\$ million | 2012<br>\$ million |
|---|--------------------|--------------------|
| Liability component at 1 January                      | 47.5               | 46.9               |
| Bonds cancelled upon repurchase                       | (47.8)             | (0.9)              |
| Other interest charged (see Note 8)                   | 1.4                | 3.7                |
| Interest paid   | (1.1)              | (2.2)              |
| <b>Total liability component as at 31 December</b>    | <b>–</b>           | 47.5               |
| Reported in:  |                    |                    |
| Interest payable in current liabilities (see Note 23) | –                  | 0.3                |
| Current liabilities                                   | –                  | 47.2               |
| <b>Total liability component as at 31 December</b>    | <b>–</b>           | 47.5               |

The interest charged for the year was calculated by applying an effective interest rate of 7.91% (2012 – 7.91%) to the liability component for the period which included the 4.5% paid in cash semi-annually.

## 25 Long term provisions

### Decommissioning

|   | Group       |
|---|-------------|
|   | \$ million  |
| As at 1 January 2013                    | 42.7        |
| New provisions and changes in estimates | (1.1)       |
| Unwinding of discount (see Note 8)      | 1.3         |
| <b>As at 31 December 2013</b>           | <b>42.9</b> |

The provision for decommissioning is based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field (currently estimated to be 16 – 17 years) in the removal and decommissioning of the facilities currently in place.

## 26 Share capital

### Ordinary Shares of £0.05 each

|                       | 2013<br>Shares     | 2012<br>Shares | 2013<br>\$ million | 2012<br>\$ million |
|-----------------------|--------------------|----------------|--------------------|--------------------|
| Issued and fully paid | <b>340,951,315</b> | 340,951,315    | <b>27.6</b>        | 27.6               |

As at 31 December 2013 authorised share capital comprised 500 million (2012 – 500 million) ordinary shares of £0.05 each with a total nominal value of £25 million (2012 – £25 million). The Company did not issue any new ordinary shares during 2013 (2012 – 414,863 upon the exercise of certain share options (see Note 30).

### B Shares of £0.40 each

|                        | 2013<br>Shares      | 2012<br>Shares | 2013<br>\$ million | 2012<br>\$ million |
|------------------------|---------------------|----------------|--------------------|--------------------|
| As at 1 January        | –                   | –              | –                  | –                  |
| Issue of B shares      | <b>94,984,376</b>   | –              | <b>61.9</b>        | –                  |
| Redemption of B shares | <b>(94,984,376)</b> | –              | <b>(61.9)</b>      | –                  |
| As at 31 December      | –                   | –              | –                  | –                  |

In October 2013, 94,984,376 redeemable B shares were issued, with a par value of £0.40 each, resulting in a total of \$61.9 million being credited to the B share capital account and charged to the share premium account. The B shares had no voting rights and no right to participate in either the profits of the Company nor its surplus assets on winding-up.

On 3 October 2013, all of the B shares were redeemed at par value and cancelled, an amount of \$61.9 million being deducted from the B share capital account.

### C Shares of 0.0000001 pence each

|                                     | 2013<br>Shares       | 2012<br>Shares | 2013<br>\$ million | 2012<br>\$ million |
|-------------------------------------|----------------------|----------------|--------------------|--------------------|
| As at 1 January                     | –                    | –              | –                  | –                  |
| Issue of C shares                   | <b>236,847,671</b>   | –              | –                  | –                  |
| Reclassification to deferred shares | <b>(236,847,671)</b> | –              | –                  | –                  |
| As at 31 December                   | –                    | –              | –                  | –                  |

In October 2013, 236,847,671 non-redeemable C shares were issued, with a par value of 0.0000001 pence each. The C shares had no voting rights and no right to participate in either the profits of the Company nor its surplus assets on winding-up.

On 3 October 2013 a dividend of £0.40 per C share was paid and all of the C shares automatically reclassified as deferred shares.

### 26 Share capital continued

#### Deferred shares of 0.0000001 pence each

|   | 2013<br>Shares     | 2012<br>Shares | 2013<br>\$ million | 2012<br>\$ million |
|---|--------------------|----------------|--------------------|--------------------|
| As at 1 January                                 | –                  | –              | –                  | –                  |
| Reclassification of C shares to deferred shares | <b>236,847,671</b> | –              | –                  | –                  |
| As at 31 December                               | <b>236,847,671</b> | –              | –                  | –                  |

On 3 October 2013, 236,847,671 C shares were reclassified to non-redeemable deferred shares, with a par value of 0.0000001 pence each. The deferred shares have no voting rights and no right to participate in the profits of the Company. On winding-up or other return of capital, the holders of deferred shares have extremely limited rights.

### 27 Other reserves

|  | Group                                    |                              |                          |                                    |                                 |                     |
|--|--|------------------------------|--------------------------|------------------------------------|---------------------------------|---------------------|
|  | Capital redemption reserve<br>\$ million | Merger reserve<br>\$ million | Own shares<br>\$ million | Share-based payments<br>\$ million | Convertible bonds<br>\$ million | Total<br>\$ million |
| As at 1 January 2012   | –  | 215.9                        | (21.4)                   | (54.4)                             | 0.7                             | 140.8               |
| Purchase of own shares into treasury                                   | –  | –                            | (32.9)                   | –                                  | –                               | (32.9)              |
| Share-based payments   | –  | –                            | –                        | (0.8)                              | –                               | (0.8)               |
| Transfer relating to share-based payments                              | –  | –                            | 0.5                      | (1.6)                              | –                               | (1.1)               |
| Transfer relating to convertible bonds                                 | –  | –                            | –                        | –                                  | (0.5)                           | (0.5)               |
| As at 1 January 2013   | –  | <b>215.9</b>                 | <b>(53.8)</b>            | <b>(56.8)</b>                      | <b>0.2</b>                      | <b>105.5</b>        |
| Redemption of B shares   | <b>61.9</b>                              | –                            | –                        | –                                  | –                               | <b>61.9</b>         |
| Share-based payments   | –  | –                            | –                        | <b>1.4</b>                         | –                               | <b>1.4</b>          |
| Transfer relating to share-based payments                              | –  | –                            | –                        | <b>(0.7)</b>                       | –                               | <b>(0.7)</b>        |
| Transfer relating to share-based payments in prior years (see Note 29) | –  | –                            | –                        | <b>58.3</b>                        | –                               | <b>58.3</b>         |
| Transfer relating to convertible bonds (see Note 29)                   | –  | –                            | –                        | –                                  | <b>(0.2)</b>                    | <b>(0.2)</b>        |
| Currency exchange translation differences                              | –  | –                            | –                        | <b>0.3</b>                         | –                               | <b>0.3</b>          |
| <b>As at 31 December 2013</b>  | <b>61.9</b>                              | <b>215.9</b>                 | <b>(53.8)</b>            | <b>2.5</b>                         | –                               | <b>226.5</b>        |

|   | Company                                  |                              |                          |                                    |  |                     |
|---|--|------------------------------|--------------------------|------------------------------------|--|---------------------|
|   | Capital redemption reserve<br>\$ million | Merger reserve<br>\$ million | Own shares<br>\$ million | Share-based payments<br>\$ million |  | Total<br>\$ million |
| As at 1 January 2012                                      | –  | 159.0                        | (7.4)                    | (57.8)                             |  | 93.8                |
| Purchase of own shares into treasury                      | –  | –                            | (32.9)                   | –                                  |  | (32.9)              |
| Share-based payments                                      | –  | –                            | –                        | (0.1)                              |  | (0.1)               |
| As at 1 January 2013                                      | –  | <b>159.0</b>                 | <b>(40.3)</b>            | <b>(57.9)</b>                      |  | <b>60.8</b>         |
| Redemption of B shares                                    | <b>61.9</b>                              | –                            | –                        | –                                  |  | <b>61.9</b>         |
| Share-based payments                                      | –  | –                            | –                        | <b>1.4</b>                         |  | <b>1.4</b>          |
| Transfer relating to share-based payments (see Note 29)   | –  | –                            | –                        | <b>(0.7)</b>                       |  | <b>(0.7)</b>        |
| Transfers relating to share-based payments in prior years | –  | –                            | –                        | <b>59.7</b>                        |  | <b>59.7</b>         |
| <b>As at 31 December 2013</b>                             | <b>61.9</b>                              | <b>159.0</b>                 | <b>(40.3)</b>            | <b>2.5</b>                         |  | <b>183.1</b>        |

The Group's other reserves comprise reserves arising in respect of merger relief, upon the purchase of the Company's own ordinary shares (Shares) held in treasury and held by the SOCO Employee Benefit Trust (Trust) and in respect of the unrealised equity component of the convertible bonds (see Note 24).

During 2012 the Company purchased 7,514,416 of its own Shares into treasury at a cost of \$32.9 million. The number of treasury Shares held by the Group and the number of Shares held by the Trust at 31 December 2013 was 9,122,268 (2012 – 9,122,268) and 3,666,213 (2012 – 3,666,213), respectively. The market price of the Shares at 31 December 2013 was £3.952 (2012 – £3.579). The Trust, a discretionary trust, holds Shares for the purpose of satisfying long term incentive awards for senior management of the Group, details of which are set out in Note 30 and in the Directors' Remuneration Report on pages 57 to 69. The trustees purchase Shares in the open market which are recognised by the Company within investments and classified as other reserves by the Group as described above. When award conditions are met an unconditional transfer of Shares is made out of the Trust to plan participants. The Group has an obligation to make regular contributions to the Trust to enable it to meet its financing costs. Rights to dividends on the Shares held by the Trust have been waived by the trustees.

Transfers relating to share-based payments in prior years comprise a transfer of \$58.3 million to retained earnings relating to options exercised and other adjustments to the Company's charges and equity for prior years.

## 28 Distribution to Shareholders

In October 2013 a return of value was made to all shareholders of the Company amounting to \$213.3 million (£0.40 per share) in cash by way of a B and C share scheme, which gave shareholders (other than certain overseas shareholders) a choice between receiving cash in the form of income or in the form of capital. As part of the B and C share scheme, 94,984,376 B shares, with a par value of £0.40 per share, were allotted and subsequently redeemed at par value. A further 236,847,671 C shares, with a par value of £0.0000001 per share, were allotted on which a dividend of £0.40 per share and paid, the C shares were then automatically reclassified as deferred shares. Both B and C shares were issued out of available capital in share premium, the redemption of the B shares resulting in a transfer of \$61.9 million to the capital redemption reserve.

The SOCO Employee Benefit Trust, which is consolidated within the Group, was allotted 3,666,213 B shares which were subsequently redeemed for \$2.4 million.

## 29 Retained earnings

|  | Group                         |  |                     |
|--|-------------------------------|--|---------------------|
|  | Retained profit<br>\$ million | Unrealised<br>currency<br>translation<br>differences<br>\$ million | Total<br>\$ million |
| As at 1 January 2012   | 860.7                         | (3.6)  | 857.1               |
| Profit for the year  | 207.0                         | –  | 207.0               |
| Transfer relating to share-based payments                              | 1.1                           | –  | 1.1                 |
| Transfer relating to convertible bonds                                 | 0.5                           | –  | 0.5                 |
| Acquisition of non-controlling interest in subsidiary undertaking      | (95.0)                        | –  | (95.0)              |
| Unrealised currency translation differences                            | –                             | (0.2)  | (0.2)               |
| As at 1 January 2013   | <b>974.3</b>                  | <b>(3.8)</b>   | <b>970.5</b>        |
| Profit for the year  | <b>104.1</b>                  | –  | <b>104.1</b>        |
| Distributions (see Note 28)  | <b>(210.9)</b>                | –  | <b>(210.9)</b>      |
| Transfer relating to share-based payments                              | <b>0.7</b>                    | –  | <b>0.7</b>          |
| Transfer relating to share-based payments in prior years (see Note 27) | <b>(58.3)</b>                 | –  | <b>(58.3)</b>       |
| Transfer relating to convertible bonds                                 | <b>0.2</b>                    | –  | <b>0.2</b>          |
| Unrealised currency translation differences                            | –                             | <b>9.3</b>   | <b>9.3</b>          |
| <b>As at 31 December 2013</b>  | <b>810.1</b>                  | <b>5.5</b>   | <b>815.6</b>        |

### 29 Retained earnings continued

|   | Company                       |  |                     |
|---|-------------------------------|--|---------------------|
|   | Retained profit<br>\$ million | Unrealised<br>currency<br>translation<br>differences<br>\$ million | Total<br>\$ million |
| As at 1 January 2012                                      | 549.1                         | (116.2)  | 432.9               |
| Profit for the year                                       | 182.6                         | –  | 182.6               |
| Unrealised currency translation differences               | –                             | 31.2   | 31.2                |
| As at 1 January 2013                                      | <b>731.7</b>                  | <b>(85.0)</b>  | <b>646.7</b>        |
| Profit for the year                                       | <b>255.8</b>                  | –  | <b>255.8</b>        |
| Distributions (see Note 28)                               | <b>(213.3)</b>                | –  | <b>(213.3)</b>      |
| Transfer relating to share-based payments                 | <b>0.7</b>                    | –  | <b>0.7</b>          |
| Transfers relating to share-based payments in prior years | <b>(54.3)</b>                 | –  | <b>(54.3)</b>       |
| Unrealised currency translation differences               | –                             | <b>27.8</b>  | <b>27.8</b>         |
| <b>As at 31 December 2013</b>                             | <b>720.6</b>                  | <b>(57.2)</b>  | <b>663.4</b>        |

### 30 Incentive plans

Details of the Group's employee incentive schemes are set out below. Additional information regarding the schemes is included in the Directors' Remuneration Report on pages 57 to 69. The Group recognised total expenses of \$1.4 million (2012 – \$1.1 million) in respect of the schemes during the year, a proportion of which was capitalised in accordance with the Group's accounting policies.

During 2013, the Company made a distribution to shareholders by utilising a B and C share scheme (see Note 28). As a result of that distribution, adjustments to the number of Ordinary Shares under option or award and the exercise price of those options have been made in accordance with the rules of the relevant share plan applicable to variations in share capital, and are reflected in the tables below.

#### Long Term Incentive Plan (LTIP)

The Company operates a LTIP for senior employees of the Group. Awards vest over a period of three years, subject to performance criteria which have been set with reference to the Company's total shareholder return (TSR) relative to a range of comparator companies. Consideration may also be given to assessment as to whether the TSR performance is consistent with underlying performance. Awards are normally forfeited if the employee leaves the Group before the award vests. Awards normally expire at the end of 10 years following the date of grant, subject to the requirement to exercise certain awards prior to 15 March of the year following vesting.

Awards would normally be equity-settled through a transfer at nil consideration of the Company's own ordinary shares (Shares) held by the SOCO Employee Benefit Trust (Trust) (see Note 28). Although no awards were exercised in 2013, awards exercised during 2012 over 772,160 Shares were partially satisfied by transferring 490,709 Shares held by the Trust. The remaining 281,451 awards exercised in 2012, being the number of Shares that might otherwise be sold in the market, were satisfied by cash settlement of the participants' tax liabilities of \$1.6 million. The Board decided in that instance it was in the best interest of the Company to agree this settlement method with the participants. The Company has no legal or constructive obligation to repurchase or settle awards in cash. Details of awards outstanding during the year are as follows:

|  | 2013<br>No. of share<br>awards | 2012<br>No. of share<br>awards |
|--|--------------------------------|--------------------------------|
| As at 1 January                          | <b>2,096,900</b>               | 2,641,000                      |
| Adjustment on variation of share capital | <b>215,062</b>                 | –                              |
| Granted                                  | <b>618,000</b>                 | 691,100                        |
| Exercised                                | –                              | (772,160)                      |
| Lapsed                                   | <b>(235,344)</b>               | (463,040)                      |
| As at 31 December                        | <b>2,694,618</b>               | 2,096,900                      |
| Exercisable as at 31 December            | <b>456,844</b>                 | –                              |



Awards outstanding at the end of the year have a weighted average remaining contractual life of 1.9 (2012 – 2.2) years. The weighted average market price and estimated fair value of the 2013 grants (at grant date) were £3.93 and £1.13, respectively.

The fair value of awards at date of grant has been estimated using a binomial option pricing model, based on the market price at date of grant set out above and a nil exercise price. The future vesting proportion of 28.9% was estimated by calculating the expected probability of the Company's TSR ranking relative to its comparators based on modelling each company's projected future share price growth.

### Share options

The Company operates a discretionary share option scheme for employees of the Group. Awards vest over a three year period, and are normally forfeited if the employee leaves the Group before the option vests. Vested options are exercisable at a price equal to the average quoted market price of the Company's Shares on the date of grant, and would normally be equity-settled through newly issued Shares. The Company has no legal or constructive obligation to repurchase or settle options in cash. Unexercised options expire at the end of a 10 year period. Options outstanding include vested options granted under a predecessor plan that expired in April 2007 without prejudice to the subsisting rights of participants. Other than to Directors, the Company can also grant options with a zero exercise price or with an exercise price which is set below the market price of the Company's shares on the date of grant. Such options, which are included in the table below, are granted by reference to the rules of the discretionary share option scheme and are expected to be equity-settled by the transfer of Shares held in the Trust.

|  | No. of share options | 2013<br>Weighted<br>average<br>exercise price<br>£ | No. of share options | 2012<br>Weighted<br>average<br>exercise price<br>£ |
|--|----------------------|--|----------------------|--|
| As at 1 January                          | <b>748,500</b>       | <b>2.71</b>  | 880,000              | 1.29   |
| Adjustment on variation of share capital | <b>99,582</b>        | –  | –                    | –  |
| Granted                                  | <b>222,500</b>       | <b>2.41</b>  | 348,500              | 3.33   |
| Exercised                                | –                    | –  | (480,000)            | 0.56   |
| As at 31 December                        | <b>1,070,582</b>     | <b>2.45</b>  | 748,500              | 2.71   |
| Exercisable as at 31 December            | <b>441,024</b>       | <b>2.17</b>  | 318,000              | 1.79   |

The weighted average market price at the date of exercise during 2012 was £3.27. Options outstanding at the end of the year have a weighted average remaining contractual life of 5.9 (2012 – 6.0) years.

### 31 Reconciliation of operating profit to operating cash flows

|   | Group              |                    | Company            |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2013<br>\$ million | 2012<br>\$ million | 2013<br>\$ million | 2012<br>\$ million |
| Operating profit (loss)   | 333.8              | 448.2              | (11.4)             | (10.4)             |
| Share-based payments  | 1.4                | 1.1                | 1.4                | 1.1                |
| Depletion and depreciation                                      | 44.8               | 45.3               | 0.2                | 0.1                |
| Exploration write off   | 92.0               | –                  | –                  | –                  |
| <b>Operating cash flows before movements in working capital</b> | <b>472.0</b>       | <b>494.6</b>       | <b>(9.8)</b>       | <b>(9.2)</b>       |
| Decrease (increase) in inventories                              | 3.8                | (0.9)              | –                  | –                  |
| Decrease (increase) in receivables                              | 8.6                | (3.9)              | (0.2)              | –                  |
| (Decrease) increase in payables                                 | (9.1)              | 2.5                | (3.8)              | 2.2                |
| <b>Cash generated by (used in) operations</b>                   | <b>475.3</b>       | <b>492.3</b>       | <b>(13.8)</b>      | <b>(7.0)</b>       |
| Interest received   | 1.1                | 1.0                | 0.1                | –                  |
| Interest paid   | (1.2)              | (2.4)              | –                  | –                  |
| Income taxes paid   | (160.8)            | (156.1)            | –                  | –                  |
| <b>Net cash from (used in) operating activities</b>             | <b>314.4</b>       | <b>334.8</b>       | <b>(13.7)</b>      | <b>(7.0)</b>       |

Cash is generated from continuing operating activities only.

Cash and cash equivalents (which are presented as a single class of asset on the balance sheet) comprise cash at bank and other short term highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

### 32 Operating lease arrangements

|   | 2013<br>\$ million | 2012<br>\$ million |
|---|--------------------|--------------------|
| Minimum lease payments under operating leases recognised in income for the year | 30.6               | 30.5               |

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

|                      | 2013<br>\$ million | 2012<br>\$ million |
|----------------------|--------------------|--------------------|
| Within one year      | 29.6               | 29.4               |
| In two to five years | 106.5              | 136.0              |
|                      | <b>136.1</b>       | <b>165.4</b>       |

Operating lease payments mainly represent rentals payable by the Group for floating, production, storage and offloading (FPSO) facilities and for certain of its office properties. The FPSO lease is for a term of seven years with an option to extend for a further seven years.

### 33 Capital commitments

At 31 December 2013 the Group had exploration licence and cost carry commitments not accrued of approximately \$32.5 million (2012 – \$22.6 million).

### 34 Related party transactions

During the year, the Company recorded a net cost in the amount of \$0.8 million (2012 – \$0.7 million) in respect of services rendered between Group companies. There were no balances outstanding with Group undertakings as at 31 December 2013 (2012 – nil). Transactions between the Company and its subsidiaries have been eliminated on consolidation.

#### Remuneration of key management personnel

The remuneration of the Directors of the Company, who are considered to be its key management personnel, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 57 to 69.

|                              | 2013<br>\$ million | 2012<br>\$ million |
|------------------------------|--------------------|--------------------|
| Short term employee benefits | 5.9                | 4.8                |
| Post-employment benefits     | 0.3                | 0.2                |
| Share-based payments         | 1.4                | 1.1                |
|                              | <b>7.6</b>         | <b>6.1</b>         |

#### Directors' transactions

Pursuant to a lease dated 20 April 1997, Comfort Storyville (a company wholly owned by Mr Ed Story) has leased to the Group, office and storage space in Comfort, Texas, USA. The lease, which was negotiated on an arm's length basis, has a fixed monthly rent of \$1,000.

Under the terms of an acquisition approved by shareholders in 1999, the Company and its strategic shareholder group (Investor Group), including Quantic Limited (Quantic) in which Mr Rui de Sousa has a non-notifiable share interest, jointly participate in certain regions in which the Investor Group utilises its long established industry and government relationships to negotiate and secure commercial rights in oil and gas projects. In the 2004 Annual Report and Accounts the form of participation to be utilised was set out to be through equity shareholdings in which the Investor Group holds a non-controlling interest in special purpose entities created to hold such projects. The shareholding terms have been modelled after the SOCO Vietnam Ltd arrangement which was negotiated with third parties. Quantic's non-controlling holdings in the subsidiary undertakings, which principally affected the profits or net assets of the Group, are shown in Note 17. The Group has entered into a consulting agreement, which is terminable by either party on 30 days' written notice, wherein Quantic is entitled to a consulting fee in the amount of \$50,000 per month in respect of such services as are required to review, assess and progress the realisation of oil and gas exploration and production opportunities in certain areas.

During the year, the Company facilitated a foreign exchange transaction to convert £1 million into USD on behalf of Mr Roger Cagle and Ms Cynthia Cagle through a third party bank. The transaction was conducted at the prevailing exchange rate provided by the third party bank at no gain or loss to the Company or Mr and Ms Cagle.

# Additional Information

## Five Year Summary (Unaudited)

| Continuing operations only              | Year to<br>31 Dec 2013<br>\$ million          | Year to<br>31 Dec 2012<br>\$ million | Year to<br>31 Dec 2011<br>\$ million | Year to<br>31 Dec 2010<br>\$ million | Year to<br>31 Dec 2009<br>\$ million |
|---|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| <b>Consolidated income statement</b>    |   |                                      |                                      |                                      |                                      |
| Oil and gas revenues                    | <b>608.1</b>                                  | 621.6                                | 234.1                                | 48.4                                 | 69.3                                 |
| Gross profit                            | <b>439.0</b>                                  | 460.5                                | 166.3                                | 35.6                                 | 58.4                                 |
| Operating profit                        | <b>333.8</b>                                  | 448.2                                | 156.9                                | 29.1                                 | 51.6                                 |
| Profit for the year                     | <b>104.1</b>                                  | 207.0                                | 88.6                                 | 101.4                                | 51.1                                 |
|   | <b>2013<br/>\$ million</b>                    | 2012<br>\$ million                   | 2011<br>\$ million                   | 2010<br>\$ million                   | 2009<br>\$ million                   |
| <b>Consolidated balance sheet</b>       |   |                                      |                                      |                                      |                                      |
| Non-current assets                      | <b>1,075.4</b>                                | 1,058.4                              | 1,027.3                              | 874.7                                | 712.4                                |
| Net current assets                      | <b>232.5</b>                                  | 274.2                                | 187.6                                | 253.6                                | 84.6                                 |
| Non-current liabilities                 | <b>(227.1)</b>                                | (156.0)                              | (116.8)                              | (115.1)                              | (33.7)                               |
| Net assets                              | <b>1,080.8</b>                                | 1,176.6                              | 1,098.1                              | 1,013.2                              | 763.3                                |
| Share capital                           | <b>27.6</b>                                   | 27.6                                 | 27.5                                 | 27.5                                 | 24.5                                 |
| Share premium                           | <b>11.1</b>                                   | 73.0                                 | 72.7                                 | 72.6                                 | 71.1                                 |
| Other reserves                          | <b>226.5</b>                                  | 105.5                                | 140.8                                | 149.2                                | 11.3                                 |
| Retained earnings                       | <b>815.6</b>                                  | 970.5                                | 857.1                                | 763.9                                | 656.4                                |
| Total equity                            | <b>1,080.8</b>                                | 1,176.6                              | 1,098.1                              | 1,013.2                              | 763.3                                |
|   | <b>Year to<br/>31 Dec 2013<br/>\$ million</b> | Year to<br>31 Dec 2012<br>\$ million | Year to<br>31 Dec 2011<br>\$ million | Year to<br>31 Dec 2010<br>\$ million | Year to<br>31 Dec 2009<br>\$ million |
| <b>Consolidated cash flow statement</b> |   |                                      |                                      |                                      |                                      |
| Net cash from operating activities      | <b>314.4</b>                                  | 334.8                                | 90.2                                 | 36.7                                 | 77.0                                 |
| Capital expenditure                     | <b>99.1</b>                                   | 109.9                                | 152.2                                | 151.9                                | 73.9                                 |

SOCO uses a number of financial and non-financial Key Performance Indicators (KPIs) against which it monitors its performance. Detailed KPI targets for the next year are set out in the annual budget. A five year outlook also includes KPIs against which longer term performance can be assessed. At each Board meeting these expectations are reviewed for progress against actual results and adjusted to accommodate changes in the operating environment including oil price fluctuations.

SOCO's KPIs are set out and discussed in the Chairman and Chief Executive's Statement on page 11, the Review of Operations on page 18, the Financial Review on page 24 and the Corporate Social Responsibility Report on page 32.

|  | Year ended<br>31 Dec 2013 | Year ended<br>31 Dec 2012 | Year ended<br>31 Dec 2011 |
|--|---------------------------|---------------------------|---------------------------|
| <b>Financial key performance indicators</b>  |                           |                           |                           |
| Realised oil price per barrel (\$) <sup>1</sup>  | <b>112.62</b>             | 117.76                    | 112.94                    |
| Oil and gas revenues (\$ million)  | <b>608.1</b>              | 621.6                     | 234.1                     |
| Operating cost per barrel (\$) <sup>2</sup>  | <b>8.06</b>               | 8.83                      | 9.42                      |
| DD&A per barrel (\$) <sup>3</sup>  | <b>7.33</b>               | 7.94                      | 7.86                      |
| Gross profit (\$ million)  | <b>439.0</b>              | 460.5                     | 166.3                     |
| Profit for the year (\$ million)   | <b>104.1</b>              | 207.0                     | 88.6                      |
| Basic earnings per share (cents)   | <b>31.7</b>               | 62.7                      | 26.4                      |
| Cash, cash equivalents and liquid investments (\$ million)                                     | <b>210.0</b>              | 258.5                     | 160.1                     |
| Net assets (\$ million)  | <b>1,080.8</b>            | 1,176.6                   | 1,098.1                   |
| Net cash from operating activities (\$ million)  | <b>314.4</b>              | 334.8                     | 90.2                      |
| Capital expenditure (\$ million)   | <b>99.1</b>               | 109.9                     | 152.2                     |
| <b>Non-financial key performance indicators</b>  |                           |                           |                           |
| Total shareholder return (%) <sup>4</sup>  | <b>21.7</b>               | 22.3                      | (20.8)                    |
| Production (barrels of oil equivalent per day) <sup>5</sup>                                    | <b>16,694</b>             | 14,757                    | 5,437                     |
| Proven and probable reserves (mmboe) <sup>6</sup>  | <b>130.1</b>              | 128.5                     | 130.3                     |
| Employee tenure (years) <sup>7</sup>   | <b>9</b>                  | 10                        | 9                         |
| Employee turnover (%) <sup>8</sup>   | –                         | –                         | –                         |
| Lost time injuries frequency (thousand man-hours) <sup>9</sup>                                 | –                         | –                         | –                         |
| Emissions (million tonnes of CO <sub>2</sub> equivalent) (based on equity share) <sup>10</sup> | <b>0.08</b>               | Negligible                | Negligible                |

<sup>1</sup> The realised oil price per barrel is the average proceeds received for each barrel of oil sold in the period.

<sup>2</sup> Operating cost per barrel is the average cost incurred to produce a barrel of oil which excludes lifting imbalances and inventory effects.

<sup>3</sup> DD&A per barrel includes depreciation, depletion and decommissioning costs for the period calculated over barrels of oil produced.

<sup>4</sup> The total shareholder return is the percentage annual return to the Company's shareholders resulting from the share price movement and cash returned to shareholders.

<sup>5</sup> Average barrels of oil equivalent produced per day net to the Group's working interest.

<sup>6</sup> Reserves are net to the Group's working interest expressed in millions of barrels of oil equivalent (see Reserve Statistics on page 100).

<sup>7</sup> Average length of UK based employee tenure.

<sup>8</sup> Rate of UK based employee resignations.

<sup>9</sup> Number of lost time injuries per thousand man-hours on projects operated by SOCO or jointly operated companies.

<sup>10</sup> Scope One and Two emissions in million tonnes of carbon dioxide equivalent, including 100% of emissions from projects over which SOCO has operational control and a share of the emissions from projects which are jointly operated.

# Additional Information

## Reserve Statistics (Unaudited)

net working interest, mmboe

### Net proven oil and gas reserves

|  | Total       | Vietnam     | Congo <sup>1</sup> |
|--|-------------|-------------|--------------------|
| <b>Reserves as at 31 December 2012</b> | <b>67.3</b> | <b>62.2</b> | <b>5.1</b>         |
| <b>Changes in the year</b>             |             |             |                    |
| Additions <sup>2</sup>                 | 4.6         | 4.6         | –                  |
| Revision to previous estimates         | –           | –           | –                  |
| Purchase of reserves                   | –           | –           | –                  |
| Change of interest                     | –           | –           | –                  |
| Sale of reserves                       | –           | –           | –                  |
| Production                             | (6.0)       | (6.0)       | –                  |
| <b>Reserves as at 31 December 2013</b> | <b>65.9</b> | <b>60.8</b> | <b>5.1</b>         |

### Net proven and probable oil and gas reserves

|  | Total        | Vietnam      | Congo <sup>1</sup> |
|--|--------------|--------------|--------------------|
| <b>Reserves as at 31 December 2012</b> | <b>128.5</b> | <b>115.7</b> | <b>12.8</b>        |
| <b>Changes in the year</b>             |              |              |                    |
| Additions <sup>2</sup>                 | 7.6          | 7.6          | –                  |
| Revision to previous estimates         | –            | –            | –                  |
| Purchase of reserves                   | –            | –            | –                  |
| Change of interest                     | –            | –            | –                  |
| Sale of reserves                       | –            | –            | –                  |
| Production                             | (6.0)        | (6.0)        | –                  |
| <b>Reserves as at 31 December 2013</b> | <b>130.1</b> | <b>117.3</b> | <b>12.8</b>        |

### Net proven and probable oil and gas reserves yearly comparison

|                                   | 2013         | 2012  | 2011  | 2010  | 2009  |
|-----------------------------------|--------------|-------|-------|-------|-------|
| <b>Reserves as at 1 January</b>   | <b>128.5</b> | 130.3 | 132.6 | 142.5 | 144.1 |
| <b>Changes in the year</b>        |              |       |       |       |       |
| Additions <sup>2</sup>            | 7.6          | –     | –     | –     | –     |
| Revision to previous estimates    | –            | –     | –     | –     | 3.4   |
| Purchase of reserves              | –            | –     | –     | –     | –     |
| Change of interest                | –            | 3.6   | –     | –     | (2.7) |
| Sale of reserves                  | –            | –     | –     | (8.2) | –     |
| Production                        | (6.0)        | (5.4) | (2.3) | (1.7) | (2.3) |
| <b>Reserves as at 31 December</b> | <b>130.1</b> | 128.5 | 130.3 | 132.6 | 142.5 |

Note: mmboe denotes millions of barrels oil equivalent

Risks associated with reserve evaluation and estimation uncertainty are discussed in Note 4(b) to the financial statements.

<sup>1</sup> Reserves are shown before deductions for non-controlling interests which are funded by the Group. The Group is entitled to receive 100% of the cash flows until it has recovered its funding of the non-controlling interest including a rate of return from the non-controlling interest's pro rata portion of those cash flows.

<sup>2</sup> Additions represent gas reserves in respect of the Te Giac Trang (TGT) field following the signing of the TGT gas sales agreement.

## Registered Office

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### **Company Secretary**

**Cynthia B Cagle**

### **Financial Calendar**

Group results for the year to 31 December are announced in March/April. The Annual General Meeting is held during the second quarter. Half year results to 30 June are announced in August. Additionally, the Group will issue an interim management statement between ten weeks after the beginning and six weeks before the end of each half year period.

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