

# POISED FOR GROWTH

ANNUAL REPORT AND  
ACCOUNTS 2017

# WE ARE AN OIL AND GAS EXPLORATION AND PRODUCTION COMPANY

Headquartered in London and listed on the main market of the London Stock Exchange, we have exploration, development and production interests in Vietnam, and exploration and appraisal interests in Congo (Brazzaville) and Angola

SOCO has more than 20 years' experience in all stages of the upstream oil and gas life cycle. We have been active in a number of locations throughout the world and currently hold interests in core producing assets in Vietnam and exploration and appraisal interests in Africa. We have a strong track record of efficient portfolio management, facilitating the regular return of cash to shareholders.

SOCO's strategy is to deliver value for shareholders by building a balanced portfolio of cash generative and development assets, which provide robust risk adjusted returns through the oil and gas lifecycle. Our focus is on the exploitation of growth opportunities combined with effective capital discipline to maximise returns for all shareholders, and to deliver an annual dividend.

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### ABOUT THE STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2017 for the Group, which comprises pages 2 to 45 and includes:

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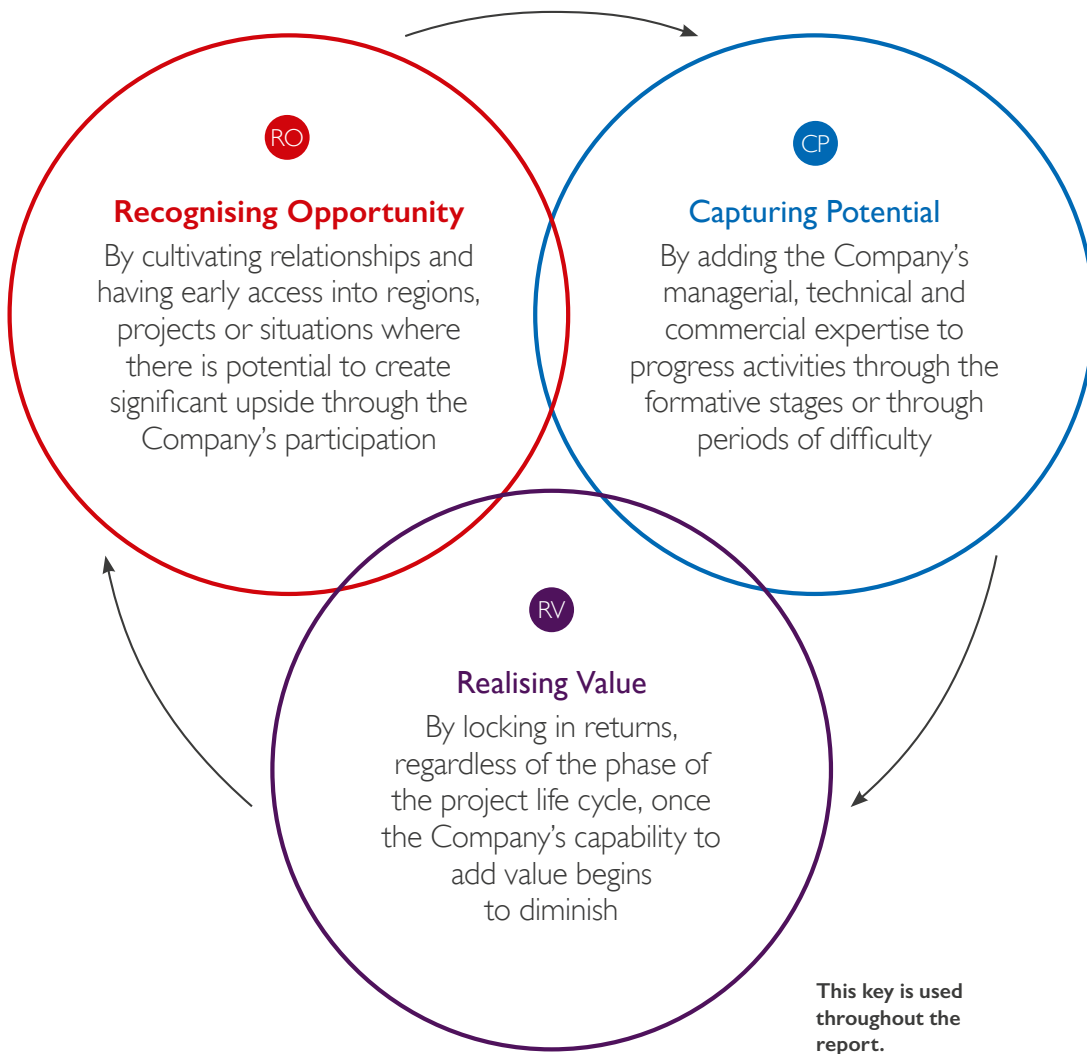
This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to SOCO International plc and its subsidiaries when viewed as a whole. The Directors, in preparing the Strategic Report, have complied with s414C of the Companies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

# SOCO at a Glance

Headquartered in London and listed on the main market of the London Stock Exchange, we have exploration, development and production interests in Vietnam and exploration and appraisal interests in Congo (Brazzaville) and Angola.

## Our core strategic objectives

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.



## Our business around the world

We have participated in projects in many parts of the world over the last 20 years, and our current portfolio is in two regions.

### ① LONDON HEADQUARTERS



### VIETNAM PORTFOLIO

#### ② BLOCK 16-1

**SOCO interest:**  
**30.5%**  
SOCO Vietnam and  
OPECO Vietnam

**Operator:**  
Hoang Long  
Joint Operating Company

**Location:**  
Cuu Long Basin,  
offshore Vietnam

**Operational phase:**  
Production/field  
development

#### ② BLOCK 9-2

**SOCO interest:**  
**25%**  
SOCO Vietnam

**Operator:**  
Hoan Vu  
Joint Operating Company

**Location:**  
Cuu Long Basin,  
offshore Vietnam

**Operational phase:**  
Production/field  
development

#### ③ BLOCKS 125 & 126

**SOCO interest:**  
**70%**  
SOCO Exploration  
(Vietnam)

**Operator:**  
SOCO Exploration  
(Vietnam)

**Location:**  
Phu Khanh Basin,  
offshore Vietnam

**Operational phase:**  
Exploration



### AFRICA PORTFOLIO

#### ④ LIDONGO / VIODO / LIDEKA / LOUBANA (former Marine XI Block)

**SOCO interest:**  
**40.39%**  
SOCO Exploration &  
Production Congo

**Operator:**  
SOCO Exploration &  
Production Congo

**Location:**  
Offshore Congo  
(Brazzaville)

**Operational phase:**  
Exploration/appraisal

#### ⑤ CABINDA NORTH BLOCK

**SOCO interest:**  
**22%\***  
SOCO Cabinda

**Operator:**  
Eni Angola\*

**Location:**  
Onshore Cabinda,  
Angola

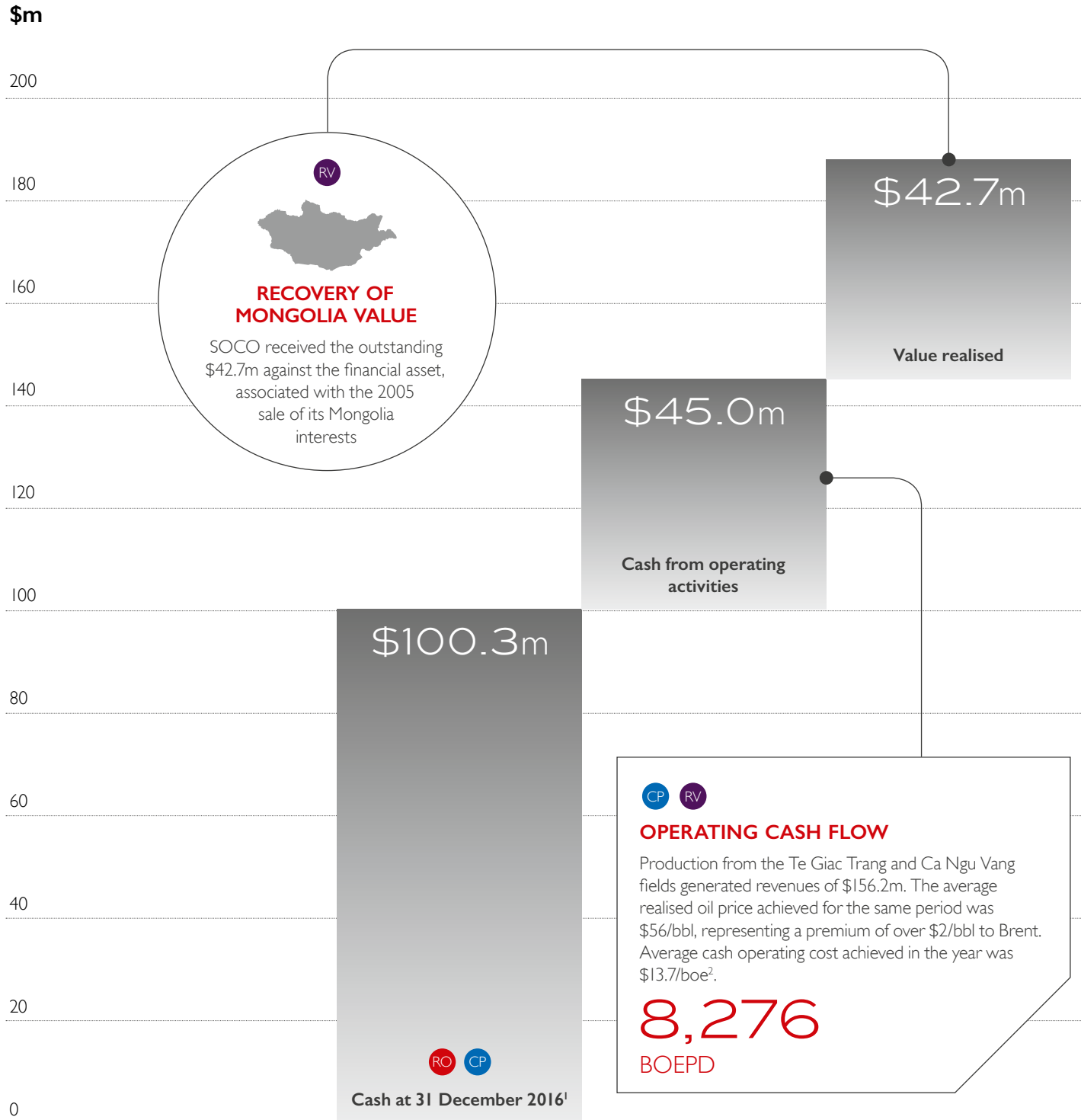
**Operational phase:**  
Exploration/appraisal



\* Pending formal governmental approval, as described in more detail in the Review of Operations

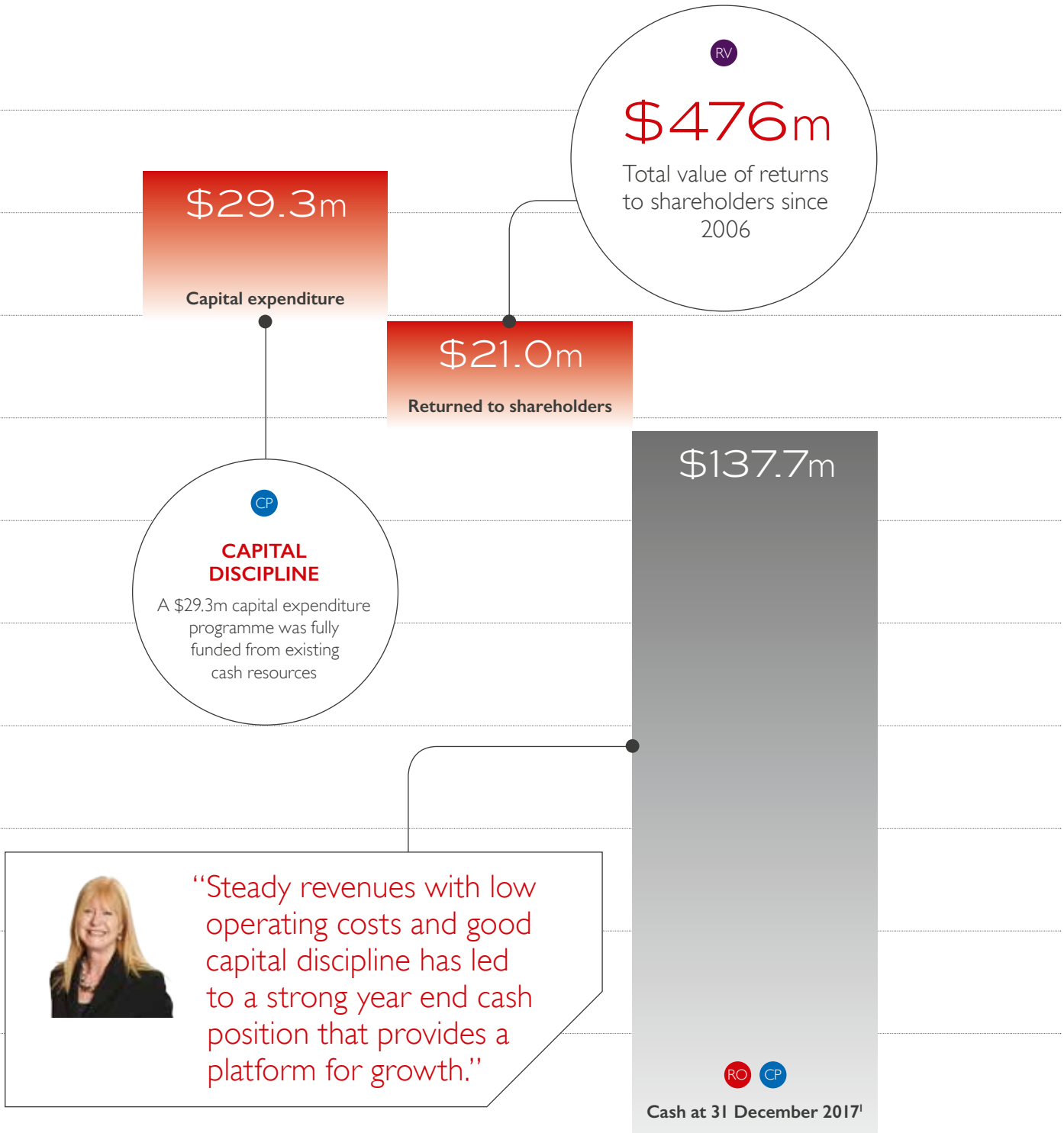
# A Solid Financial Foundation

Provided by steady revenues, low operating costs and a disciplined approach to capital allocation.



**Key** **RO** Recognising Opportunity **CP** Capturing Potential **RV** Realising Value

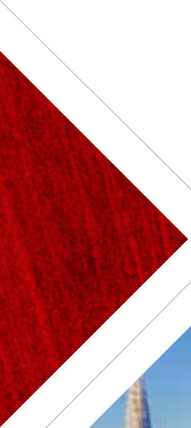
<sup>1</sup> Cash, cash equivalents and liquid investments <sup>2</sup> See page 120 for details



# Building for the Next Phase

The Company is well positioned for growth, and we will use this platform to grow the business and deliver value by maintaining focus on capital discipline, capital allocation and capital return.

We aim to build a business focused on sustainable cash flow generation, maximising value creation and total shareholder return. We have the right people and the right financial strength to create opportunities to grow the business.





## A STRONG TEAM

This year SOCO invigorated its corporate strategy to further strengthen the business through inorganic and organic growth opportunities that would upscale the business in line with our financial strategy of capital discipline, capital allocation and capital return. A strong team is at the heart of any successful business, and in line with our renewed strategic objectives, desire and commitment to energising our growth strategy, we have brought on Jann Brown and Dr. Mike Watts to lead the effort as co-heads of the Company's business development group.

Jann and Mike have a combined total of 70+ years industry experience. They bring a unique skill set to SOCO, they have a vast knowledge of the industry and are well known throughout the sector. Both Jann and Mike were executive directors at Cairn Energy during its rapid growth to become a FTSE 100 company. They left Cairn in 2014 to form a private equity backed start up. Not only do Jann and Mike bring the experience, capability and industry network to suggest success in our efforts, but they clearly bring additional strength to our capability to manage an expanded portfolio both now and in the future and deliver our growth plans.



**Ed Story**  
President and Chief  
Executive Officer

“Not only do Jann and Mike bring the experience, capability and industry network to suggest success in our efforts, but they clearly bring additional strength to our capability to manage an expanded portfolio both now and in the future.”



# Vietnam – A Valued Asset

SOCO's 20-year history with Vietnam has been a success story, both for the Company and the country.

## Leading in South East Asia

SOCO has invested over \$1 billion into its oil and gas projects located offshore southern Vietnam, making SOCO one of the largest British investors in the country.

SOCO's current producing interests, the Te Giac Trang and Ca Ngu Vang fields, together, are amongst Vietnam's largest oil producers. SOCO's joint-operations have achieved an outstanding record of safety and have contributed to national economic growth through local sourcing, employment, training and industry upskilling.

### 2017 average production

# 8,276

BOEPD



## Looking to a bright future

SOCO acquired a 70% operated interest over Blocks 125 & 126, in the Phu Khanh Basin offshore central Vietnam, following formal signature of a new PSC in October 2017. The PSC has an initial exploration period of four years. The blocks are in moderate to deep water and have multiple structural and stratigraphic plays. Interpretation of the available data indicates a good potential for source, expulsion and migration of oil, with the likelihood of numerous reservoir and seal intervals.

### Blocks 125 & 126

**70%**  
operated interest,  
offshore central Vietnam



## A stable base for the future

SOCO has retained a strong financial position throughout the current oil price environment. Steady revenues, low operating costs and a disciplined approach to capital allocation have provided financial stability. SOCO's robust balance sheet, with debt capacity and attractive Vietnam production economics, further underpins the SOCO business model.

**Average realised  
crude oil price**

**\$56**  
/bbl

**Premium  
to Brent**

**\$2**  
/bbl



**RUI DE SOUSA**  
CHAIRMAN



**ED STORY**  
PRESIDENT AND CHIEF  
EXECUTIVE OFFICER

# Chairman and Chief Executive Officer's Statement

SOCO is strongly focused, re-energised and committed to the organic and inorganic growth of the business.

## POISED FOR GROWTH

2017 saw a year where SOCO retained its stable financial position with a renewed focus and commitment on actively pursuing growth opportunities being emphasised with the establishment of a business development team. This combination places the Group on a robust platform from which to materially grow the business.

Operations in 2017 centred on optimising production efficiency on the TGT and CNV fields in our core business area, offshore southern Vietnam. Formal approval of the updated FFDP for TGT in February 2017 signalled a positive realignment amongst partners and a halt to the production decline. Group production was 8,276 BOEPD (2016: 9,883 BOEPD) net to SOCO's working interest. Group year-end 2017 commercial (2P) reserves are 28.1 MMBOE (2016: 33.3 MMBOE).

SOCO continues to achieve a stable operational and financial base with the balance sheet remaining strong throughout 2017 with solid cash flow and low cash operating costs. The Group finished the year with no debt and \$137.7m in cash after fully funding its operating and capital expenditure programme and returning \$21.0m to shareholders through a 5 pence per share dividend, bringing the total return to shareholders since 2006 to \$476m. In March 2017, the Group received \$42.7m as the final payment from the 2005 sale of its Mongolia assets.

Capex in 2017, fully funded from existing cash resources, was \$29.3m (2016: \$40.1m). Net cash generated from operations fell slightly to \$45.0m in 2017, from \$46.0m in 2016, reflecting higher oil

The SOCO team has a track record of delivering shareholder value through asset acquisition and monetisation, delivering large scale developments, and returning capital to shareholders.

prices offset by a decrease in production and timing of working capital movements and cash tax. An average crude oil sales price of \$56/bbl was realised during 2017, representing a premium of over \$2/bbl to Brent and generating revenues of \$156.2m (2016: \$154.6m), against low cash operating expenditure of \$13.73/bbl (2016: \$11.70/bbl). SOCO's full operating cost break-even oil price is below \$30/bbl. The Group posted a loss of \$157.3m (2016: \$4.2m restated), which included E&E impairments of \$152.3m (2016: \$2.2m write back restated), the loss being \$5.0m (2016: \$6.4m loss restated) prior to the impairment. As announced in our trading statement in January, we have determined that there will be no substantive activity on our African assets and accordingly they have been fully impaired. Prior year comparatives have been restated to reflect our decision to change our E&E policy from modified full cost to successful efforts to better align with our peer group.

Vietnam is the core asset in SOCO's portfolio and since 1997 we have invested over \$1.1 billion in the region, making SOCO one of the largest British investors in Vietnam. The ultimate goal of any successful development is to achieve production in a safe, responsible and cost effective way to benefit all stakeholders, including the countries where we operate. Safety will always be of the highest priority within the business and SOCO's joint-operations have achieved an outstanding record of safety and have demonstrated commitment to local sourcing, employment, training and industry upskilling. Our interests in the TGT and CNV fields are operated by the HLJOC and HVJOC respectively. We are delighted by HLHVJOC's extremely high level of safe operations, with zero LTIs in almost 22.9 million man-hours worked since project inception, representing six production years on TGT and nine production years on CNV.

Our goal is to be a positive presence in the regions in which we operate, by providing responsible and sustainable development, resulting in value for the host countries and local communities as well as for our own shareholders. SOCO continually strives to select and finance social projects which are sustainable and will outlast the company's involvement in the project. In Vietnam, community projects are selected by HLHVJOC and during 2017, the HLHVJOC Charitable Donation programme focused on projects assisting infrastructure development, investing in healthcare, education, and disaster relief for flood victims.

This year SOCO reinvigorated its corporate focus to further strengthen the business through inorganic and organic growth opportunities, with the potential to upscale the business underpinned by our historical focus on financial discipline and shareholder return.

#### **New ventures**

SOCO has been present in Vietnam for over 20 years, and because of our experience and presence in the region, we began evaluation of the exploration potential of Blocks 125 & 126 in the Phu Khanh Basin, in 2010. We are delighted to have signed a PSC in 2017 under which the group has acquired 70% operated interest over the two blocks, and this is seen as a strategic extension of our existing core asset. In Africa, activity centred on the award of new PEXs over each of Viodo, Lidoka and Loubana, in addition to the already granted PEX for Lidongo. All four new exploitation permits are within what was formerly the contract area of the Marine XI PSC offshore Congo (Brazzaville).

In October 2017, the Group signed a PSC for Blocks 125 & 126, in the Phu Khanh Basin offshore central Vietnam, with PetroVietnam and SOCO's



We aim to build a business focused on sustainable cash flow generation, maximising value creation and total shareholder return.

## Chairman and Chief Executive's Statement continued

co-venturer; SOVICO Holdings Company, under which the Group has acquired 70% operated interest over the two blocks. Blocks 125 & 126 are in moderate to deep water in the Phu Khanh Basin, to the north of the Cuu Long Basin, and have multiple structural and stratigraphic plays observed on the available seismic data. Initial activities will include reprocessing and interpretation of seismic data, with a view to a first exploration well potentially as early as 2020.

In January 2018, SOCO announced that it was in preliminary discussions with the newly-constituted board of directors of Kuwait Energy plc ('Kuwait Energy') regarding a potential transaction. On 5 March 2018 we announced that these discussions were terminated, with the Company unable to reach agreement with Kuwait Energy on the basis for an acceptable transaction.

The SOCO team has a track record of delivering shareholder value through asset acquisition and monetisation, delivering large scale developments, and returning capital to shareholders. We evaluate M&A opportunities by reference to our strategic, financial and operational criteria and only pursue transactions if they are determined by the Board to be in the best interest of shareholders. The Board continues to evaluate a number of opportunities in accordance with these criteria.

## CORPORATE

### Corporate Governance

Corporate governance remains a priority and the Company is committed to its programme of Board refreshment. The Directors will continue to review the balance and effectiveness of the Board with a view to adding independent non-executives commensurate with the nature and size of the Group's business.

### Non-Executive Directors

In January 2017, Dr. Mike Watts stood down as an independent Non-Executive Director. Rob Gray, the Board's Senior Independent Director, replaced Dr. Mike Watts as Chairman of the Audit & Risk Committee. In December 2017, Rob Gray was appointed as Deputy Chairman of the Company, while remaining as Senior Independent Director, Chairman of the Audit & Risk Committee and member of the Remuneration and Nominations Committees.

### Executive Directors

In February 2017, Jann Brown and Dr. Mike Watts joined the Company as full-time executives to co-head the Company's newly formed business development group and on 12 November 2017 were appointed as Executive Directors. Both Jann and Mike were executive directors at Cairn Energy during its rapid growth to become a FTSE 100 company.

Roger Cagle and Cynthia Cagle stepped down as Executive Directors on 12 November 2017 and will retire as employees of the Group as of 11 September 2018 after over 20 years of service. They have each played a crucial role in the success of the business throughout that time. We would like to thank Cynthia and Roger for their immense contribution to SOCO. It has been a privilege to work with them and we wish them all the very best for the future.

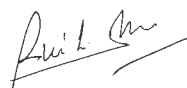
## OUTLOOK

Since inception SOCO has been committed to shareholder value creation through the growth of the business and cash returns to shareholders. In line with this, the Board proposes an increased final dividend for 2017 of 5.25 pence per share.

Capital expenditure for 2018 is budgeted at approximately \$40m. The 2018 Vietnam work programme includes modification works on the FPSO and infill drilling of 2/3 wells on the TGT field and one well on the CNV field. Production guidance for 2018 is set at a net average 8,000 to 9,000 BOEPD. \$6.0m of the capital expenditure is allocated for the purchase, processing and interpretation of seismic data on Blocks 125 & 126.

SOCO differentiates itself amongst its peers by having a consistently strong balance sheet, steady cash flows and low operating costs. This gives us a strong and stable foundation from which to grow the business. Annual cash returns to shareholders have been delivered since 2006 and sustaining these is an objective the Board expects to maintain in the future.

SOCO is strongly focused, reenergised and committed to the organic and inorganic growth of the business. It will continue to seek opportunities of scale, that will complement our existing high quality producing assets, and diversify the portfolio. We aim to build a business focused on sustainable cash flow generation, maximising value creation and total shareholder return. We will only pursue opportunities that aim to fit our strategic, financial and operational criteria. We have a strong platform for growth in 2018 and beyond. We look forward to driving the strategy, with a focus on business growth, this year and beyond.



**Rui de Sousa**  
Chairman



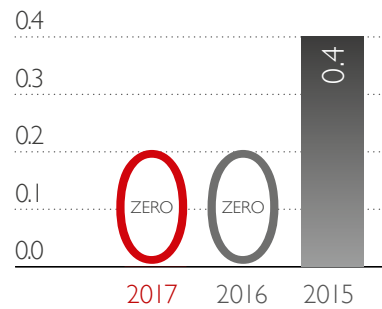
**Ed Story**  
President and Chief Executive Officer

# Measuring our Performance (KPIs)

The Key Performance Indicators ('KPIs') used to monitor our progress in delivering on our strategies are both financial and non-financial. The use of financial and non-financial metrics facilitates better management of long-term performance and delivering on our sustainable responsible business plans. These metrics are kept under periodic review and regularly tested for relevance against our strategies and policies.

We continue our focus on streamlining operating costs, maintaining a strong cash balance and creating value for shareholders, and continue to deliver on a number of key metrics.

**LOST TIME INJURY FREQUENCY ('LTIF')**  
(per million man-hours worked)

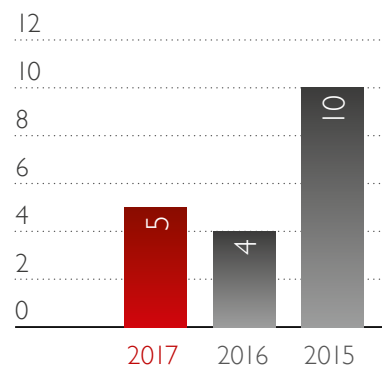


**OBJECTIVE:** SOCO's key safety target is zero LTIF

**2017 PERFORMANCE:** Zero LTIF in the year



**RETURNS TO SHAREHOLDERS**  
(pence per ordinary share)



**OBJECTIVE:** Sustainable cash returns to shareholders

**2017 PERFORMANCE:** SOCO's business model continues to deliver sustainable cash returns to shareholders and during the year paid a final dividend of 5 pence per ordinary share for the year to 31 December 2016



**Key**

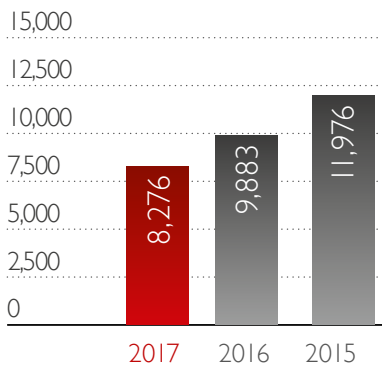
Recognising Opportunity

Capturing Potential

Realising Value



NET PRODUCTION (BOEPD)

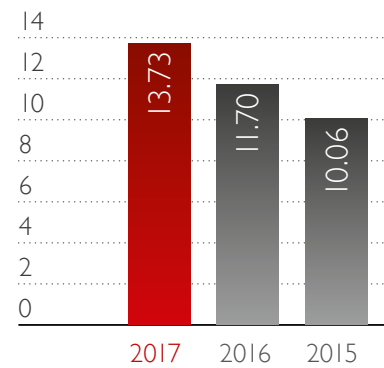


**OBJECTIVE:** Maximise production from SOCO's core business area in Vietnam

**2017 PERFORMANCE:** Stable production rates were within guidance, with two infill wells executed on time and within budget



LOW CASH OPERATING COST (\$/BOE)

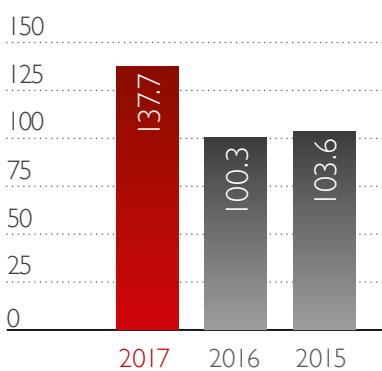


**OBJECTIVE:** Minimise underlying operating costs

**2017 PERFORMANCE:** Operating costs were \$13.73/boe, which was slightly higher than previous years' cost base, largely due to lower production volumes offset by the positive impact of the overall operating cost savings



CASH, CASH EQUIVALENTS AND LIQUID INVESTMENTS (\$m)



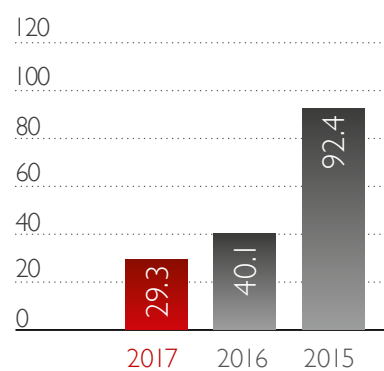
**OBJECTIVE:** Maintain financial strength through a strong cash balance, ensuring we meet obligations as they become due, invest in the future of the business and maintain our commitment to return cash to shareholders

**2017 PERFORMANCE:** SOCO has registered a strong debt free cash balance of \$137.7m whilst also returning cash to shareholders



CAPITAL EXPENDITURE (cash \$m)\*

\*includes abandonment funding



**OBJECTIVE:** Manage the capital risk to ensure we have sufficient liquid resources to deliver on our strategies

**2017 PERFORMANCE:** Our disciplined approach to capital allocation led to a 27% decrease in cash spend in 2017





**ANTONY MARIS**  
CHIEF OPERATING  
OFFICER

## Review of Operations

A PSC for Blocks 125 & 126 was formally signed in 2017, under which the Group has acquired a 70% operated interest over the two blocks

### VIETNAM

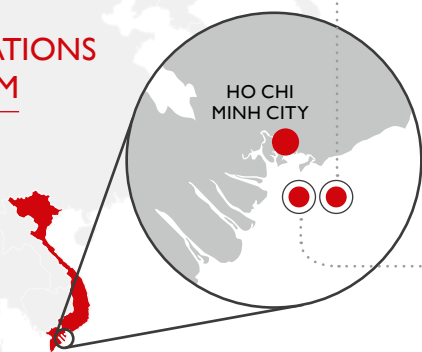
In Vietnam, Blocks 16-1 and 9-2, which comprise the TGT and CNV fields respectively, are located in shallow water in the hydrocarbon rich Cuu Long Basin, near the Bach Ho field, the largest field in the region which has produced more than one billion barrels of oil equivalent. The blocks are operated through non-profit joint operating companies in which each partner holds an interest equivalent to its share in the respective Petroleum Contract. The Group holds a 30.5% working interest in Block 16-1 and a 25% working interest in Block 9-2 and its partners in both blocks are PetroVietnam Exploration and Production, a subsidiary of the national oil company of Vietnam, and PTTEP, the national oil company of Thailand.

### PRODUCTION SUMMARY

The Group's producing assets comprise its interests in the TGT and CNV fields. Total production from these fields averaged 28,506 BOEPD gross (2016: 33,861 BOEPD) and 8,276 BOEPD net to SOCO's working interest (2016: 9,883 BOEPD). TGT gross production averaged 22,300 BOEPD and 6,724 BOEPD net to SOCO's working interest in 2017 (2016: 27,650 BOEPD gross and 8,330 BOEPD net). CNV gross production averaged 6,206 BOEPD and 1,552 BOEPD net to SOCO's working interest in 2017 (2016: 6,211 BOEPD gross and 1,553 BOEPD net).

The average realised crude oil price for 2017 was approximately \$56 per bbl, a premium to Brent of over \$2 per bbl.

## OUR LOCATIONS IN VIETNAM



### Block 16-1 Location

Cuu Long Basin,  
offshore Vietnam

### Operational phase

Field development/production

### Operator

Hoang Long JOC

2017 production  
**6,724**  
BOEPD

### Block 9-2 Location

Cuu Long Basin,  
offshore Vietnam

### Operational phase

Field development/production

### Operator

Hoan Vu JOC

2017 production  
**1,552**  
BOEPD

### Block 16-1 – TGT Field

(30.5% working interest; operated by HLJOC)

The TGT field is located in the north eastern part of Block 16-1 offshore Vietnam and is operated by HLJOC. SOCO signed the PSC in December 1999 and the first commercial discovery was made in 2005.

TGT is a simple structure, with complex production intervals, extending over 16km and with hydrocarbons located in at least five major fault blocks. The producing reservoir is comprised of a complex series of over 80 modelled clastic reservoir intervals of Miocene and Oligocene age. Each interval requires individual reservoir management to optimise field recovery. The TGT field has been a rewarding investment for SOCO, with its attractive fiscal terms and low operating costs.

The first platform, H1-WHP, came on stream in August 2011, followed by the H4-WHP in July 2012. Crude oil from TGT is transported via subsea pipeline to the FPSO, where it is processed, stored and exported

by tankers to regional oil refineries. Gas produced from the field is transported by pipeline to the nearby Bach Ho facilities for processing and onward transportation to shore by pipeline to supply the Vietnamese domestic market.

### Updated Full Field Development Plan

Formal approval of the updated TGT FFDP was received from the Vietnamese government in February 2017. Drilling operations on the TGT field resumed in Q1 2017, drilling two additional infill wells. The jack-up drilling rig, PetroVietnam Drilling VI, spudded the TGT-30P well on 8 March 2017, targeting the Miocene and Oligocene reservoir horizons in the crestal part of the H1.1 fault block. TGT-30P came on-line producing approximately 2,500 BOEPD with an as-expected 40% water cut.

On completion of TGT-30P, the rig moved to the H5-WHP in the southern part of the TGT field to drill the TGT-29P infill well. The well utilised smart completion technology to optimise hydrocarbons recovery.

## OIL AND GAS PRODUCTION BY FIELD (Figures in BOEPD)

	FY 2017	FY 2016
TGT Production	<b>6,724</b>	8,330
Oil	<b>6,299</b>	7,825
Gas <sup>1</sup>	<b>425</b>	505
CNV Production	<b>1,552</b>	1,553
Oil	<b>1,037</b>	1,076
Gas <sup>1</sup>	<b>515</b>	477
<b>Total Production</b>	<b>8,276</b>	9,883
<b>Oil</b>	<b>7,336</b>	8,901
<b>Gas<sup>1</sup></b>	<b>940</b>	982

<sup>1</sup> Assumes oil equivalent conversion factor of 6,000 standard cubic feet per barrel of oil equivalent.

## Review of Operations continued



The TGT-29P well was tied into the production system in June 2017, after being completed on time and within budget, and came on-line producing at approximately 1,600 BOEPD.

The third and final drilling operation in the 2017 TGT Development Drilling Programme was the resumption of the TGT-14X step-out appraisal well on the H5 south fault block, initially spudded in 2015. The high angle and long reach of the well added complexity to drilling operations. The well was successfully drilled to the target depth; however, poor hole conditions prevented successful completion of the well. Smaller, non-standard drilling equipment will be required to re-drill the reservoir section of the well and, consequently, completion of drilling was deferred to the next campaign. Suspending the well meant it overran the budget and, costs for returning and completing the well have been included in the 2018 budget.

## Construction and installation of new processing equipment on the HI-WHP has been completed.

### TGT – Production optimisation

Construction and installation of new processing equipment on the HI-WHP has been completed. The start-up of the water handling system on HI-WHP experienced setbacks and delays due to issues resulting from damaged valves and production stabilisation issues. However, the system is now functioning in line with expectations and production guidance has been achieved. The processing equipment will be designed to handle an additional 90,000 BLPD with specific water handling capacity of up to 65,000 BWPD. The increase in the total system handling capacity to approximately 180,000 BLPD allows for higher levels of oil production at the same or higher water cut rate than previously possible.

Following installation, the operator identified a sub-optimal performance issue affecting two gas compressors on the FPSO. Evaluation of the technical solutions and requirements for further investment in the gas compression issues is ongoing and these costs will be included in the 2018 work programme and budget.

### Block 9-2 – CNV Field (25% working interest; HVJOC)

The CNV field is located in the western part of Block 9-2, offshore southern Vietnam and is operated by the HVJOC. In contrast to the geology of TGT, the CNV field reservoir is fractured granitic basement which produces highly volatile oil with a high gas to oil ratio. Exploitation

is dependent on the fracture interconnectivity to deplete the reservoir efficiently. Accordingly, traditional reservoir properties and STOIP calculations are not straightforward. Hydrocarbons produced from CNV are transported via subsea pipeline to the BHCPP, where wet gas is separated from oil and transported via pipeline to an onshore gas facility for further distribution. The crude oil is stored on a floating, storage and offloading vessel prior to sale.

**CNV – Production and optimisation**

The CNV field has performed steadily throughout the year. CNV production averaged 6,206 BOEPD gross and 1,552 BOEPD net to SOCO's working interest in 2017 (2016: 6,211 BOEPD gross and 1,553 BOEPD, respectively).

During the execution of the well conversion from injection to production on CNV-6PST1, wireline was left in the completion. Fishing operations during 1H 2017 to recover the stuck wireline were unsuccessful. Alternative operations to work over the well are being considered for execution in 2018, alongside a side-track to an existing well to enhance recovery from the field. Discussions with the Bach Ho owners are ongoing

to establish the most effective means of enhancing performance through modifications at the reception terminal.

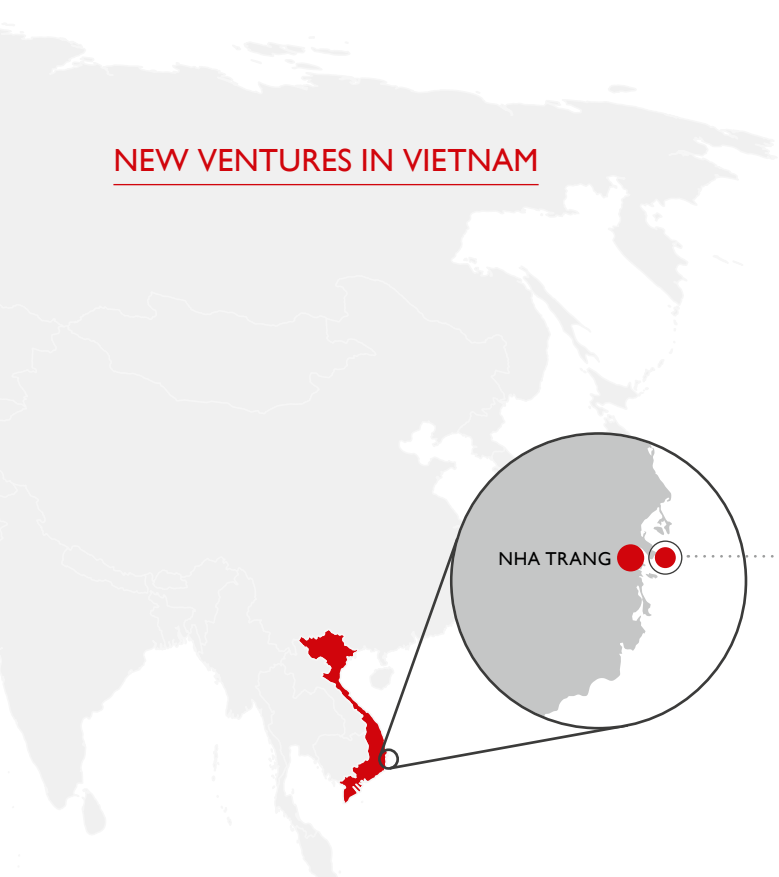
**VIETNAM NEW VENTURES**

A PSC for Blocks 125 & 126, offshore central Vietnam, between PetroVietnam, SOVICO Holdings and SOCO's wholly owned subsidiary SOCO Exploration (Vietnam) Limited, was formally signed in October 2017, under which the Group has acquired a 70% operated interest over the two blocks.

Blocks 125 & 126 are in moderate to deep waters in the Phu Khanh Basin, north of the Cuu Long Basin, and have multiple structural and stratigraphic plays observed on the available 2D seismic data. Interpretation of the available data indicates there is good potential for source, expulsion and migration of oil with numerous reservoir and seal intervals likely.

The Group's forecast capex for 2018 includes the purchase of existing seismic data, reprocessing and interpretation of seismic data, with a view to drilling the first exploration well potentially as early as 2020.

**NEW VENTURES IN VIETNAM**



**Blocks 125 & 126**

**Location:**

Phu Khanh Basin, offshore Vietnam

**SOCO interest:**

**70%**

SOCO Exploration  
(Vietnam)  
Operator

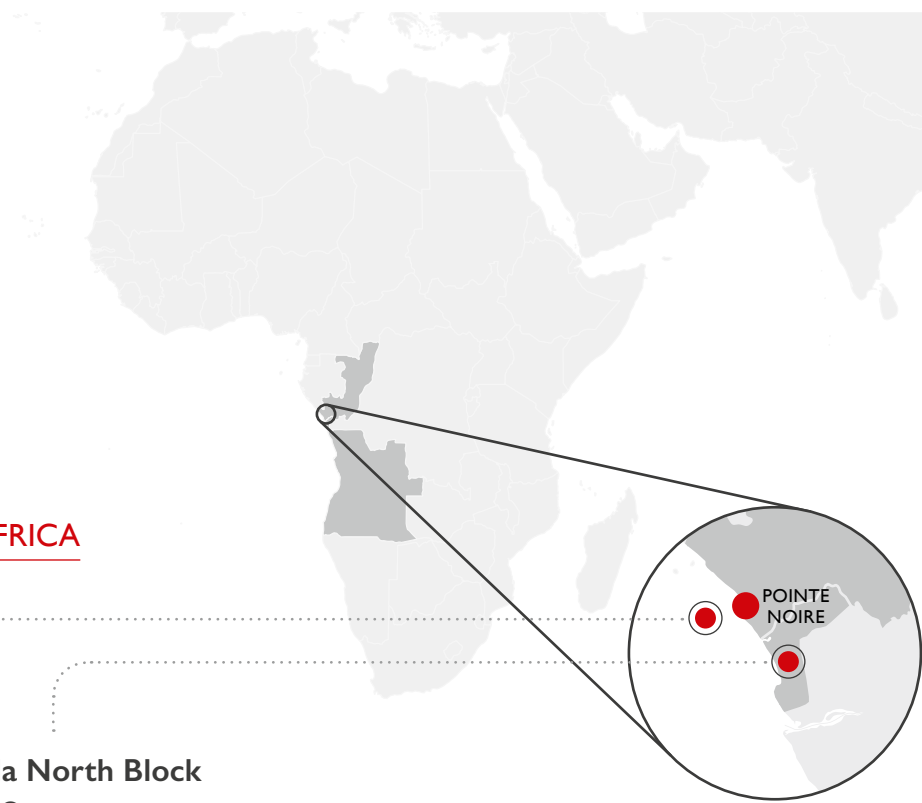
**Operational phase:**

Exploration



Review of Operations continued

**OUR LOCATIONS IN AFRICA**



**Marine XI Block**

**Operator**

SOCO Exploration & Production Congo

**SOCO interest:**

**40.39%**

**Cabinda North Block**

**Operator**

Eni Angola\*

**SOCO interest:**

**22%\***

**REPUBLIC OF CONGO (BRAZZAVILLE)**

**Lidongo, Loubana, Lideka and Viodo Exploitation Permits, offshore Congo (Brazzaville)**

**(40.39% working interest; SOCO-operated)**

The Group holds its interests in the former Marine XI contract area, located offshore Congo (Brazzaville) in the shallow water Lower Congo Basin, through an 85% owned Congolese subsidiary, SOCO Exploration and Production Congo SA. The area exists going forward as four distinct exploitation permits following the expiry of the exploration phase of the Marine XI PSC in March 2017. Loubana is located in the north west section of the former contract area, Lideka in the south west, Viodo in the centre and south east and Lidongo in the north east.

Activity in 2016 and 2017 focused on securing long term PEXs over each of the four prospect areas beyond the expiry of the exploration phase of the PSC. The PEX over the Lidongo prospect area commenced in October 2016 and has a duration of 20 years. Discussions with the authorities and the Marine XII partners on commercialisation of Lidongo continue. In Q1 2017, SOCO submitted three further PEX applications over the remaining prospect areas, Loubana, Lideka and Viodo. Each of these PEXs has now been awarded with a 25-year duration, effective from 28 December 2017.

**ANGOLA**

**Cabinda North Block (22% working interest\*, Non-operated)**

SOCO's 85% owned subsidiary, SOCO Cabinda Limited, holds a 22% working interest in the PSC for the Cabinda North Block, onshore the Angolan Cabinda enclave. Following discussions amongst the partners and the Angolan authorities to agree a change of operatorship and a reassignment of interests amongst the block partners, SOCO has agreed to increase its non-operating working interest in the Cabinda North PSC from 17% to 22% pursuant to the same series of transactions that will involve assumption of operatorship by Eni. The legal documents to complete the changes were signed by the contractor parties in November 2017. Final details and timing of the formal governmental Executive Decree to approve the change of operator and the reassignment of interests are expected shortly.

\* Pending formal government approval; following such approval, SOCO paying interest 27.5% pending formal government approval taking into account Sonangol exploration carry under Cabinda North JOA. Current SOCO working interest 17% and paying interest 21.25%.

## Review of Operations continued

**GROUP RESERVES AND CONTINGENT RESOURCES**

An independent audit of management estimates of Reserves and Contingent Resources for TGT and CNV, as of 1 October 2017, was completed by Senergy International Sdn Bhd as part of Lloyd's Register Group Limited ('LR Senergy') in January 2018.

**TGT Reserves and Contingent Resources**

The October 2017 TGT estimated Reserves were based on the current producing wells and scope of the wells being considered for approval to be drilled in 2018 at end-September 2017, with consideration given to a small number of additional likely near-term wells in 2019, optimal field management and the increased liquid handling capacity at the HI-WHP. The 2017 TGT estimated Reserves do not take into account the fully approved programme in the updated FFDP. This conservative approach will be reviewed following the interpretation and incorporation of the

results of the 2018 infill drilling programme into the static and dynamic models. All volumes beyond the approved scope outlined above were classified as Contingent Resources.

The range of Reserves and Contingent Resources volumes continue to capture management's view of the full potential of the TGT field. The estimates are grounded in the results of the revised ERCE dynamic simulation model and the current field performance and reflect the degree of uncertainty around the oil-in-place estimates.

The initial ERCE static and dynamic models, developed in 2013-14, have been updated and matched with the additional production from the field. With the approved updated FFDP which includes a significant upgrade to the fluid processing capacity of the HI platform, and the anticipated 2018 drilling campaign, after subtracting production during 2017, there is only a minor revision to the Reserves compared to year-end 2016.

**TGT FIELD OIL-IN-PLACE ESTIMATES (Figures in MMbbl)**

	P90	P50	P10
Stock Tank Oil Initially In Place	376	585	880

**TGT FIELD ESTIMATED ULTIMATE RECOVERY INCEPTION TO YEAR END 2017 (Figures in MMBOE)**

Reserves + Production <sup>1</sup>	IP	2P	3P
Oil	126.5	147.7	165.9
Gas <sup>2</sup>	7.6	8.9	10.4
<b>Total</b>	<b>134.1</b>	<b>156.6</b>	<b>176.3</b>
Contingent Resources	IC	2C	3C
Oil	25.0	40.6	56.1
Gas <sup>2</sup>	4.7	8.5	12.5
<b>Total</b>	<b>29.7</b>	<b>49.1</b>	<b>68.6</b>
Total Ultimate Recovery	IP & IC	2P & 2C	3P & 3C
Oil	151.5	188.3	222.0
Gas <sup>2</sup>	12.3	17.4	22.9
<b>Total</b>	<b>163.8</b>	<b>205.7</b>	<b>244.9</b>

**SOCO WORKING INTEREST RESERVES AND RESOURCES TGT FIELD AT 31 DECEMBER 2017 (Figures in MMBOE)**

Reserves <sup>1</sup>	IP	2P	3P
Oil	15.5	21.8	27.3
Gas <sup>2</sup>	0.9	1.3	1.7
<b>Total</b>	<b>16.4</b>	<b>23.1</b>	<b>29.0</b>
Contingent Resources	IC	2C	3C
Oil	7.5	12.3	16.9
Gas <sup>2</sup>	1.4	2.6	3.8
<b>Total</b>	<b>8.9</b>	<b>14.9</b>	<b>20.7</b>
Sum of Reserves and Contingent Resources <sup>3,4</sup>	IP & IC	2P & 2C	3P & 3C
Oil	23.0	34.1	44.2
Gas <sup>2</sup>	2.3	3.9	5.5
<b>Total</b>	<b>25.3</b>	<b>38.0</b>	<b>49.7</b>

1 Volumes include previously produced oil and gas plus estimated remaining recoverable hydrocarbons.

2 Assumes oil equivalent conversion factor of 6,000 standard cubic feet per barrel of oil equivalent.

3 This table has been derived by SOCO from the audited figures.

1 This table has been derived by the Company by deducting the produced volumes between 1 October 2017 to 31 December 2017 inclusive from the LR Senergy audited figures.

2 Assumes oil equivalent conversion factor of 6,000 standard cubic feet per barrel of oil equivalent.

3 The summation of Reserves and Contingent Resources has been prepared by the Company.

4 Contingent Resources are subject to Chance of Commercialisation estimated by LR Senergy at 70%.



### CNV Reserves and Contingent Resources

Re-evaluation of the field performance dynamics has led to the HVJOC partners ceasing water injection and agreeing to convert the CNV-6P-ST1 injection well to production. This change to the drive mechanism from 'bottom-up' water drive to 'top-down' gas drive, due to the volatile nature of the oil, will liberate gas in the well bore. This gas will rise to the crest of the reservoir, expanding and therefore displacing oil into the wells. Extensive simulation has demonstrated the benefit of this approach.

Reserves relate to the current producing wells. Contingent Resources comprise the estimated recoverable volumes from additional wells and/or sidetracks to existing wells.

The range of Reserves and Contingent Resources volumes continue to capture management's view of the full potential of the TGT Field.

#### SOCO WORKING INTEREST RESERVES AND CONTINGENT RESOURCES CNV FIELD AT 31 DECEMBER 2017 (Figures in MMBOE)

Reserves	IP	2P	3p
Oil	2.6	3.4	4.3
Gas <sup>2</sup>	1.2	1.6	2.0
<b>Total</b>	<b>3.8</b>	<b>5.0</b>	<b>6.3</b>
Contingent Resources <sup>2,3</sup>	1C	2C	3C
Oil	2.7	4.0	5.3
Gas <sup>2</sup>	1.2	1.9	2.5
<b>Total</b>	<b>3.9</b>	<b>5.9</b>	<b>7.8</b>
Sum of Reserves and Contingent Resources <sup>1,3,4</sup>	IP & 1C	2P & 2C	3P & 3C
Oil	5.3	7.4	9.6
Gas <sup>2</sup>	2.4	3.5	4.5
<b>Total</b>	<b>7.7</b>	<b>10.9</b>	<b>14.1</b>

1 This table has been derived by the Company by deducting the produced volumes between 1 October 2017 to 31 December 2017 inclusive from the LR Senergy audited figures.

2 Assumes oil equivalent conversion factor of 6,000 standard cubic feet per barrel of oil equivalent.

3 The summation of Reserves and Contingent Resources has been prepared by the Company

4 Contingent Resources are subject to Chance of Commercialisation estimated by LR Senergy at 70%.



**JANN BROWN**  
MANAGING DIRECTOR AND  
CHIEF FINANCIAL OFFICER

# Financial Review

SOCO's financial strength is founded on our long term approach to managing capital.

## FINANCE STRATEGY

Our finance strategy underpins the Group's business model and goes hand in hand with our core business strategy of building shareholder value through our oil and gas portfolio.

The finance strategy is founded on three core areas of focus – capital discipline, capital allocation and capital return.

During 2017, we generated cash flow from our operations in Vietnam of \$87.8m (2016: \$85.6m) and also recovered \$42.7m, the final amount due following the 2005 sale of our Mongolia interests.

We have a low cost asset base, a robust cash balance and a balance sheet with the capacity to support debt for the right projects.

The Group is positioned for growth and during 2017 increased its business development activities. Our pursuit for growth opportunities will always be within our long standing core strategy of building value for shareholders.

### **Change of Accounting Policy to successful efforts**

During the year, we carried out a full review of our accounting policies, in accordance with best practice, to ensure that the policies we use remain fit for purpose for the next phase of the business. As a result of that review, we have changed our policy on accounting for Exploration and Evaluation assets.

The finance strategy is founded on three core areas of focus – capital discipline, capital allocation and capital return.

Since the introduction of IFRS in 2005, we have used a modified full cost basis of accounting often associated with companies whose focus is on exploration. Under this policy, we assessed E&E assets for impairment on a geographical cost pooling (typically licence by licence basis). We have now changed our policy to successful efforts under which E&E assets are assessed on a more granular well by well basis. This change in policy reflects the maturity of the business and is used by the majority of our UK listed E&P peer group. Prior year figures have been restated on a successful efforts basis, resulting in a decrease in 31 December 2016 net assets of \$185.3m (refer to Note 2 to the Financial Statements on pages 100 to 103).

The impact of this change on the current year income statement (other than the changes arising on our African assets, explained below) is to reduce the DD&A charge by \$12.7m; and to reduce the deferred tax asset by \$1.8m. Both of these changes are a result of the lower cost base held in the balance sheet for the assets in Vietnam, as certain historic E&E costs have now been fully written off as part of the restatement of prior year balances.

#### Strategic Review - African Assets

As announced in our January trading statement, during 2017 we reviewed our strategic priorities and the Board decided that the African assets, Marine XI (now the Lidongo, Lideka, Loubana and Viodo exploitation permits) and Cabinda North, are no longer a core priority for the Group. Minimal capital will be spent on them in the near future and the associated work programme commitments reflect this position. There has been no change in our assessment of the potential of these assets; however, in the absence of a near term work programme and investment, it is no longer appropriate to carry the costs previously incurred on these assets in the balance sheet. They have therefore been fully impaired.

If no change to our accounting policies had been made, these assets would still have been fully impaired and the resulting impairment charge in the year would have been \$219.9m. However, the interaction with the change of policy to successful efforts means that \$67.6m of this cost has been recorded through the restatement of prior year balances. The actual charge for the year is therefore \$152.3m.

Both of these changes - the move to a successful efforts accounting policy and the impairment of the African assets following the strategic review - are explained in full in Notes 2a and 8 to the Financial Information.

## OPERATING PERFORMANCE

The Group continued to deliver robust revenue of \$156.2m (2016: \$154.6m). The slight increase year on year is the result of the higher average realised crude oil price of \$56.43/bbl (2016: \$45.01/bbl), over \$2/bbl premium to Brent, offset by a 16.3% decline in production levels from 9,883 BOEPD to 8,276 BOEPD.

Cash operating costs decreased to \$41.5m (2016: \$42.3m).

### CASH OPERATING COSTS PER BARREL\*

	2017 \$m	(Restated) 2016 \$m
Cost of sales	115.0	119.9
Less:		
Depreciation, depletion and amortisation	(56.5)	(64.7)
Production based taxes	(13.6)	(13.4)
Inventories	(1.5)	2.6
Other cost of sales	(1.9)	(2.1)
Cash operating costs	41.5	42.3
Production (BOEPD)	8,276	9,883
<b>Cash operating cost per BOE (\$)</b>	<b>13.73</b>	11.70

### DD&A PER BARREL\*

	2017 \$m	(Restated) 2016 \$m
Depreciation, depletion and amortisation	56.5	64.7
Production (BOEPD)	8,276	9,883
<b>DD&amp;A per BOE (\$)</b>	<b>18.72</b>	17.89

\*See page 120 for details

The per barrel cost of both cash operating cost and DD&A have increased due to the allocation of fixed cost over a reduced number of

## Financial Review continued

barrels produced in 2017. Prior to the impact of the change in policy to successful efforts, the Group DD&A rate for 2017 was \$22.91/boe. The retrospective write off of certain exploration costs from the balance sheet has reduced this by 18.5% to \$18.72/boe. This reduction in rates will apply to future periods and, whilst there is no cash impact, it will feature positively in the Income Statement.

General and administrative expenses of \$18.3m (2016: \$13.5m) includes \$4.7m (2016: \$1.7m) incurred on M&A activity, leaving underlying G&A expenses of \$13.6m (2016: \$11.8m) charged to the Income Statement. This increase is a result of the transition of the executive team, in the handover from the outgoing to the incoming Directors.

**Taxation**

The tax expense during the year increased 6%, from \$26.1m (restated) for 2016 to \$27.7m in 2017. This increase reflects the higher operating profit for the year prior to exploration expense. The Group's effective tax rate approximates to the statutory tax rate in Vietnam of 50%, after excluding the effect of the \$152.3m exploration write off as well as additional non-deductible expenses and unrecognised tax losses (see Note 4 to the Financial Statements on page 104).

**Loss for the year**

The Group made a loss during the year of \$157.3m (2016: \$4.2m restated), including E&E write offs of \$152.3m (2016: \$2.2m write back restated). The loss prior to E&E impact was \$5.0m (2016: \$6.4m restated).

**CASH FLOW**

Operating cash flow of \$45.0m (2016: \$46.0m) was generated from our assets in Vietnam.

**Capital cash expenditure**

Total cash capital expenditure for the year, including abandonment, was \$29.3m (2016: \$40.1m). \$23.9m was spent on recommencing the drilling campaign on TGT, funding abandonment commitments and upgrading infrastructure, all in Vietnam. On the intangible assets \$0.9m relates to the award of the new PSC in Vietnam over Blocks 125 & 126 and \$4.5m was spent on the assets in Africa.

**Tax strategy and total tax contribution**

Tax is managed proactively and responsibly with the goal of ensuring that the Group is compliant in the countries in which it holds interests. Any tax planning undertaken is commercially driven and within the spirit as well as the letter of the law. This approach forms an integral part of SOCO's sustainable business model.

The Group's Code of Business Conduct & Ethics seeks to build open, cooperative and constructive relationships with tax authorities and governmental bodies in all territories in which it operates. The Group supports greater transparency in tax reporting to build and maintain stakeholder trust.

During 2017, the total payments to governments for the Group amounted to \$182.1m, of which \$176.4m or 97% was related to the Vietnam producing licence areas, of which \$117.8m was for indirect taxes based on production entitlement. The breakdown of the contributions, including payroll taxes and other taxes is contained within the Additional Information on page 123.

**BALANCE SHEET**

Intangible assets decreased during the period to \$3.8m (2016: \$150.6m (restated)) almost exclusively due to the full impairment of the African assets of \$152.3m. During the period \$5.5m was added, \$1.5m on the newly awarded Blocks 125 & 126 in Vietnam and \$4.0m on Africa which was subsequently impaired.

Property, plant and equipment decreased by \$48.3m from \$554.2m (restated) to \$505.9m.

This is made up of:

Investments in assets	\$20.4m
Less:	
Downward revision to decommissioning asset	\$11.8m
DD&A	\$56.9m
<b>Total</b>	<b>\$48.3m</b>

There are no impairments to the Group's producing assets.

Cash and cash equivalents, including liquid investments, increased by 37.3% to \$137.7m (2016: \$100.3m).

The \$42.7m due on the 2005 sale of our interests in Mongolia, held at 31 December 2016 as a financial asset, was received during the year in full.

Trade and other receivables decreased to \$20.7m (2016: \$24.7m) largely due to the timing of crude oil cargos.

Trade and other payables increased slightly to \$23.1m (2016: \$22.4m) as a result of increased M&A activity over the year end.

### OWN SHARES

The SOCO EBT holds ordinary shares of the Company for the purposes of satisfying long term incentive awards for senior management. At the end of 2017, the Trust held 2,114,596 (2016: 2,299,767) shares, representing 0.64% (2016: 0.67%) of the issued share capital.

In addition, as at 31 December 2017, the Company held 9,122,268 (2016: 9,122,268) treasury shares, representing 2.67% (2016: 2.67%) of the issued share capital.

### GOING CONCERN

SOCO regularly monitors its business activities, financial position, cash flows and liquidity. Scenarios and sensitivities are included in the forecasts, including changes in commodity prices and in production levels from the assets in Vietnam, plus other factors which could affect the Group's future performance and position.

These forecasts show that the Group will have sufficient financial headroom for the twelve months from the date of approval of the 2017 Accounts. Based on this analysis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to use the going concern basis of accounting in preparing the annual Financial Statements.

### ANNUAL DIVIDEND & COMPANY DISTRIBUTABLE RESERVES

SOCO remains committed to paying an annual dividend. During the year the Company paid a dividend to shareholders of 5 pence per Ordinary Share (2016: 4 pence), at a cost to the company of \$21.0m (2016: \$17.5m).

In 2017, the change in accounting policy for E&E assets and the write down of the African assets, positions the balance sheet well for the future. The lower carrying cost of our asset base has reduced the depletion and tax charges this year and the positive impact will also be felt in future years. After taking account of the results for the year, the company currently has distributable reserves of over \$157m, which provides cover for dividends in line with the proposal for 2017 of approximately eight years.

The Directors are recommending a final dividend of 5.25 pence per Ordinary Share, subject to approval at the AGM on 7 June 2018.

### FINANCIAL OUTLOOK

SOCO's financial strength is founded on our long term approach to managing capital.

Capital discipline focuses on controlling and managing costs. Capital investment and divestment decisions are taken to allocate capital where it will provide risk adjusted full cycle returns. It is this approach that has allowed us to return significant amounts of capital to shareholders. In future, we look to add another strand to the story – capital growth – to underpin the sustainability of the dividends over the longer term.



**Jann Brown**  
Managing Director and  
Chief Financial Officer

# Risk Management Report

SOCO has a formal process in place to identify and mitigate risks applicable to its upstream oil and gas business.

Long term shareholder value is dependent on the success of the Group's activities, which are to search for, evaluate and develop oil and gas resources, whether this be via organic or inorganic growth. 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.

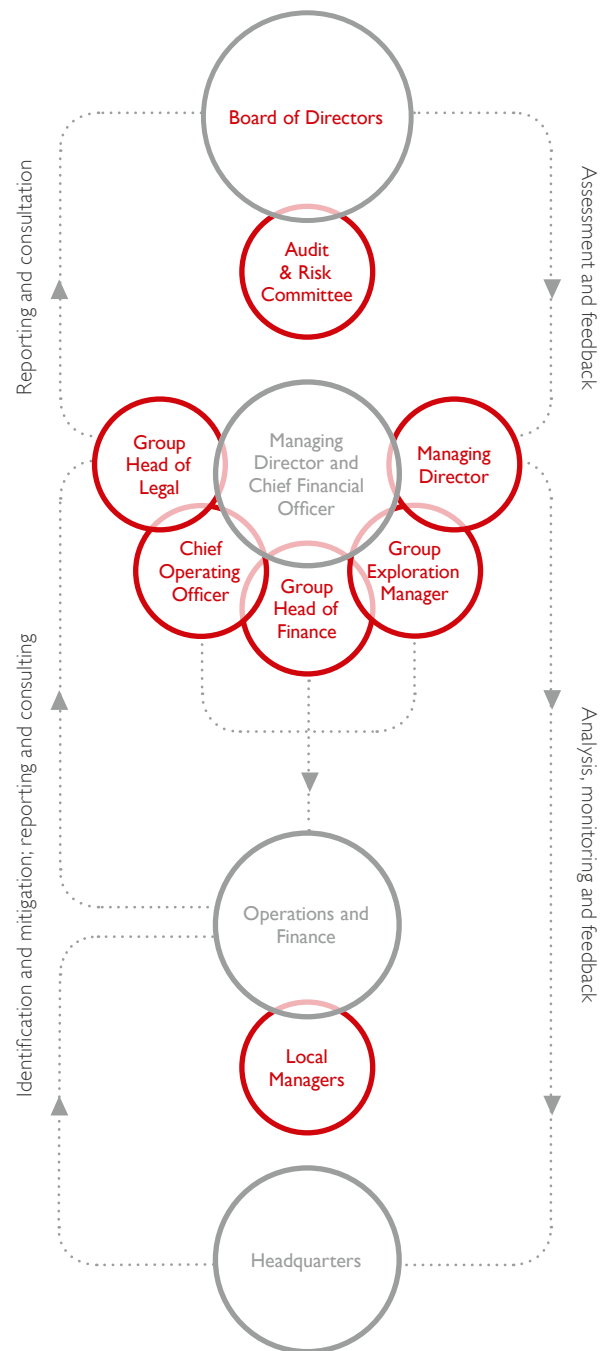
Consequently, SOCO has a formal process in place to identify and mitigate risks applicable to its upstream oil and gas business. The Directors have ultimate responsibility for risk management with the Audit & Risk Committee providing detailed oversight. The Board has designated the Managing Director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

There is an ongoing process to identify, monitor and mitigate risk throughout the year. New risks or changes to existing risks identified by management are considered at each Audit & Risk Committee meeting, along with the mitigation plans. Annually, the Audit & 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 is then presented to the Directors for full Board approval.

Risk management and the principal financial 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 pages 56 to 63 and in the Audit & Risk Committee Report on pages 67 to 69, where the significant issues related to the 2017 Financial Statements are also reported. The SOCO HSES MS which comprises the Company's internal controls mechanisms of policies, procedures and guidelines through which it assesses, manages and mitigates its HSES risks and impacts, is described more fully in the CSR Report on pages 34 to 45.

## OUR RISK MANAGEMENT PROCESS

Overall responsibility for setting risk appetite and maintaining robust risk management



A summary of the key risks affecting SOCO and how these risks are mitigated to enable the Company to achieve its strategic objectives is as follows.

## PR Principal Risks

### PR HEALTH, SAFETY, ENVIRONMENTAL AND SOCIAL RISKS

- ▶ The Group operates in an industry sector with high risk operating conditions and HSES risks. These risks include major equipment and materials failures, which could potentially harm the workforce, the public and/or 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.

### MITIGATION

- ▶ SOCO aims to mitigate such risks by implementing the SOCO HSES MS on all SOCO-operated projects. The SOCO HSES MS facilitates best practice international standards, which exceed national requirements in some countries. Further details of how SOCO addresses these risks can be found in the CSR Report on pages 34 to 45.

### PR COMMODITY PRICE RISK

- ▶ Crude oil and gas prices are impacted by a complex supply and demand matrix including global and regional supply, potential supply growth from unconventional sources, the global economy, refining capacity and initiatives to reduce carbon intensity. The rate of development of emerging economies, world population, geopolitical uncertainty, geopolitical developments, producing nation alliances and technical advances, are all factors in this complex supply and demand curve. Additionally, impacts arise from availability and cost of infrastructure, alternative energy sources, regulation, production levels, market speculation regarding future supply and demand, weather conditions and natural or other disasters, and many other significant and evolving underlying factors. Exposure to fluctuations in crude oil prices may lead to reduced cash flows, impairment of assets or assets stranded due to locked in losses in longer term contracts. The sustained lower oil price has significantly impacted the industry as a whole.

### MITIGATION

- ▶ 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. 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. The budget and various sensitivity cases, applying expert analysis and price forecasting, are regularly tested for downside scenarios and provide comfort that SOCO are able to meet its commitments. No price hedging mechanisms were in place during the year. During periods when the Group sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

### PR EMPOWERMENT RISK

- ▶ The Group's international portfolio comprises oil and gas ventures in widespread, often remote locations with government and industry partners. The conduct of operations requires the delegation of a degree of decision making to partners, contractors and locally based personnel.

### MITIGATION

- ▶ 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.

### PR HUMAN RESOURCE RISK

- ▶ The retention and recruitment of high quality personnel is essential for SOCO to deliver on its strategy. The loss of key experience and expertise could result in serious gaps within the Company knowledge base.

### MITIGATION

- ▶ The Remuneration Committee retains independent advisors to test the competitiveness of compensation packages for key employees. SOCO operates bonus and long term incentive plans as well as the share option plans to provide incentive. Succession planning is in place for all key areas of the business. Further details of SOCO's remuneration policies and practices can be found in the Directors' Remuneration Report on pages 70 to 85.

## Risk Management Report continued

**PR** Principal Risks**PR** LIQUIDITY AND CREDIT RISK

- ▶ The Group has continued to carry sizable cash balances throughout the year and has a non-current receivable in respect of two accumulating abandonment funds in Vietnam, which limits its exposure to liquidity risk but increases its exposure to credit risk.

## MITIGATION

- ▶ To mitigate these risks and protect the Group's financial position, cash balances are generally invested in short term, non-equity instruments or liquidity funds, not generally exceeding three months forward. Investments are generally confined to money market or fixed term deposits in major financial institutions. The Group seeks to minimise credit risk by 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 Company 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.

**PR** 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 debt and equity balances.

## MITIGATION

- ▶ The Group seeks to maintain a sizable free cash balance to fund its operations and shareholder distribution policy. There is daily reporting on cash balances and forecasts are regularly prepared to monitor cash requirements. Sensitivity cases are monitored on an ongoing basis as funds are spent and forecasts are updated to determine the amount and timing of any additional financing required. The Group maintains relationships and active dialogue with various financial institutions and may consider raising debt or equity finance at the appropriate time.

**PR** RESERVES RISK

- ▶ Portfolio management through exploration, appraisal or acquisition may fail to yield reserves in commercial quantities sufficient to replace production. Commercial reserves must be technically and economically recoverable and are subject to risks associated with technical success, future commodity price and future capital and operating cost profiles. Changes in these factors may result in reserves being stranded due to premature write downs, reduced valuations or conversion to liabilities.
- ▶ As discussed in Note 4(b) to the Financial Statements, the Group uses standard recognised evaluation techniques to estimate its proven and probable oil and gas reserves. Such techniques have inherent uncertainties in their application. SOCO has projects with booked reserves in 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 DD&A costs and impairment provisions.

## MITIGATION

- ▶ The Group continues to evaluate projects in existing and potentially new areas of interest. The Group is focused on pursuing business development and growth opportunities deemed appropriate and commercial when applying the most current information on underlying trends and factors under various sensitivities.
- ▶ Reserve estimates are reviewed regularly 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 and third-party engineers.



**PR** STAKEHOLDER AND REPUTATIONAL RISK

- ▶ The Group operates in locations, and in an industry sector, 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. The actions of international bodies may harm the objectives of the Company and its regional partners.

## MITIGATION

- ▶ Where SOCO is an operator; it implements its health, safety, environmental and social responsibility policies to ensure that Company activities conform to international best practice. For joint or non-operated projects, SOCO seeks to maximise its influence to promote best practice. SOCO garners the views of its stakeholders through direct and indirect engagement and by referring to external sources. Further details of how SOCO addresses these risks can be found in the CSR Report on pages 34 to 45.

**PR** 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 or unexpectedly extreme geological, geographical or weather conditions which may result in an associated impact on resource availability and increased costs.

## MITIGATION

- ▶ SOCO seeks to mitigate its operational risks through the application of international best practice, including both in the design and build of its infrastructure and in its operating procedures. Further details of how SOCO addresses these risks can be found in the CSR Report on pages 34 to 45.
- ▶ 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.

**PR** STRATEGIC RISK

- ▶ There is a need to ensure that the Company is well funded to deliver on its capital commitments and business development opportunities whilst achieving its core strategies of Recognising Opportunity, Capturing Potential and Realising Value in order to deliver long term viability for the business.

## MITIGATION

- ▶ The Company reviews a three year plan as part of its planning cycle and Going Concern and Viability Statement testing. The variation between actual results compared with budget and forecasts are reviewed regularly by the Board. The Company also reviews regularly the remaining life of field economics given changes in economic conditions. Potential business development opportunities are assessed utilising the most current analysis for forecasting and sensitivities. The Board discusses strategy at each meeting of the Directors which includes an appropriate allocation between business development activities and shareholder returns.

**CLIMATE CHANGE RISK**

- ▶ Global transition to a lower carbon intensity economy in response to climate change could result in reduced demand and increased operating cost, capital cost, regulation and taxation. Accordingly, it is a factor that impacts many of the Group's principal risks set out herein, including those associated with commodity price, reserves, operations, political, stakeholder and reputational.

**MITIGATION**

- ▶ This report sets out the manner in which the Group seeks to mitigate each of its principal risks, including those that may be impacted by a global transition to a lower carbon intensity economy. In applying the mitigation measures for each of the Group's principal risks, SOCO seeks to monitor and apply the most current and evolving information on trends and factors that may impact on its current projects and as may be applicable to proposed future projects and the strategy for developing the business. Further details on climate change can also be found in the CSR Report on pages 34 to 45.

**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 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. Some of the Group's interests are in regions identified as potentially more susceptible to business interruptions due to the consequences of possible unrest. Additionally, the energy sector is exposed to a wide range of international political developments which could impact the operating and regulatory environment resulting in increased operating costs, compliance and taxation.

**MITIGATION**

- ▶ SOCO seeks to minimise such risks by using both international and in-country professional advisors and by engaging directly with the relevant authorities on a regular basis. The Group assesses the risks of operating in specific areas before beginning operations in order to determine these risks as commercially acceptable. Project reviews are conducted on a risk-based basis considering the most relevant project-based factors under various sensitivities. 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.

**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 and other applicable anti-bribery or anti-corruption law or regulation.

**MITIGATION**

- ▶ The Group seeks to mitigate these risks by ensuring that it has adequate procedures (including vendor due diligence) 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. The annual training and compliance certifications by all associated persons, refreshes and reinforces SOCO's Code of Business Conduct and Ethics.
- ▶ Running in parallel with the Group's general risk management process, the Audit & 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, in confidence, raise concerns regarding improprieties, 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. Further details on the Company's anti-bribery and corruption programme can be found in the CSR Report on pages 34 to 45.

**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.

**MITIGATION**

- ▶ The impact of a 10% movement in foreign exchange rates on the Group's foreign currency denominated net assets as at 31 December 2017 would not have been material (2016: not material) and would not have been material with respect to the Group's loss in 2017 (2016: not material).

**CYBER RISK**

- ▶ Cyber security breaches could result in the loss of key confidential data, disrupt critical business systems or cause reputational and/ or financial harm.

**MITIGATION**

- ▶ SOCO continues to focus its efforts on prevention and detection of these threats and employs a programme of effective continuous monitoring.

**CONTRACTUAL RISK**

- ▶ The Group enters into various contractual arrangements in the ordinary course of its business. Such contracts may rely on provisional information which is subject to further negotiation at a later date. This may give rise to uncertainty of such information.

**MITIGATION**

- ▶ The Group manages its commitments via the annual budget and regular forecasts, reporting against actuals on a monthly basis. Board delegated authority minimises the exposure to unauthorised commitments.

**VIABILITY STATEMENT**

In accordance with provision C.2.2 of the UK Corporate Governance Code, the board has assessed the prospects of the Company over a longer period than the 12 months as required by the 'Going Concern' provision. In preparing this assessment, the Directors have carried out a robust assessment of the risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, giving particular attention to the principal risks (as set out in this Risk Management Report). Whilst the Group is dependent on its main cash generating assets in Vietnam, its geopolitical environment has remained stable over many years and the Group's revenue producing assets have licence rights extending well beyond the viability period. Our assessments have been stress tested for downside scenarios on reduced production levels, lower oil prices and increases in capital expenditure and operating costs.

With SOCO's strong balance sheet, and with no debt or current requirement to raise finance, the Directors confirm that they have

a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due for the three year period to 31 December 2020.

Our strategy and associated principal risks underpin the Group's three year forecast and scenario testing. The three year forecast is built on an asset by asset basis using a bottom up model and is stress tested in robust downward scenarios. This three year period covers the Group's medium term capital plans and projections, in particular the oil price projections where market consensus data is more readily available for three years. It has been selected by the Board as it provides management and the Board with sufficient and realistic visibility of the future industry environment whilst capturing the Group's future expenditure commitments on its licences. In assessing the Group's viability over the next three years, it is recognised that all future assessments are subject to a level of uncertainty which increases with time and that future outcomes cannot be guaranteed.



**ANTONY MARIS**  
CHIEF OPERATING  
OFFICER

# Corporate Social Responsibility Report

Our goal is to be a positive presence whereby we provide responsible and sustainable development, resulting in value for the host countries and local communities as well as for our shareholders.

Strong CSR is integral to SOCO's business strategy of Recognising Opportunity, Capturing Potential and Realising Value. At SOCO, we understand that:

- RO Recognising Opportunity** is reliant upon building strong relationships and being welcomed as a responsible partner by host governments and local communities.
- CP Capturing Potential** depends upon applying our technical expertise, particularly in the management of risks such as health and safety, security and environmental issues.
- RV Realising Value** creates value for society.

Our approach to CSR is implemented by managing our risks and mitigating the impacts of our operations through responsible and accountable leadership that sets clear expectations. The principal risks arising in connection with the Group's operations are described in the Risk Management Report on pages 28 to 33. Within this report, we describe our CSR objectives, the policies pursued by the Group in relation to the management of HSES responsibility risk, the business context and the performance outcomes of those policies during 2017.

Our goal is to be a positive presence whereby we provide responsible and sustainable development, resulting in value for the host countries and local communities as well as for our shareholders.

## OUR CSR STANDARDS AND OBJECTIVES

Our established performance standards are encapsulated within our Code of Business Conduct and Ethics ('SOCO Code'), which sets out our values of honesty, fairness and promoting trust amongst those with whom we work. The SOCO Code is the foundation upon which we have built our CSR objectives (see Table A) and all our internal controls mechanisms for managing HSES risk.

In determining our CSR strategy, we consider the matters that are important to the successful delivery of the Company's corporate objectives and the matters that are most important to our stakeholders, who include national and host governments and local authorities, the local communities where we operate, our employees, contractors and business partners, our shareholders and the investment community and the wider international community.

We garner the views of our stakeholders through direct and indirect engagement and by referring to external sources including current regulation and standards, published reports and media articles. The principal CSR issues which we considered material to our business and our stakeholders during this period were in the areas of overall HSES management, human rights, ethical business conduct and transparency. We report on each under their respective sections below.

## HSES MANAGEMENT

Our CSR vision is translated into the five policies of our SOCO HSES MS, which are actively communicated to our employees and contractors. The SOCO HSES MS describes the Group's internal processes to systematically manage the HSES risks of our activities and consists of a range of procedures and guidelines to support the policies. It assures:

- ▶ A clear assignment of responsibilities
- ▶ Compliance with legislation and other requirements throughout all operations
- ▶ Sound risk management and decision making
- ▶ Efficient and cost-effective planning and operations
- ▶ A systematic approach to managing HSES
- ▶ A sound framework for continual improvement

The Chief Executive Officer is responsible for our CSR performance. Current issues are considered by the Board through a specific agenda item at each meeting. The Audit & Risk Committee oversees the adequacy and effectiveness of the SOCO HSES MS which includes procedures for incorporating the review of business risk into investment analysis and decision making. Led by the Chief Operating Officer, our country managers are responsible for the day-to-day implementation of the SOCO HSES MS.

TABLE A: OUR CSR OBJECTIVES

Area	Our objectives	This means
<b>OUR BUSINESS</b>	To provide responsible and sustainable development.	We endeavour to make a net positive contribution through balancing the needs for energy security, economic development, social improvement, protection of the environment and shareholder returns.
<b>OUR ETHICS</b>	To conduct our business in an honest and ethical manner.	Employees conduct themselves in an appropriate manner avoiding conflicts of interest, allegations of bribery or compromise. The Group complies with all applicable laws and conducts business in an ethical way.
<b>OUR PEOPLE</b>	To ensure the health, safety, security and welfare of our employees and those with whom we work.	Effective health, safety, security and welfare management. Providing working conditions and welfare to employees and those with whom we work in terms of human rights management is an imperative.
<b>SOCIETY</b>	To consult with and contribute into our host communities.	Building local capacity/developing skills during the exploration or development phases of a project to ensure a positive local company image and legacy. Investing in social projects for the long-term benefit of local communities.
<b>ENVIRONMENT</b>	To protect the environment and conserve biodiversity.	To protect our environment and minimise our footprint, manage natural resources and protect and enhance biodiversity.

## Corporate Social Responsibility Report continued

## PERFORMANCE STANDARDS

The SOCO HSES MS is consistent with the requirements of the internationally recognised standards ISO 14001 and OHSAS 18001. Going forward, as international standards evolve, we continue to review our procedures to ensure we remain consistent with the most current standards.

The SOCO HSES MS requirements are aligned with those of the International Finance Corporation (World Bank Group) ('IFC World Bank Group') and provide the framework for implementing the IFC World Bank Group Performance Standards (2012).

## 2017 outcomes

The SOCO HSES MS was implemented in preparation of our future activities for which SOCO will be the designated Operator. During 2017, SOCO rolled-out their recently updated SOCO HSES MS and identified some areas which would benefit from further refinement to continuously improve HSES performance, such as the contractor and supplier selection and management process.

## SPHERE OF INFLUENCE

SOCO partners with other businesses and with host governments, typically through their national oil companies. This means that our sphere of influence varies by our degree of ownership, operatorship and influence (see Table B) and we tailor our approach to each individual project. Where we are the Operator and our influence is high, we can fully implement the SOCO HSES MS. Where we are the joint operator we use our influence to assess the targeted performance standards and, if relevant, to bring about alignment to the SOCO HSES MS.

## OUR BUSINESS

SOCO's business is upstream oil and gas exploration and production. Our business involves the acquisition of and participation in exploration and production projects.

Operational activities include geological and geophysical surveys, design, construction and drilling wells, assessment of hydrocarbon reserves, extraction and transfer of produced oil and gas to processing facilities. SOCO's revenues derive from our jointly operated producing assets; the TGT Field in Block 16-1 and the CNV Field in Block 9-2, both located in the shallow water Cuu Long Basin, offshore southern Vietnam and from portfolio transactions occurring from time to time.

At the start of 2017, we were participating partner in four oil licence interests in three countries: Vietnam, Congo (Brazzaville) and Angola. A further PSC for Blocks 125 & 126, offshore central Vietnam, between PetroVietnam, SOVICO Holdings and SOCO was formally signed in October 2017, awarding SOCO a 70% operated interest over the two blocks. During 2H 2017, we secured an exploitation permit ('PEX') over each of the Viodo, Lideka and Loubana prospect areas. These, together with the existing PEX over the Lidongo prospect area, together comprise the former Marine XI Block, the exploration phase of which expired at the end of March 2017. In Q4 2017, the Group signed agreements pursuant to which, subject to governmental approval, would increase its non-operating interest in the Cabinda North PSC from 17% to 22%.

Our business creates value for society through its investment in developing countries and the role that the wider industry sector plays in meeting the

TABLE B: THE DEGREE OF OPERATORSHIP AND THE DEGREE OF INFLUENCE DURING 2017

Degree of influence	Block, country	Country	SOCO ownership	SOCO role	2017 field activity	Target outcome
High	Marine XI, reorganised as the Lidongo, Viodo, Lideka and Loubana Exploitation Permits	Congo (Brazzaville)	40.39%	Operator	None	Full application of the SOCO HSES MS
High	Blocks 125 & 126	Vietnam	70%	Operator	None	
Moderate	Block 16-1	Vietnam	30.50%	Joint operating partner	Field development (drilling of infill wells) and production	We seek to influence to bring alignment to the SOCO HSES MS, where appropriate
Moderate	Block 9-2	Vietnam	25.00%	Joint operating partner	Production from an unmanned platform	
Low	Cabinda North Block	Angola	17% increased to 22% in Q4 2017*	Non-operator	None	We seek to make our views heard and ensure that at least minimum standards are met

\* Pending formal government approval; following such approval, SOCO paying interest 27.5% taking into account Sonangol exploration carry under Cabinda North JOA. Current SOCO working interest 17% and paying interest 21.25%.

**i** VIEW ON [www.socointernational.com](http://www.socointernational.com)

- ▶ HSES MS Framework Summary
- ▶ Health, Safety and Environment Policy
- ▶ Social Responsibility Policy
- ▶ Human Rights Policy
- ▶ Security Policy
- ▶ Biodiversity and Conservation Policy

global energy demand. Our contribution to the economic development of our host countries creates value for society by stimulating local economies. We input technical, managerial and commercial expertise contributing to national upskilling, create jobs in local communities, provide training and technical assistance, enhance the capacity of host governments, pay relevant taxes and governmental fees, generate revenues from hydrocarbon production and create returns for our shareholders.

### 2017 outcomes

Our corporate strategic outlook in the short term is to shape the business and position the Company to deliver sustainable growth. Accordingly, we have focussed on ensuring we are well positioned to deliver international best practice operating standards in all our forward operating plans.

During 2017, our core operations were in Vietnam where the jointly-operated TGT Field on Block 16-1 and CNV Field on Block 9-2 achieved stable levels of production. Two infill wells were drilled, both on time and on budget, on the TGT Field. No operational activities were conducted in Congo (Brazzaville) or Angola. Acquisition and potential merger opportunities were actively reviewed throughout 2017 with the impetus continuing in 2018.

During the year we rolled-out our recently updated SOCO HSES MS and have set-up a training program to raise awareness throughout all our assets. The system is live and further opportunities to improve the system have been identified and will be implemented in 2018.

The steps taken by the Board to ensure that it has adopted the appropriate corporate governance, including diversity, to facilitate effective, entrepreneurial and prudent management to deliver the long-term success of the Company pursuant to the UK Corporate Governance Code are described in the Corporate Governance Report on pages 56 to 63.

The SOCO HSES MS was implemented through all projects for which SOCO is the designated Operator. There were no reported breaches of the SOCO Code or the HSES policies during 2017.

## OUR ETHICS

To ensure we conduct our business activities with integrity and high ethical standards, the values expressed in the SOCO Code are integrated into the SOCO HSES MS through policies, procedures, implementation guidelines, project specific operational plans, programmes and training.

Our primary policies for promoting ethical business conduct are the:

- ▶ The SOCO Code
- ▶ Guidelines for Implementation
- ▶ Business Conduct Procedure

In each country where we operate, we ensure that there is a thorough understanding of the local regulatory framework in force and ensure that our activities are compliant with licence requirements as well as the commitments we make in our Environmental and Social Impact Assessment ('ESIA') studies that precede operational activity. The SOCO HSES MS facilitates best practice international standards which exceeds national requirements in some countries.

SOCO co-operates fully with governmental and regulatory bodies. We do not engage in party politics or make donations to political parties or candidates.

### ANTI-BRIBERY AND CORRUPTION PROGRAMME

As reflected in the current SOCO Code (first published in 2004) the giving and receiving of bribes has always been prohibited throughout the organisation. Running in parallel with the Group's general risk management process, the Audit & Risk Committee has established a detailed anti-bribery and corruption ('ABC') risk assessment and mitigation reporting procedure and monitors this risk throughout the year.

A dedicated ABC programme is active across the Group. The programme includes due diligence on new vendors, annual training for all personnel, requisite compliance declarations from all associated persons and comprehensive 'whistleblowing' arrangements.

SOCO's Whistleblowing Policy reflects the protection afforded under UK employment law and aims to provide reassurance that employees will be protected from reprisals when raising concerns in the public interest regarding serious malpractice or wrongdoing within the organisation such as incorrect financial reporting, unlawful activity or activities that are not in line with the SOCO Code. In addition to the usual reporting channels, the Company offers a confidential Ethics Hotline, an independent telephone and web-based reporting service which is advertised to staff at all offices.

### 2017 outcomes

SOCO's ABC programme was active throughout 2017. During the year, we updated the Whistleblowing Policy and upgraded the accessibility of the Ethics Hotline. No reports were made under this policy in 2017.

## Corporate Social Responsibility Report continued

Our contractor pre-selection questionnaire which includes a number of questions on business conduct has been routinely sent out to our potential contractors as part of our procurement process.

**PREVENTION OF MODERN SLAVERY PROGRAMME**

SOCO fully abides by the provisions of the 2015 Modern Slavery Act and has published on our website a statement on the steps taken to mitigate the risk of modern slavery occurring in any part of our business including our supply chain.

During 2017, following completion of the review of the SOCO HSES MS in the previous year, efforts to prevent modern slavery and human trafficking were focused on the implementation of pre-qualification due diligence for all new contractors and vendors. Additional human resource was recruited to administrate this process and workflow systems have been adjusted to flag non-compliance. The Prevention of Modern Slavery programme in 2018 will include process training, awareness raising within the organisation and contractor/vendor requalification due diligence.

**TRANSPARENCY****Approach and 2017 outcomes**

SOCO supports the principles of the Extractive Industries Transparency Initiative ('EITI') and is an EITI Reporting Company in Congo (Brazzaville). Our data is validated by external auditors prior to submission to EITI. We participated in EITI's validation mechanism for Congo (Brazzaville) leading up to it becoming an EITI Compliant Country. During 2017 we completed reporting into EITI for the prior year.

We support the 2014 Reports on Payments to Government Regulations. In 2017, we published the details of tax and royalty payments made to governments around the world by SOCO and our subsidiaries on our website.

We disclose our greenhouse gas ('GHG') emissions data for all operations, including the jointly operated projects in Vietnam in accordance with the UK 2006 Companies Act. We continued our annual disclosure of emissions to the Carbon Disclosure Project ('CDP') in 2017.

**OUR PEOPLE**

We are committed to operating safely and responsibly at all times. Positively impacting the wellbeing of our employees, our contractors and the local communities in which we operate is a priority. Our primary policies for promoting this standard are:

- ▶ The SOCO Code
- ▶ Health, Safety and Environment Policy
- ▶ Social Responsibility Policy
- ▶ Security Policy

We implement the SOCO HSES MS at each stage of the project. The procedures and guidelines support a planned approach for identifying, analysing and managing occupational risks and confirming that our personnel and our contractors have the appropriate competency. We generate the relevant documentation on a project basis from bridging documents with our contractors, to emergency response documents should an incident occur.

**2017 outcomes**

Safety will always be of the highest priority within the business. SOCO has remained focused on implementing our updated SOCO HSES MS and ensuring that SOCO is well positioned to implement international best practice operating standards in all of its operated ventures both within its existing projects and with consideration to its forward growth strategy.

**TABLE C: OUTSTANDING SAFETY RECORD IN VIETNAM**

	2017	2016	Since project inception
Million man-hours worked	1,424	0.98	22.9
LTI	0	0	0

**TABLE D: AVERAGE NUMBER OF CORPORATE PERSONNEL BY GENDER**

		2017	2016	2015
Non-Executive Directors	Male	5	7	8
	Female	0	1	1
Executive Directors	Male	2	2	2
	Female	1	1	1
Senior Management	Male	2	1	1
	Female	1	0	1
Other Employees	Male	5	5	8
	Female	8	8	8



Throughout 2017, the SOCO HSES MS was implemented in our day-to-day business even though SOCO has not conducted field activity on any of its operated projects. There were no reported breaches of the SOCO Code or any of the HSES policies. All scheduled HSE audits took place during the year. In 2017, SOCO achieved its targets of zero fatalities and zero LTIs across all its operations.

Our interests in the TGT and CNV Fields offshore Vietnam are operated by the Hoang Long and Hoan Vu Joint Operating Companies, respectively. We are delighted by HLHVJOC's extremely high level of safe operations, with zero LTIs in almost 22.9 million man-hours worked since project inception (see Table C) representing six production years on TGT and nine production years on CNV. Repeated monitoring, along with a review and update of safety and compliance procedures during the year have contributed to the high standard. Continuing HSE training, drills, workshops and inspections are conducted on an ongoing basis to ensure that the zero target is maintained.

### HEALTH OF OUR WORKFORCE

SOCO is committed to providing a healthy and safe workplace, not only for field operations staff, but also for our office based staff or those frequently working out of their home country. We continue to monitor health and safety practices in the workplace and provide health programmes for our corporate employees, including emergency assistance for those working abroad.

In Vietnam, we conduct pre-employment health check-ups for new staff as well as annual health check-ups for all staff. We continually monitor the quality of drinking water for our offices and offshore facilities. We also conduct annual working environmental surveys for our Ho Chi Minh City office, Vung Tau base and all offshore facilities. In Congo (Brazzaville), two health check-ups were also conducted for all staff.

### EQUAL OPPORTUNITIES

SOCO supports equal opportunities in the workplace in accordance with the UK 2010 Equality Act. SOCO embraces diversity and promotes a workplace culture where each person is treated with fairness and respect. Appointments to the Company and internal promotions are made solely on the individual employee's ability, skill, competence and potential. It is the Company's policy not to discriminate on grounds of race, gender, sexual orientation, disability, religion or age. This policy applies during the selection process and throughout the course of the individual's employment. In addition, in line with the UK Disclosure and Transparency Rules, our Human Rights policy has been revised at the end of 2017 to explicitly demonstrate our commitment to diversity and inclusivity.

SOCO's equal opportunities policy was applied throughout 2017. Table D shows the average number of corporate personnel by gender. The lean size of the corporate organisation facilitates daily direct interaction and multidisciplinary dialogue amongst personnel and Executive Directors. There were no reported incidents of discrimination in 2017 and no use was made of our internal grievance processes.

## SOCIETY

One of the key pillars of SOCO's CSR strategy is to support the local communities in which we operate and to foster capacity building within the host nation.

We understand that our success is reliant upon building strong relationships and being welcomed as a responsible partner in our host communities. This means building local capacity during the exploration or development phases of a project to ensure a positive imprint and legacy and investing in social projects for the long-term benefit of local communities. All our licence agreements include a high degree of local content, which commits us to hire locally where possible and provide training to develop new skills. This is exemplified through our jointly operated projects in Vietnam which have 120 local staff personnel out of 127 in total. A total of 145 training sessions were arranged for our staff. In 2017, SOCO Vietnam hired two local members of staff to support our Group Exploration Manager in the Ho Chi Minh City office.

The 2017 training programme included training for the offshore production team on issues such as Personal Protective Equipment, permit to work & confined space entry procedures, behavioural safety, etc. Emergency response table-top exercises for both onshore and offshore worksites were also organised.

### PROTECTION OF HUMAN RIGHTS

SOCO's primary policies setting out its commitment to uphold human rights, including those of indigenous peoples, throughout its business are the:

- ▶ The SOCO Code
- ▶ Human Rights Policy
- ▶ Social Responsibility Policy
- ▶ Security Policy

A Human Rights Policy was officially incorporated in the SOCO HSES MS in 2016 and was updated at the end of 2017 to explicitly demonstrate our commitment to diversity and inclusivity, as mentioned above. It is displayed in all our offices and human right issues are now routinely considered as part of the general management of HSES issues.

For example, SOCO is committed to honour and respect the indigenous rights of people within our host communities. Prior to entering a new licence, a new venture is assessed for the risk of the project having an impact on indigenous rights, and where a risk is found to exist, the SOCO HSES MS requires and facilitates implementation of policy and procedure that uphold and build upon our stated commitments.

## Corporate Social Responsibility Report continued

**2017 outcomes**

No grievances were received and there were no reported violations of our Social Responsibility, Human Rights or Security Policies in 2017.

Throughout the year, our operated and joint operated projects were all offshore projects and accordingly the risk of a potential impact on indigenous rights was assessed as low. In preparation for operations under the new PSC over Blocks 125 & 126, a Human Rights Action Plan has been commissioned to manage human rights risk during activities related to these Blocks. The Plan will be developed in 2018, building on the findings of the preliminary assessment of potential Environmental and Social Governance Risks conducted in 2016. In recognition that the risks to human rights may change as business operations and operating context evolve, the Plan will be updated on a regular basis.

**SOCIAL INVESTMENT**

SOCO's social investment in our host countries is integral to our economic investment and built into the commitments we make under our respective licences. The selection process for our social investment projects is driven both by the category of project and consideration of the local requirements of the country of operation given the local regulatory context and the degree of influence we have in our projects. We have prioritised where applicable the support of projects which meet our objectives and this commitment extends across all the countries in which we have operations.

**2017 outcomes**

We began our local community projects in Congo (Brazzaville) after acquiring the offshore Marine XI licence 10 years ago. Our priorities began with projects related to safe drinking water, community health and education. SOCO continually strives to select and finance social projects which are sustainable and will outlast the company's involvement in the project. Strategic management of social investments prevents conflicts over the distribution of these investments and helps to enhance the positive impact of its investments by enabling them to reach their full potential.

In order to get an adequate understanding of the local conditions and risks associated with possible projects, SOCO actively liaises with relevant stakeholders, such as local communities, charities and Congolese authorities; in particular the Ministry of Hydrocarbons who sanctions the projects chosen.

SOCO is constantly learning from past social investments to draw lessons and take these into account when selecting future projects.

In 2017, our largest investment in Congo (Brazzaville) was the financing of the Viet Bridge, in Mvouvou, of which we supervised the execution. In Vietnam, community projects are selected by HLHVJOC based on recommendations from national government and PetroVietnam. During 2017, the HLHVJOC Charitable Donation programme focused on projects assisting infrastructure development, investing in healthcare, education, and disaster relief for flood victims. SOCO's financial commitment is set out under the licence terms. In 2017, the HLHVJOC charitable donation program, into which SOCO contributes, spent approximately \$200,000

on a number of causes. The financial support for Minh Anh and Anh Dao Specialised Education Centres for autistic children in the Nghe An and Ha Tinh provinces respectively accounted for more than half of that budget.

**ENVIRONMENT****BIODIVERSITY**

SOCO recognises and assesses the potential impact of our activities on the environment and is committed to responsible business conduct to ensure the protection of the environment and conservation of biodiversity. SOCO's primary policies setting out its commitment are:

- ▶ The SOCO Code
- ▶ Health, Safety and Environment Policy
- ▶ Biodiversity and Conservation Policy

SOCO ensures that conservation of biodiversity is taken into account when planning its future activities in line with the SOCO HSES MS. The Biodiversity and Conservation Policy incorporates a public commitment to not operate in any UNESCO designated World Heritage Site and to ensure that activities in buffer zones around these sites do not jeopardise the outstanding universal value for which these sites are listed.

**CLIMATE CHANGE**

SOCO acknowledges that both oil and gas exploration and production activities and the consumption of the produced hydrocarbons lead to greenhouse gas emissions. Climate change is high on the international agenda with nations committing themselves to combating climate change, moving towards fossil fuel alternatives and planning to adjust to the consequences of global warming.

The risks to business posed by climate change are included in the Company's risk assessment processes as an underlying factor contributing to the principal risks. The physical risks generally associated with climate change (sea level rises, extreme weather and water scarcity) are managed largely through established management processes, including the application of industry best practice. This is described further within this report and also in the Risk Management Report on pages 28 to 33.

SOCO's primary policy addressing the physical risks to the business from climate change is:

- ▶ Health, Safety and Environment Policy

**2017 outcomes**

The SOCO HSES MS was implemented throughout its activities. No management system failure was reported during 2017.

The Company continued to collect all greenhouse gas emissions data on a monthly basis (described further in the following section of this report) and intends to maintain its relatively low impact on the environment through regular monitoring, training and awareness raising and responsive action.

Our approach to CSR is implemented by managing our risks and mitigating the impacts of our operations through responsible and accountable leadership that sets clear expectations.

There were no environmental regulatory non-compliances reported and no oil spills reported in either Congo (Brazzaville) or Vietnam.

SOCO's 2015 Energy Saving Opportunities Scheme ('ESOS') Audit in compliance with the UK ESOS Regulations 2014 remains valid until the next phase of ESOS in 2019.

**GREENHOUSE GAS ('GHG') REPORTING**

SOCO, as part of its annual HSES monitoring programme, reports the emissions of GHGs that have been generated as a result of its exploration and production activities on an annual basis. This is undertaken to meet both the requirement under the Companies Act 2006 for UK-listed companies to carry out mandatory carbon emissions reporting and the internal requirement under the SOCO HSES MS to report GHG emissions annually. In addition, SOCO voluntarily reports its GHG emissions and the management thereof to the CDP.

**GHGs reported**

SOCO counts emissions of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (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 three greenhouse gases categorised under section 92 of the UK Climate Change Act, hydrofluorocarbons (HFC), perfluorocarbons (PFC) and sulphur hexafluoride (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.

**Emissions scope**

Reported Scope One direct emissions comprise direct GHG releases from combustion activities (for example, gas flaring operations and fuel gas/diesel use to generate power or for vehicle use). Reported Scope Two indirect emissions comprise those arising from generation of electricity supplied by the national grid in the UK and Congo (Brazzaville). No Scope Three emissions (indirect emissions created in the value chain) are reported.

**Reporting boundary**

SOCO reports GHG emissions from its operated projects (Marine XI, reorganised as the Lidongo, Viodo, Lideka and Loubana exploitation permits and Blocks I25 & I26), joint-operated projects (Block 9-2 and Block 16-1) and associated corporate/administrative activities on an overall

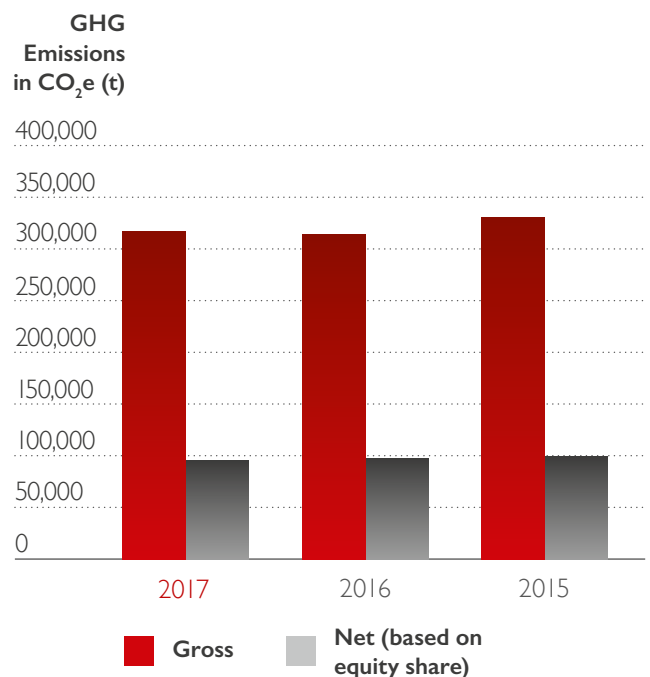
and equity share basis (see Figure A and Table E of this report). The former is the total emissions generated by those projects. The latter is calculated pro-rata to SOCO's ownership interest (equity share).

No GHG emissions are reported for SOCO's non-operated project (Cabinda North) as there were no activities carried out on this licence during 2017. SOCO manages this non-operated project from the Pointe Noire office and GHG emissions for Cabinda North are included in the Congo (Brazzaville) data.

**Base year adjustments and 2017 results**

2013 was the first year for which a full emissions estimate was made and reported to the CDP in 2014. The verified emissions from 2013, reported in 2014, therefore form the base year against which emissions trends over time are reported.

**FIGURE A: TOTAL CO<sub>2</sub>e EMISSIONS GENERATED BY SOCO'S REPORTED OPERATIONS IN 2017**



## Corporate Social Responsibility Report continued

Our GHG reporting in 2017 has provided a re-calculation of base year emissions, which takes into account updates to the approach taken to set the organisation boundary, along with improvements and updates to certain emissions factors used to calculate GHG emissions from activities in 2017. This re-calculation of the base year is in line with CDP guidance and was undertaken to ensure that GHG reporting reflects genuine emissions' trends over time. The 2013 base year re-calculations as well as revised calculations for the years 2014 to 2016 have been included in the verification process, during which no material errors were identified.

2017 saw a very minor increase in emissions produced, reflecting a slight increase in operational activity during the year (see Figure A and Table E of this report). Emissions for the year were linked to the drilling of two infill wells in Block I6-I in Vietnam, some well intervention activities, normal ongoing production in both the CNV and TGT fields as well as office activities in London, Pointe Noire and Ho Chi Minh City.

Overall, GHG emissions during 2017 were 316,732 tonnes of CO<sub>2</sub>e, representing just over 1% increase compared with 313,472 tonnes of CO<sub>2</sub>e in 2016. Based on equity share, SOCO's GHG emissions in 2017 were 95,117 tonnes of CO<sub>2</sub>e, representing a 2.4% decrease from 97,414 tonnes of CO<sub>2</sub>e in 2016. The increase in emissions is linked to the infill drilling and well intervention activities in Block I6-I in Vietnam as well as a higher volume of gas flared in Block 9-2. The emissions based on equity share have decreased because the key contributors were linked to activity in Vietnam where SOCO is a minority holder, resulting in a lower share of

the emissions attributed to SOCO. There were no operational activities in Congo (Brazzaville) where the Company is a majority holder.

For producing assets, SOCO's GHG emissions were 0.101 tonnes of CO<sub>2</sub>e per barrel of oil produced, which corresponds to a 34% increase. This increase in emission intensity from SOCO producing fields is explained mainly by the 27% decrease in production at TGT, whilst emissions levels have been more stable.

#### Collection and verification

Activity data pertaining to GHG emissions from SOCO's Africa projects were collected by the SOCO HSES Manager, assisted by RPS Energy. In Vietnam, data were collected and reported to SOCO by the HLHVJOCs. RPS Energy assisted SOCO with data collation and GHG emissions calculations. Verification was undertaken by a different division of RPS (RPS Planning and Development) which has maintained appropriate independence from both SOCO and RPS Energy during verification using its established approach to internal conflict management.

#### CDP reporting 2017

SOCO publicly reported on GHG emissions and climate change matters through CDP's annual disclosure programme in 2017. In 2018, SOCO will continue to identify, quantify and monitor its emissions. Due to the absence of operated operations planned for 2018, SOCO will aim to identify realistic initiatives to reduce its emissions from its offices.

TABLE E: TONNES (T) OF CO<sub>2</sub>e FOR 2017 OPERATIONS

Country	Reported operations	Operational phase	CO <sub>2</sub> e (T) overall <sup>1</sup>	CO <sub>2</sub> e (T) based on equity share <sup>1,2</sup>	CO <sub>2</sub> e (T) based on normalised emission per barrel of oil produced <sup>3</sup> overall
UK	Corporate	Administration (office – electricity usage)	22	22	n/a
Congo (Brazzaville)	Corporate	Administration (office – electricity and vehicles)	46	16	n/a
Vietnam	Corporate	Administration (office – electricity usage)	1	1	n/a
	Block 9-2 CNV field	Field production	27,347	6,837	4.83 × 10 <sup>-2</sup>
	Block I6-I TGT field	Field development/production (including logistics base)	289,316	88,241	1.11 × 10 <sup>-1</sup>
<b>Total</b>			<b>316,732</b>	<b>95,117</b>	<b>1.02x10<sup>-1</sup></b>

1 Figures include rounding to the nearest whole number.

2 Under equity share, SOCO reports a share of the emissions from partnerships pro-rata its ownership interest.

3 Normalised emission is calculated, per field, and at country level, based on equity share, and gross/net BOEPD produced in 2017 in the CNV and TGT Fields.

## PERFORMANCE INDICATORS AND EXECUTIVE DIRECTOR REMUNERATION

SOCO reports a number of non-financial key performance indicators ('NF-KPIs') and annual targets to monitor its performance against its strategic priorities and objectives. From an HSES perspective both leading and lagging indicators are tracked in line with industry good practice.

The list of NF-KPIs and targets (Tables F and G, respectively) reported by SOCO is reviewed annually to ensure its suitability and updated as required. In 2017, for example, two new KPIs were introduced, "Percentage of non-hazardous waste reused or recycled" and the "Percentage of hazardous waste reused or recycled".

Effort is made to homogenise the reporting across the organisation between operated and non-operated assets, and the KPI definitions have been reviewed and tightened up to further harmonise the data reported. As reported in the previous Annual Report and Accounts, SOCO continues to monitor employee tenure, but has downgraded the indicator from a NF-KPI. This is because, in the context of a small size organisation, the measurement is not a sufficiently meaningful indicator of the Group's performance.

The remuneration of our Executive Directors is directly linked to SOCO's performance, with the annual bonus element being based on individual and corporate performance during the year, which includes social and

environmental performance. This is to help ensure that the focus of the Board and management is aligned with the interests of our shareholders. Corporate goals are set annually and include financial and non-financial objectives, of which the latter relating to CSR are set out in the Tables F and G. The appropriate weighting of the metrics each year is determined by the Remuneration Committee. The remuneration outcomes for the Executive Directors are described in the Directors' Remuneration Report on pages 70 to 85.

In addition to the above indicators, SOCO measures a number of other HSES indicators including water consumption, produced water volume, produced water oil content, fuel usage, HSE training sessions, HSE audits and toolbox meetings.

### KEY DEVELOPMENTS IN 2017 AND PLANS FOR 2018

The targets, outcomes and plans referenced below reflect the Company's annual HSE Plan (which is approved by the Board) and support our overall CSR objectives. Led by the Chief Operating Officer, the HSE plan is implemented at country level by the project HSE managers (for SOCO-operated projects), with the assistance of RPS Energy acting as HSE advisor to the Group. The remuneration of the Executive Directors is linked to the outcomes referenced in Tables F and G of this report.

The amount of waste produced increased in 2017 compared with 2016 due to increased development activities on the TGT Field of Block 16-1 in Vietnam.

TABLE F: NON-FINANCIAL KPIs (HSES)

	Target	2017	2016	2015
Lost time injury frequency rate	Zero	0	0	0.4
Fatal accident frequency rate	Zero	0	0	0
Emissions (million tonnes of CO <sub>2</sub> equivalent) (based on equity share)	–	0.095	0.10	0.10
Oil spills	Zero	0	0	0
Solid non-hazardous waste (tonnes)	Set per project	147.95	91.97	327.8
Solid hazardous waste (tonnes)	Set per project	245.81	83.03	207.8
HSE regulatory non compliances	Zero	0	0	0

 See Additional Information – Key Performance Indicators on pages 119 and 120 for all KPIs reported and their definitions.

## Corporate Social Responsibility Report continued

TABLE G: 2017 PERFORMANCE AGAINST TARGETS AND ONGOING PLANS

**OUR BUSINESS**

2017 targets	2017 outcomes	Ongoing plans 2018
Apply the SOCO HSES MS to any operated project that arise.	No SOCO operated field activities were conducted in 2017.	▶ Apply the SOCO HSES MS to any operated project that arise.
Continue awareness raising and training for employees and contractors.	A SOCO HSES MS awareness training program has been implemented and the final session took place in January 2018.	▶ Carry out the final awareness training session and ensure changes to the SOCO HSES MS are communicated throughout the organisation.
Continue assessing the HSES policies of jointly operated projects in light of 2017 operations plans.	No material issues were identified. The Joint Operating Company has been informed of SOCO's findings and recommendations.	▶ No further action on this item is planned until 2019.
Assess the HSES policies relevant to its non-operated projects when activity is scheduled.	None of the non-operated projects were active during 2017. This requirement is carried forward to 2018.	▶ Assess the HSES policies relevant to its non-operated projects before any activity is scheduled.
Review potential for formalised commitment to shortlisted sustainability initiatives, quality assurance certification and best practice reporting standards.	Decision has been taken not to pursue any of these initiatives at this stage. However, the SOCO HSES MS remains aligned with the intent of the ISO14001 standard.	

**OUR ETHICS**

2017 targets	2017 outcomes	Ongoing plans 2018
Roll-out the revised SOCO HSES MS through training and internal stakeholder programme.	A SOCO HSES MS awareness training program has been implemented across both assets and head office.	▶ Further SOCO HSES MS training requirements will be identified and a training programme rolled-out.
Implement Modern Slavery Prevention programme, including additional supply chain due diligence and annual disclosure on website of measures taken.	Implementation of pre-qualification due diligence for all new contractors and vendors. Additional human resource was recruited to administrate this process and workflow systems have been adjusted to flag non-compliance. Our Statement on Prevention of Slavery and Human Trafficking is available on our website.	▶ Conduct process training, raise awareness within the organisation and implement contractor/vendor requalification due diligence.
Continue supplier due diligence programme, including training.	All our suppliers have been required to fill in our prequalification questionnaire. That requirement has been linked to our accounting system to ensure 100 percent achievement.	▶ Update contractor and supply chain management procedures and questionnaires based on lessons learnt following roll-out.
Review ABC programme and update as required.	All personnel completed the annual ABC programme including training, testing and self-declaration statements.	▶ Review the ABC programme and update as required.

**OUR PEOPLE**

2017 targets	2017 outcomes	Ongoing plans 2018
Activate a project level grievance mechanism for all SOCO-operated projects when activity is scheduled.	SOCO did not have any operated activities, therefore no grievance mechanism at project level was activated.	Activate a project level grievance mechanism for all SOCO-operated projects when activity is scheduled.

## SOCIETY

2017 targets	2017 outcomes	Ongoing plans 2018
Conduct an internal audit of the implementation of the "Communications and stakeholder engagement guidance".	An internal audit of the implementation of the "Communications and stakeholder engagement guidance" was conducted.	▶ Review outcome of internal audit of the implementation of the Communications and Stakeholder Engagement Guidance and implement actions as required.
Conduct an internal stakeholder programme of awareness raising and training.	A training session dedicated to stakeholder engagement and the management of social investment programmes was conducted in Congo (Brazzaville).	
Carry out human rights due diligence exercise for countries where we have a continued presence.	The findings of the human rights preliminary assessment conducted for Vietnam in 2016 have been reviewed and the preparation of an action plan commissioned.	▶ Develop a Humans Right Action Plan for Vietnam.
Honour previously agreed financial commitments and continue social investment in local communities according to the project specific selection processes.	In Congo (Brazzaville), one community infrastructure building project was financed and completed according to schedule. In Vietnam, SOCO contributed to the HLHVJOC's Charitable Donations Programme which supported projects ranging from infrastructure development, healthcare and education to disaster relief.	▶ Reinforce the strategic management of our social investment programmes in Congo (Brazzaville) in line with the updated social investment management procedure.
Develop an action plan to manage human rights risk during activities related to Blocks I25 & I26.	The Human Rights Action Plan has been commissioned.	▶ Develop and implement Human Rights Action Plan for Vietnam operated Blocks.
Implementation of the New Entry Procedure, when a new project arises, including an assessment of risk of impact on local communities, human rights and indigenous rights.	SOCO has been implemented through a due diligence exercise of potential opportunities.	▶ The New Entry Procedure will be revised and updated to be streamlined.

## ENVIRONMENT

2017 targets	2017 outcomes	Ongoing plans 2018
Implementation of the Biodiversity and Conservation Policy for all SOCO-operated projects.	There have been no specific opportunities to implement that procedure due to the lack of operated project in 2017.	▶ Biodiversity risk assessments will be conducted during the planning phase of SOCO planned operated activities.
Implementation of the New Entry Procedure, when a new project arises, including an assessment of risk of impact on the environment.	SOCO has been implementing the requirements of the New Entry Procedure through a due diligence exercise of potential opportunities.	▶ The New Entry Procedure will be revised and updated to be streamlined.
Continue the work to improve GHG emissions management by identifying realistic initiatives and targets for emissions reduction across all operations.	Marginal increase of emissions in 2017, linked to nature of activities conducted.	▶ Continue the work to improve GHG emissions management by identifying realistic initiatives and targets for emissions reduction with focus on office activities in the absence of planned operated activities.

### Approval of the Strategic Report

This report was approved by the Board of Directors on 21 March 2018 and is signed on its behalf by



**Jann Brown**  
Managing Director and  
Chief Financial Officer  
21 March 2018

# Our Leadership Team

## DEMOGRAPHICS OF EXECUTIVES AND NEDS

Attribute	No of Directors as at 31 December 2017	
Gender	Male	7
	Female	1
Ages	45 and under	1
	46-65	5
	66 and over	2
Nationalities	UK	3
	Other Europe	4
	Rest of the World	1

## DIVERSITY OF SKILLS AND EXPERIENCE

Attribute	NED	Executives
Access to key strategic relationships	4	3
Industry contacts	4	3
City contacts	1	3
Entrepreneurial	2	3
Industry knowledge – Technical	1	2
Industry knowledge – Commercial	3	2
Accounting/Disclosure/Reporting	1	1
Regulatory/Governance	1	1
Banking/Finance/Markets	5	2
Education – UK	1	2
Education – USA	–	1
Education – France/ Portugal/ Switzerland/ Mexico	4	–

## MEETING ATTENDANCE DURING EACH DIRECTOR'S RESPECTIVE TERM OF OFFICE DURING 2017

Director	Board Meeting (scheduled quarterly)	Board Meeting (additional)	Audit & Risk Committee Meeting	Remuneration Committee Meeting	Nominations Committee Meeting	Annual General Meeting
R de Sousa	●●●●●	●●●●			●●●	●
E Story	●●●●●	●●●●			●●●	●
J Brown	●					
M Watts	●					
R Gray	●●●●●	●●●○	●●●●	●●●●●	●●●	●
O Barbaroux	●●●●●	●●●○				●
E Contini	●●●●●	●●●○				●
A Monteiro	●●●●●	●●●●	●●●●	●●●●●	●●●	●
C Cagle	●●●●	●●●●				●
R Cagle	●●●●	●●●●				●

● Attended ○ Not attended





Key ● Non-executive ● Executive  Committee Chair Committee Membership: A: Audit & Risk R: Remuneration N: Nominations

Our Leadership Team continued



**RUI DE SOUSA** NON-EXECUTIVE CHAIRMAN

Appointed: July 1999

Rui de Sousa has approximately 40 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, Midus Global Limited and Chairman of Blackdown Resources.

**ED STORY** PRESIDENT AND CHIEF EXECUTIVE OFFICER

Appointed: April 1997

Ed Story was one of the founding Directors of SOCO International plc and serves as President and Chief Executive Officer. Under his leadership, SOCO acquired its principal assets in Vietnam and, by building strong relationships with its partners, has progressed the assets from initial exploration through to being one of the largest producing fields in Vietnam.

Ed has over 50 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 Chief Financial Officer of The 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, which merged its controlled holdings into Cairn Energy, thereby creating the leading South Asian oil and gas company in the UK Independent sector. Ed was a Non-Executive Director of Cairn Energy PLC until 2008 and Cairn India Limited until 2017. Ed is currently a Non-Executive Director of Vedanta Resources Plc. In addition, Ed is a founder and member of the Cleveland Clinic International Leadership Board.

**JANN BROWN** MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER

Appointed: November 2017

Jann Brown served as co-head of SOCO's Business Development group between February 2017 and November 2017 before her appointment to the board. Jann currently serves as an Independent Non-Executive Director and Chair of the Audit Committee of the John Wood Group p.l.c., of Troy Income and Growth Trust plc and of Scottish Ballet. She was formerly the Managing Director, Chief Financial Officer and Executive Director of Cairn Energy PLC where she had responsibility for project managing Cairn India Limited's initial public offering, and previously served as the Joint Chief Executive Officer and Chief Financial Officer at Magna Energy Limited, of which she was also co-founder. Jann is a past president of the Institute of Chartered Accountants of Scotland.

**MIKE WATTS** MANAGING DIRECTOR

Appointed: November 2017

Dr. Mike Watts served as co-head of SOCO's Business Development group between February 2017 and November 2017, and as an independent Non-Executive Director of the SOCO Board between August 2009 and January 2017. Mike has over 35 years of experience in the oil and gas industry. He was formerly the Deputy Chief Executive of Cairn Energy PLC and the Chief Executive Officer and Managing Director of the Amsterdam listed Holland Sea Search Holding NV. Mike has held senior technical and management roles with Premier Oil, Burmah and Shell and as Joint Chief Executive Officer and co-founder of Magna Energy Limited.



### **ROB GRAY** DEPUTY CHAIRMAN, NON-EXECUTIVE DIRECTOR AND SENIOR INDEPENDENT DIRECTOR

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 & Acquisitions practice. Rob's experience includes thirteen 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.

### **OLIVIER BARBAROUX** NON-EXECUTIVE DIRECTOR

Appointed: July 1999

Olivier Barbaroux has over 30 years' experience in the energy and utilities sector. He currently serves as Chairman of the Supervisory Board of CIMV SA. He was previously the Chairman and Chief Executive Officer 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.

### **ETTORE CONTINI** NON-EXECUTIVE DIRECTOR

Appointed: December 2001

Ettore Contini was formerly a Director of Energia E Servizi SpA and Eurowatt-Commerce. He was previously an asset manager in the private banking division of Banca del Gottardo.

### **ANTÓNIO MONTEIRO** NON-EXECUTIVE DIRECTOR

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) and Chairman of the Advisory Council of Gulbenkian's Foundation Program for Development Assistance. He previously served as a non-executive member of the Board of the Angolan Bank BPA (Banco Privado Atlântico) and as a non-executive member of the Board of the Spanish bank Sabadell.



**RUI DE SOUSA**  
CHAIRMAN

# Chairman's Introduction

During the year, the Board has been implementing its strategy to redefine and reshape the Company's future.

## DEAR SHAREHOLDERS

We have applied the UK Corporate Governance Code ('the UK Code') throughout the year and welcome the continuing developments. At SOCO, the Board understands that:

**RO** **Recognising Opportunity** is reliant upon there being a balance of skills, experience, knowledge, independence and diversity within the Board to effectively and constructively challenge and refine strategy.

**CP** **Capturing Potential** requires entrepreneurial leadership, ensuring appropriate resources along with a culture of governance conducive to the effective assessment, management and internal control of risk and quality shareholder engagement.

**RV** **Realising Value** is dependent upon the Board being an effective unit, setting appropriate strategic aims, managing conflicts of interest and transparent and progressive remuneration policies that align interests with shareholders, delivering success resulting in long term value for all of our shareholders.

## BOARD EFFECTIVENESS

As announced, the Board was actively seeking to diversify its asset base and looked at a number of transformational opportunities throughout 2017. It was important to me as Chairman that I ensured the Board and its Committees were effective on the level necessary to deliver the Company's long term strategic objectives. I am pleased that appropriate complement of knowledge, skills and experience were and continue to be represented on our Board, along with a diversity of cultural and geographical backgrounds that contributes to a global perspective.

We previously reported on our programme of succession planning and refreshment, and in the last two years, there have been a number of changes in Board membership both for the Executive and Non-Executive Directors ('NEDs'). The following changes took place in 2017:

- ▶ In January 2017, Dr. Mike Watts, previously an independent NED and chair of the Audit & Risk Committee, stepped down from the Board of Directors. Rob Gray assumed the chair of the Audit & Risk Committee.
- ▶ In November 2017, Dr. Mike Watts re-joined the Board as Managing Director. Jann Brown also joined the Board and was appointed Managing Director and Chief Financial Officer.

I remain closely focused on the opinions of our shareholders, expressed both through direct engagement and through shareholder voting.

- ▶ At the same time, following announcement of their retirement in September 2017, Cynthia and Roger Cagle stepped down from the Board as Executive Directors.
- ▶ In December 2017, Rob Gray was appointed Deputy Chairman, continuing in the roles as the Board's Senior Independent Director, Chair of the Audit & Risk Committee and a member of the Nominations and Remuneration Committees.

The appointments of Jann Brown and Dr. Mike Watts as Executive Directors in November 2017 have brought essential skills and experience to the Board at a critical time of re-shaping the Company's strategic outlook. Further changes to the Board, particularly with a view to increasing the number of independent NEDs, were planned within the context of a possible merger with Kuwait Energy plc announced on 8 January 2018. As discussions with Kuwait Energy plc terminated in March 2018 without agreement on transaction terms, increasing the balance of independence on the Board is a high priority for the remainder of the year and we have a programme for identifying potential candidates. With Dr. Mike Watts stepping down as a NED in January 2017 without the appointment of an immediate replacement, the Board had one fewer independent NED for the remainder of the year. The current composition of the Board is three Executive Directors, three non-independent NEDs and two independent NEDs.

#### DIVERSITY

During the year, the Board has been implementing its strategy to redefine and reshape the Company's future, which has called for robust exchanges between all the Directors. I have continued to encourage a Board culture that promotes constructive and challenging inquiry and discussion of strategy. It is clear to my Board colleagues and myself that pivotal discussions around risk at critical stages of our strategy discussions have benefited from our open and frank debate. This culture of constructive and challenging inquiry has enhanced the Board's alignment with the interests of shareholders.

Our debates have been enriched by our diversity of skills, experience, professional and cultural backgrounds. This has helped us to avoid the hazards of "groupthink" in favour of the benefits of a global outlook. We have drawn upon the specific professional experience of our NEDs in our business development discussions.

#### REMUNERATION

Executive remuneration continues to be high on the agenda for many, including the investment community. In determining the remuneration packages awarded to management, the Board and the Remuneration Committee have continued to aim at providing incentive schemes that reflect the characteristics of attractive rewards, fairness and restraint. Our overarching aim is to operate a remuneration policy which rewards senior management at an appropriate level for delivering against the Company's annual and longer term strategic objectives. The policy is intended to create strong alignment between Executive Directors and shareholders through a heavy focus on the use of equity. SOCO's remuneration policy was presented to shareholders for approval in 2017 and was passed by a majority, with 99.15% votes cast in favour. Further details of how the policy was applied during 2017 are provided in the Directors' Remuneration Report. In line with normal practice and regulatory requirements, it is intended that the remuneration policy will next be put to shareholders for approval at the 2020 AGM.

#### SHAREHOLDER ENGAGEMENT

I remain closely focused on the opinions of our shareholders, expressed both through direct engagement and through shareholder voting at our AGMs. The 2017 AGM voting demonstrated strong shareholder approval. While this is a clear expression of support, my Board colleagues and I remain alert to issues and concerns that may be conveyed.

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



**Rui de Sousa**  
Chairman

# Annual Report of the Directors

The Directors present their annual report, along with the audited Financial Statements of the Group for the year ended 31 December 2017.

The following sections of this report are incorporated herein by reference and forms part of this Directors' report.

Strategic Report	p2 – p45
Our Leadership Team	p46 – p49
Corporate Governance Report	p56 – p63
Nominations Committee Report	p64 – p66
Audit & Risk Committee Report	p67 – p69
Directors' Remuneration Report	p70 – p85
Financial Statements	p86 – p118
Additional Information	p119 – p124

## DEVELOPMENTS FOLLOWING THE 2017 REPORTING PERIOD

An indication of the likely future developments in the business of the Group is included in the Strategic Report on pages 2 to 45. There were no significant events after the balance sheet date.

## RESULTS AND DIVIDENDS

The audited Financial Statements for the year ended 31 December 2017 are set out on pages 86 to 118. The Board has recommended a final dividend of 5.25 pence per Ordinary Share, which amounts to approximately \$24.3m and which, if approved at the AGM, will be paid on 15 June 2018 to shareholders on the register at the close of business on 25 May 2018.

In 2017, the Company announced a final dividend for 2016 of 5 pence per Ordinary Share amounting to \$21.0m, which was approved by shareholders on 13 June 2017 and paid on 16 June 2017 to shareholders on the register at the close of business on 26 May 2017.

## DIRECTORS

The business of the Company is managed by the Directors who may exercise all powers of the Company subject to the Articles and applicable 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 Table A of this report. All Directors held office throughout the year except as noted in the table. The NEDs' appointments are terminable at the will of the parties. Executive Directors' contracts are terminable by either party on giving one year's notice.

In accordance with the provisions of the UK Corporate Governance Code, all Directors will retire at the forthcoming AGM and, being eligible, offer themselves for reappointment. Relevant details of the Directors, which include their Committee memberships, are set out in the section headed 'Our Leadership Team' on pages 46 to 49. 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'). The Company has made such provisions for the benefit of its Directors in relation to certain losses and liabilities that they may incur in the course of acting as Directors of the Company, its subsidiaries or associates, which remain in force at the date of this report.

No member of the Board had a material interest in any contract of significance with the Company or any of its subsidiaries at any time during the year, except for their interests in shares and in share awards and under their service agreements and letters of appointment disclosed in the Directors' Remuneration Report commencing on page 70.

TABLE A: DIRECTORS HOLDING OFFICE DURING 2017

Director	Date of contract
Rui de Sousa Chairman	12.07.99
Edward Story Chief Executive Officer	14.05.97
Jann Brown Appointed to the Board 12.11.17	03.02.17
Mike Watts Appointed to the Board 12.11.17	03.02.17
Rob Gray* Deputy Chairman and Senior Independent Director	09.12.13
Olivier Barbaroux	12.07.99
Ettore Contini	11.12.01
António Monteiro*	10.06.09
Cynthia Cagle Retired from the Board 12.11.17	14.05.97
Roger Cagle Retired from the Board 12.11.17	14.05.97

\* Denotes those determined by the Board to be independent Non-Executive Directors as described in the Corporate Governance Report on pages 56 to 63.

## 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. The Company currently has one class of shares in issue, ordinary shares of £0.05 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 ordinary shares held by the SOCO EBT are not exercised. The Articles may only be amended by a resolution of the 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 ordinary 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 Conduct 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 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 2018 AGM, as is customary, to authorise the Directors to exercise all powers to allot shares and approve a limited disapplication of pre-emption rights. In line with institutional shareholder guidance, and in particular with the Pre-Emption Group's Statement of Principles published on 12 March 2015 (the 'Pre-Emption

Principles'), the authority sought for disapplication of pre-emption rights will be increased from 5% to 10% on the basis that the additional authority is only intended to be used in accordance with the Pre-Emption Principles. Further information regarding these resolutions, which are based on template resolutions published by the Pre-Emption Group in May 2016, is set out in the circular to shareholders. A resolution will also be proposed at the 2018 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 approximately 10% of the Company's issued ordinary share capital. Shares purchased under this authority may either be cancelled or held as treasury shares.

## AUDITOR

A resolution to reappoint Deloitte LLP as the Company's auditor 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 10 to the Financial Statements. All non-audit services are approved by the Audit & 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 auditor. Further details of the Group policy on non-audit services are set out in the Audit & Risk Committee Report on pages 67 to 69.

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 auditor in connection with preparing its report, of which the auditor 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 auditor 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 auditor is 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 Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, is included in the Corporate Social Responsibility Report on pages 34 to 45.

## TAX GOVERNANCE

The Company is committed to high standards of tax governance and strives to meet its tax obligations. Tax contributions benefit the communities in which we operate by providing a framework within which the Company can grow. SOCO's Tax Strategy Statement, which the Board has approved, defines the key tax objectives of the Group and is available on the Company's website ([www.socointernational.com](http://www.socointernational.com)).

## RISK MANAGEMENT

The Directors carried out a robust review of the principal risks facing the Group that could threaten the Company's business model, future performance, solvency and liquidity. The Risk Management Report on pages 28 to 33 details how we manage and mitigate these risks.

## Annual Report of the Directors continued

**SUBSTANTIAL SHAREHOLDINGS**

As at 31 December 2017, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the voting rights as a shareholder of the Company shown in Table B of this report.

TABLE B: SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

Name of holder	% Of voting rights <sup>1</sup>	No. Of ordinary shares	Nature of holding
Ettore Contini <sup>2</sup>	8.74	29,000,000	Direct and indirect
Blue Albacore Business Ltd	8.32	27,615,840	Direct
Globe Deals Ltd	8.27	27,444,382	Direct
Chemsa Ltd	7.27	24,136,925	Direct
Ed Story <sup>3</sup>	4.13	13,716,384	Direct and indirect

<sup>1</sup> The total voting rights attached to the share capital in issue comprising 331,954,643 Ordinary shares each of £0.05 nominal value, being 341,076,911 Ordinary shares in issue less 9,122,268 Ordinary shares currently held in treasury.

<sup>2</sup> Ettore Contini holds 29,000,000 Shares, representing 8.74% of the total voting rights of the Company, of which 220,000 Shares (0.07%) are held personally by Ettore Contini and 28,780,000 Shares (8.67%) are held through Liquid Business Ltd, a closely associated person to Ettore Contini.

<sup>3</sup> Ed Story holds 13,716,384 Shares, representing 4.13% of the total voting rights of the Company, of which 12,041,384 (3.63%) Shares are held personally by Ed Story and 1,675,000 (0.50%) Shares are held through The Story Family Trust, a closely associated person to Ed Story.

During the period between 31 December 2017 and 21 March 2018, the Company did not receive any notifications under chapter 5 of the Disclosure and Transparency Rules. For further information on Directors' interests, please see page 76.

**REQUIREMENTS OF THE LISTING RULES**

Table C of this report provides references to where the information required by Listing Rule 9.8.4R is disclosed:

TABLE C: LISTING RULE REQUIREMENT

Listing rule requirement	
Details of any long term incentive schemes as required by Listing Rule 9.4.3 R.	Directors' Remuneration Report page 70 to 85
Details of any arrangements under which a director of the company has waived or agreed to waive any emoluments from the company or any subsidiary undertaking. Where a director has agreed to waive future emoluments, details of such waiver together with those relating to emoluments which were waived during the period under review.	No such waivers
Details required in the case of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the company's shareholders.	No such share allotments
Details of any contract of significance subsisting during the period under review: (a) to which the listed company, or one of its subsidiary undertakings, is a party and in which a director of the listed company is or was materially interested; and (b) between the listed company, or one of its subsidiary undertakings, and a controlling shareholder.	Note 34 page 118
Details of any arrangement under which a shareholder has waived or agreed to waive any dividends, where a shareholder has agreed to waive future dividends, details of such waiver together with those relating to dividends which are payable during the period under review.	Note 28 page 114



## 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 Strategic Report on pages 2 to 45 including the Financial Review on pages 24 to 27, 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 IFRS 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 86 to 118, which have been prepared in accordance with applicable United Kingdom law and IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company and 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 how these are being managed and mitigated as set out in the Risk Management Report on pages 28 to 33; 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



**Jann Brown**  
Managing Director and Chief Financial Officer

21 March 2018

# Corporate Governance Report

## UK CORPORATE GOVERNANCE CODE (THE 'UK CODE')

The Company is committed to the principles contained in the April 2016 version of the UK Code, as published on 17 June 2016 by the Financial Reporting Council (available at [www.frc.org.uk](http://www.frc.org.uk)) and for which the Board is accountable to shareholders. SOCO is defined as a "smaller company" for the purposes of the UK Code, meaning a company below the FTSE 350 Index for the whole of the year preceding the reporting year. The Company has applied the principles set out in the UK Code applicable to smaller companies, including both the Main Principles and supporting principles, by complying with the UK Code as described within this report, the Directors' Remuneration Report and the Audit & Risk Committee Report.

## STATEMENT OF COMPLIANCE WITH THE UK CODE

Throughout the year ended 31 December 2017, the Board considers that the Company has complied with the provisions set out in the UK Code as described in this report, other than in relation to the composition of the Nominations Committee under Rule B.2.1 of the UK Code.

Rule B.2.1 provides that a majority of the members of the Nominations Committee should be independent non-executive directors ('NEDs'). Since Mike Watts, formerly a member of the Nominations Committee, stood down as an independent NED in January 2017, the Nominations Committee has comprised four Directors, of which two, or 50% of the total membership, are independent NEDs. Further NED appointments, with a view to increasing the independent component of the Board, were planned within the context of the possible merger with Kuwait Energy plc. As discussions with Kuwait Energy plc terminated without agreement on transaction terms, increasing the balance of independence on the Board is a high priority for 2018 and we have a programme for identifying potential candidates.

## LEADERSHIP THE BOARD

SOCO's Executive Directors ('Executives') and NEDs are responsible, as a unitary Board, for the long term success of the Company. Their statutory duty is to act in what they consider to be in the best interests of the Company.

The Board roles, described in Table B of this report, including those of the committees, are established in writing and approved by the Board. See pages 46 to 49 for biographical details of the Directors and their committee memberships.

## Matters reserved for the Board

The Board operates within a framework that distinguishes the types of decisions to be taken by the Board, including:

- ▶ Determination of strategy, business plan and nature or scope of the Company's business
- ▶ Setting the principal operating policies and standards of conduct

- ▶ Approval of overall financial budgets and financing agreements
- ▶ Approval for establishing key corporate relationships
- ▶ Approval of any actions or matters requiring the approval of shareholders

Within this framework, while the Board has largely delegated the authority for implementing its strategy and decisions to the Executives and management, there is a formal schedule of matters specifically reserved to its own decision.

## Board Membership

At the date of this report, the Board comprises eight Directors including the Chairman (see pages 46 to 49 for biographical details). Their Board roles, described in Table B of this report, including those of the committees, are established in writing and approved by the Board. Changes in Board memberships during the year are set out in Table C to this report.

Tony Hunter was appointed Company Secretary in November 2017. His appointment was approved by the Board as a whole.

## COMMITTEES

In accordance with the UK Code, the Board has established three Committees:

- ▶ Audit & Risk Committee
- ▶ Remuneration Committee
- ▶ Nominations Committee

## Terms of Reference

Each Committee has a formal terms of reference ('TOR'), approved by the Board, which set out its delegated role and authority. During 2017, the TOR and the respective committee roles underwent a full and comprehensive review, in line with latest best practice. The revised TOR were approved in early 2018 and are available on the Company's website ([www.socointernational.com](http://www.socointernational.com)).

## Committee Memberships

Committee memberships are reviewed in order to ensure that the competencies on the Board are effectively utilised whilst maintaining a balance between the benefits of refreshment and continuity. More details are provided in the Nominations Committee Report on pages 64 to 66. Each Director's qualifications, specific Committee memberships, including where acting as Chair, are set out on page 47.

While only Committee members are entitled to attend their respective meetings and vote, other Directors are invited to attend as determined appropriate or beneficial, including Directors performing an advisory capacity, an approach which gives the Committees access to the Board's full breadth of knowledge and experience. The Company Secretary is responsible for ensuring that the Company provides such resources as the Committees may require in the discharge of their duties.

**ATTENDANCE**

Led by the Chairman, the Board typically has four scheduled meetings a year and holds additional meetings as necessary. During 2017, the Board held four scheduled meetings and three additional meetings, as was deemed required and sufficient 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 & Risk, Remuneration and Nominations Committees, as set out in Table B to this report.

At each of the four scheduled Board meetings, the Directors received a report from each of the Committees, the Chief Executive Officer, Chief Financial Officer, Managing Directors and the Chief Operating Officer. Discussions around the re-shaping of the Company's strategic outlook was a consistent agenda item throughout the year.

**EFFECTIVENESS  
NOMINATIONS COMMITTEE**

The Nominations Committee's primary duties include making recommendations to the Board regarding the appointment and re-election of Directors and the 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.

The Nominations Committee meets at least once a year and comprises two independent NEDs, the Chairman and the Chief Executive Officer. Further details of its duties and priorities during 2017 are set out the Report of the Nominations Committee on pages 64 to 66. The Committee Members are:

- ▶ Rui de Sousa, Committee Chairman and Chairman of the Board
- ▶ Ed Story, President and Chief Executive Officer
- ▶ Rob Gray, Deputy Chairman and Senior Independent Director
- ▶ António Monteiro, Independent NED

Mike Watts was a member of the Committee until standing down as an independent NED on 31 January 2017.

During 2017, the Committee conducted its duties through three meetings, all of which were fully attended, as shown in Table A to this report.

**Board evaluation**

Led by the Nominations Committee, the Board carries out an annual evaluation of its own performance and effectiveness and that of its Committees and individual Directors.

**MEETING ATTENDANCE DURING EACH DIRECTOR'S RESPECTIVE TERM OF OFFICE DURING 2017**

Director	Board Meeting (scheduled quarterly)	Board Meeting (additional)	Audit & Risk Committee Meeting	Remuneration Committee Meeting	Nominations Committee Meeting	Annual General Meeting
R de Sousa	●●●●	●●●			●●●	●
E Story	●●●●	●●●			●●●	●
J Brown	●					
M Watts	●					
R Gray	●●●●	●●●	●●●	●●●●	●●●	●
O Barbaroux	●●●●	●●●				●
E Contini	●●●●	●●●				●
A Monteiro	●●●●	●●●	●●●	●●●●	●●●	●
C Cagle	●●●	●●●				●
R Cagle	●●●	●●●				●

● Attended ○ Not attended

Corporate Governance Report continued

The process is utilised to assess Director effectiveness, time commitments of NEDs and training and development needs of each Director. The Chairman leads a discussion with the Nominations Committee and the full Board on the results of the evaluation. In addition, the results of the Chairman's performance review is led by the Senior Independent Director, now also the Deputy Chairman, discussed with the NEDs and fed back to the Chairman as appropriate. The 2017 evaluation was the first to be conducted with the current complement of Directors. Further details on how the 2017 Board Evaluation was conducted is described in the Report of the Nominations Committee on pages 64 to 66.

**Board balance and composition**

The Nominations Committee leads an assessment, annually, of the composition of the Board and Committees, including in respect of compliance with UK Code guidelines. The assessment reviews whether an appropriate balance exists of experience, skills, diversity, independence, tenure and knowledge of the Company and the industry, sufficient to effectively promote the long term success of the Company. Further details on the assessment are described in the Report of the Nominations Committee on pages 64 to 66.

**Board refreshment and tenure**

Board refreshment and tenure are considered together within the context of the Company strategy, vision and foreseeable circumstances facing the Company, and given that the Board should not be enlarged to a size that is unwieldy. The Board seeks to maximise the benefits of diversity and independence in its succession and refreshment planning and in constituting each of its Committees.

Board appointments continue to be made based on merit and with consideration of objective criteria of competencies and attributes, including gender diversity. Appointments are made through a formal process led by the Nominations Committee. Further details are provided in the Report of the Nominations Committee on pages 64 to 66. In 2017, Board refreshment was focused on the Executives with the intention to increase the independent component of the Board within the context of a corporate transaction. Increasing the balance of independence remains a high priority for 2018.

**Diversity Policy**

The aim of the Company's diversity policy, as reflected in the updated Human Rights Policy (available on the Company's website www.socointernational.com), is a workplace that is inclusive and free from discrimination. As applied to the Board, the aim is for the its effectiveness to be enhanced by a diverse range of attributes and backgrounds, which together contribute to a global perspective that takes into consideration all of our stakeholders. The attributes noted during 2017 included gender, age, demographics, skills, professional backgrounds, experience and education, as shown in Tables A and B of the Report of the Nominations Committee.

TABLE B: BOARD LEADERSHIP ROLES AND RESPONSIBILITIES

Roles and responsibilities

**The Board**

- ▶ Determines and develops the strategy for the business
- ▶ Provides entrepreneurial leadership
- ▶ Ensures the Company is adequately resourced to meet its strategic objectives
- ▶ Sets the values, standards and controls necessary for risk to be effectively assessed and managed
- ▶ Ensures the Company meets its obligations to its stakeholders
- ▶ Meets on a quarterly basis, with additional meetings convened at interim times as required

**Chairman – Rui de Sousa**

- ▶ Responsibilities are clearly established, set out in writing and agreed by the Board
- ▶ A role distinctly separate from that of the Chief Executive Officer
- ▶ Responsible, jointly with the Chief Executive, for the leadership of the Company and for promoting the highest standards of integrity and probity
- ▶ Responsibility for the leadership of the Board
- ▶ Leads constructive challenge of the Executives' strategy through open and probing discussion
- ▶ Meets with the NEDs without the Executives present, at least annually
- ▶ Responsibility for ensuring
  - The Board is effective in all aspects of its role
  - The Board agenda is set with adequate discussion time applied
  - The NEDs are fully apprised of all the aspects of the business
  - The Boardroom culture is one of openness and debate
  - The effective contribution by the NEDs is adequately facilitated
  - There are constructive relationships between the Executives and the NEDs

**Chief Executive Officer – Ed Story**

- ▶ Responsibilities are clearly established, set out in writing and agreed by the Board
- ▶ A role distinctly separate from that of the Chairman
- ▶ Responsibility, jointly with the Chairman, for the leadership of the Company and for promoting the highest standards of integrity and probity
- ▶ Responsibility for
  - Leading the Executives and Management Team
  - Ensuring management's effectiveness in running the business and implementing strategy and policy

## Roles and responsibilities

### Executives – Ed Story, Jann Brown, Dr. Mike Watts

- ▶ The division of responsibilities between the Executives is set by the Board.
- ▶ The Executives are responsible for:
  - The implementation of the Board's agreed strategy through the development of an appropriate business plan and for implementing decisions approved by the Board in accordance with their relevant authority
  - Leadership of the senior managers in the day-to-day running of the Group's business, managing the Group's risk programmes including the environmental, health, safety and social performance of the business
  - Ensuring the Company has adequate financial and human resources to implement its objectives
- ▶ Reporting the Group's performance and strategic direction to the Board and for providing accurate, timely and clear information to enable the Board to make sound decisions

### NEDs – Rob Gray, António Monteiro, Olivier Barbaroux, Ettore Contini

- ▶ A supervisory role that contributes to the development of strategy by
  - Constructive challenge, probing and debate
  - Review and analysis drawn from their particular skill set, experience and knowledge
  - Scrutiny of the performance of management in meeting their agreed goals and objectives
- ▶ As members of the Board's principal Committees, responsibility for
  - Ensuring the integrity of financial information
  - Ensuring that financial controls and systems of risk management are effective, adequate, robust and defensible
  - Determining the Executive's remuneration
  - The appointment and removal of Directors and setting out of the Board's approach to succession planning
- ▶ Ensuring possession of sufficient information for the discharge of duties – this may be achieved through dialogue with management, training and consultation with independent professional advisors, as required

### Deputy Chairman and Senior Independent Director – Rob Gray

- ▶ An independent leadership role to the Board
- ▶ Is available to the Chairman to discuss and develop ideas to maximise the Board's effectiveness
- ▶ Serves as an intermediary to other Directors, if required, to ensure that each individual's views are fully considered in reaching unitary consensus on Board matters
- ▶ Meets at least annually with the other NEDs, without the Chairman present
- ▶ Facilitates discussion including the appraisal of the Board's effectiveness and performance of the Chairman
- ▶ Is available to shareholders, as described more fully under Relations with Shareholders on page 63

## Roles and responsibilities

### Company Secretary – Tony Hunter

- ▶ The Company Secretary is appointed by the Board
- ▶ Responsibility 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
- ▶ Facilitates the induction programme for new Directors upon their appointment. This is tailored to the new Director's individual qualifications and experience
- ▶ Provides advice through the Chairman 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
- ▶ Ensures that 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 when deemed appropriate

### Board Committees

- ▶ The Audit & Risk Committee – Rob Gray (Chair), António Monteiro
  - Members are independent Directors
  - Responsibility for the integrity of the financial statements and narrative reporting, including annual and half year reports; adequacy and effectiveness of the internal financial controls and internal controls and risk management systems, and relationship with the external auditor
- ▶ The Remuneration Committee – António Monteiro (Chair), Rob Gray
  - Members are independent Directors
  - Responsibility for the design, development and implementation of the Company's remuneration policy
- ▶ The Nominations Committee – Rui de Sousa (Chair), Ed Story, Rob Gray, António Monteiro
  - Responsibility for ensuring that the leadership needs of the Company are sufficiently appropriate to ensure continued ability to compete effectively in the marketplace
- ▶ More details are provided in each of the Committee's respective reports on pages 64 to 85

## Corporate Governance Report continued

TABLE C: BOARD MEMBERSHIP AND CHANGES IN COMPOSITION DURING THE YEAR

	31 December 2017	31 December 2016
<b>Total Directors</b>	8	9
<b>NEDs</b>	5	6
<b>Independent NEDs</b>	Rob Gray António Monteiro	Rob Gray António Monteiro Marianne Daryabegui Dr. Mike Watts
<b>Appointed</b>	Jann Brown (November) Dr. Mike Watts (November)	
<b>Retired</b>	Dr. Mike Watts (January) Cynthia Cagle (November) Roger Cagle (November)	Robert Cathery (June) John Norton (June) Marianne Daryabegui (October)
<b>Audit &amp; Risk Committee</b>		
<b>Members</b>	2	3
<b>Appointed</b>	-	-
<b>Retired</b>	Dr. Mike Watts (January)	Marianne Daryabegui (October)
<b>Remuneration Committee</b>		
<b>Members</b>	2	3
<b>Appointed</b>	-	-
<b>Retired</b>	Dr. Mike Watts (January)	Marianne Daryabegui (October)
<b>Nominations Committee</b>		
<b>Members</b>	4	5
<b>Appointed</b>	-	Rob Gray (October)
<b>Retired</b>	Dr. Mike Watts (January)	Marianne Daryabegui (October)

**Independence**

Further NED appointments, with a view to increasing the independent component of the Board, were planned within the context of the possible merger with Kuwait Energy plc. As discussions with Kuwait Energy plc terminated without agreement on transaction terms, increasing the balance of independence on the Board is a high priority for 2018.

It is crucial to the Board's effectiveness that its NEDs express independent judgement. UK Code guidelines are that smaller companies should have at least two independent NEDs. While independence is monitored on an ongoing basis, SOCO formally assesses the independence of its NEDs annually in December, including greater scrutiny and a particular review process for NEDs having served on the Board for more than six years and again each year after nine years.

The Board's outlook concerning independence emphasises that an individual's independence is not determined merely by a fixed period of service, and in order to avoid an arbitrary loss of skills and experience without a reciprocal gain of additional independence, the Board does not enforce fixed term contracts with its NEDs. Further details on how the independence was assessed during 2017 is described in the Report of the Nominations Committee on pages 64 to 66.

**Re-election**

All Directors annually retire and seek re-election by shareholders at the Company's AGM. The Nominations Committee made its recommendations for re-election after having discussed the factors relevant for consideration of Director reappointments, including with regard to independence and tenure, Board balance, structure, effectiveness and succession planning. Following this process, the Board determined its own recommendation to shareholders.

In the case of each NED submitting themselves for re-election at the 2018 AGM, the Chairman, having considered the recommendations of the Nominations Committee and following the process of formal performance evaluation, is satisfied that each individual's performance continues to be effective and to demonstrate commitment to the role.

**Development, Information and Support**

All Directors receive ongoing access to resources for the update of their skills and knowledge; both on an individual and a full Board basis. Comments are solicited in the annual Board evaluation and discussed with the Chairman.

**Conflicts of interest**

Directors have the 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.

Each Director has notified the Board of his/her conflicts or in some cases, the potential for conflicts or the absence of conflicts. The Board assesses each notification on its own merits, including the implementation of appropriate limits and conditions, prior to giving authorisation for any specific conflict or potential conflict to exist.

The Board assesses its conflict authorisations on an ongoing basis throughout the year and additionally performs a scheduled review in December.

## ACCOUNTABILITY

### THE AUDIT & RISK COMMITTEE

The Audit & Risk Committee is responsible for ensuring the integrity of the Financial Statements and narrative reporting, including annual and half year reports in order that, in accordance with the UK Code, the Board

presents a fair, balanced and understandable assessment of the Company's position and prospects.

The Committee meets at least three times a year and is authorised to access advice and resource as it may deem required to carry out its duties. The Committee Members are the two independent NEDs:

- ▶ Committee Chair – Rob Gray (Deputy Chairman and Senior Independent Director)
- ▶ António Monteiro - Independent Director

Dr. Mike Watts was the Chair of the Committee until standing down as an independent NED on 31 January 2017.

During 2017, the Committee conducted its duties through three meetings, all of which were fully attended, as shown in Table C to this report, and were each additionally attended by the Executives and the external auditor. Further details of its activities are set out in the Audit & Risk Committee Report on pages 67 to 69.

### Financial and business reporting

The Board is responsible for presenting a fair, balanced and understandable assessment of the Company's position and prospects. The Committee has responsibility for the integrity of the Company's financial statements and narrative reporting, including annual and half year reports. In accordance with the UK Code, statements are made in the sections referenced in Table D to this report:

TABLE D: ACCOUNTABILITY STATEMENT PAGE REFERENCES

Accountability statements	Report	Pages
Business Model and Strategy	Strategic Report	2 to 45
Directors' Responsibility Statement	Annual Report of the Directors	55
Auditor's Statement	Independent Auditor's Report	87 to 95
Going Concern Statement	Financial Review	27
Viability Statement	Risk Management Report	33
Critical Judgements and Accounting Estimates	Note 4 to the Financial Statements	104
Risk Management and Internal Control	Risk Management Report	28 to 33
	Corporate Governance Report	62
	Audit & Risk Committee Report	68
Audit & Risk Committee	Corporate Governance Report	61 to 62
	Audit & Risk Committee Report	67 to 69
Nominations Committee	Corporate Governance Report	57 to 61
	Nominations Committee Report	64 to 66

## Corporate Governance Report continued

**Risk management and internal control**

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives, and for maintaining sound risk management and internal control systems.

A robust assessment is conducted annually of the risks affecting the Company. A summary of the risks is provided in the Risk Management Report on pages 28 to 33, including identification of the principal risks and how these risks are being mitigated to enable the Company to achieve its strategic objectives.

**Review of risk management and internal control systems**

The Board, led by the Audit & Risk Committee, reviews all significant aspects of material internal control. This includes financial, operational and compliance controls and risk management, including the management of ESG risks. The effectiveness of such controls are reviewed at each Audit & Risk Committee meeting.

The Board has formally defined lines of responsibility and delegations of authority. Responsibility for implementing the Company's material internal control systems has been delegated to the Chief Financial Officer. 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 were 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 considers whether appropriate actions are taken promptly to correct any significant weaknesses identified, and whether more extensive monitoring may be required. The Board confirmed it was satisfied with the review processes employed and the results thereof. The Board further 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.

Specific review processes are undertaken by individual Committee members according to his or her area of expertise and the results thereof were reported to the full Committee and to the Board. Reviews are based principally on discussions with management and on reports provided by management to consider whether significant risks had been identified, evaluated, managed and controlled. The NEDs also have independent interaction with employees and 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 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 established a continuous process, which has been in place throughout the year to the date of this report 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.

**External auditor**

The external auditor during 2017 was Deloitte LLP, as recommended by the Committee and the Board and approved by shareholders at the 2017 AGM. The Board has established arrangements for maintaining an appropriate relationship with the Company's auditor. Further information is provided in the Report of the Audit & Risk Committee on pages 67 to 69.

**Internal audit function**

Although the Company does not currently have a separate in-house internal audit function, the Directors review at least annually the need to establish such a function. The review in 2017 was led by the Audit & Risk Committee which gave its recommendation to the Board. The Company's current staff size limits the ability to form an effective internal audit function and, accordingly, the Company outsources its internal audit requirements in order to ensure there is an appropriate level of independence and access to the diversity of expertise required to deliver a full range of internal audit activities. The Company has identified independent advisors who can fulfil immediate internal audit needs that may arise. It was determined that the current provisions are fit for purpose. During the year, independent advisors undertook internal audit reviews on treasury and IT and prepared reports on each, detailing their work, conclusions and recommendation. As with all internal audit activities, these reports will be factored into our programme of continual process improvements.

**Whistleblowing**

SOCO's Whistleblowing Policy reflects the protection afforded under UK employment law and aims to provide reassurance that employees will be protected from reprisals when raising concerns in the public interest regarding serious malpractice or wrongdoing within the organisation such as incorrect financial reporting, unlawful activity or activities that are not in line with SOCO's Code of Business Conduct and Ethics. In addition to the usual reporting channels, the Company offers a confidential Ethics Hotline, an independent telephone and web-based reporting service which is advertised to staff at all offices.

More information on the work of the Committee in discharging its responsibilities during the year is described in the Report of the Audit & Risk Committee on pages 67 to 69.

**REMUNERATION****THE REMUNERATION COMMITTEE**

The Remuneration Committee is responsible for setting the remuneration of the Chairman and the Executives, and is responsible for appointing any consultants it may engage in carrying out its duties.

The Remuneration Committee meets at least once a year and, in accordance with the UK Code, is composed exclusively of independent NEDs. Further details of the Committee's activities are set out in the Directors' Remuneration Report on pages 70 to 85.



The Committee Members are the two independent NEDs:

- ▶ Committee Chair – António Monteiro
- ▶ Rob Gray (Deputy Chairman and Senior Independent Director)

Dr. Mike Watts was a member of the Committee until standing down as an independent NED on 31 January 2017.

The Committee's external Remuneration Advisor was FIT Remuneration Consultant LLP (originally appointed in January 2016), acting for the Company solely in that capacity.

The Committee conducted its duties in 2017 through four meetings and additionally held informal meetings with management and advisors. Each meeting was fully attended, as shown in Table C to this report.

## RELATIONS WITH SHAREHOLDERS

The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The Executives are responsible for ensuring that 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 NEDs are responsible for taking sufficient steps to understand these views, including any issues or concerns.

Directors are apprised on shareholder and stakeholder relations matters, including shareholder concerns and opinions, at each quarterly Board meeting. Brokers' reports were discussed at scheduled Board meetings throughout the year. Public relations reports, proxy agency reports and analysts' reports were also distributed to the full Board.

SOCO has maintained an open and active dialogue with its shareholders throughout the year. The Managing Director and Chief Financial Officer has responsibility for investor relations and has employed an outside agency to provide assistance in the dissemination of information to shareholders and the general public and also to solicit active feedback as to the effectiveness of such efforts. During Q4/2017, a dedicated Group Investor Relations Manager role was created and filled in Q1/2018, increasing the focus on engagement with the investment community.

The Company is responsive to requests for face-to-face meetings with its institutional shareholders and seeks direct engagement with fund managers coincident with interim and full year results. The Board has an active dialogue with its retail shareholders, who engage with management throughout the year and who represented a substantial proportion of those attending in person at the 2017 AGM.

The Company uses its website to post and disseminate important information promptly to a wide audience. The website is also regularly utilised by shareholders and stakeholders for email communication with

management, including on issues of corporate social responsibility and non-financial reporting.

The NEDs are available to SOCO's major institutional shareholders, and particularly responsive when additional communication with the Chairman, Senior Independent Director or other NED is requested. 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 Executives.

In addition to the two personal communication forums around the Annual Results and Interim Results presentations, the AGM is another opportunity for all shareholders to engage directly with the Board. Notice of the AGM is circulated to all shareholders at least 20 working days, and for other general meetings at least 14 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. All Directors, including the chairs of the Audit & Risk, Remuneration and Nominations Committees, are available at each AGM to answer shareholder questions and to respond to any specific queries.



**Jann Brown**  
Managing Director and Chief Financial Officer

21 March 2018

# Nominations Committee Report



**RUI DE SOUSA**  
NOMINATIONS  
COMMITTEE CHAIR

## COMMITTEE ATTENDANCE

Committee Member	2017 Attendance
R de Sousa	●●●
E Story	●●●
R Gray*	●●●
A Monteiro*	●●●

● Attended ○ Not attended \*Independent NED

## DEAR SHAREHOLDERS

### RESPONSIBILITIES OF THE NOMINATIONS COMMITTEE

The Nominations Committee leads the process for Board appointments and makes recommendations to the Board. It has responsibility for ensuring that the composition of the Company’s leadership remains effective and competitive. With the increased emphasis on business development and asset diversification during 2017, this was in sharp focus.

During the year, the Committee comprised the Chairman, the Chief Executive Officer and the two independent Non-Executive Directors (‘NEDs’). The Nominations Committee membership, organisation and duties are set out herein and in the Corporate Governance Report. The qualifications of each of the Chairman and members are set out on pages 48 to 49.

### MEETINGS

The Committee conducted its duties through three meetings held during 2017. The Chairman additionally led discussions on certain matters before the full Board. Other Directors were invited to attend as determined appropriate or beneficial, including Directors performing an advisory capacity.

During the year the following areas were discussed at meetings of the Committee:

#### March

- ▶ Succession Planning
- ▶ Annual reappointment of Directors

#### September

- ▶ Succession Planning, specifically the change of Executive Directors

#### December

- ▶ Succession Planning
- ▶ Annual Board, Committee and Director Evaluations
- ▶ Review of Board Structure and Composition
- ▶ Consideration of NED Candidates within the context of transaction discussions
- ▶ Annual Review of Committee Terms of Reference

Further details of the Committee’s matters of discussion, policies and objectives are included in the following sections.

### Board Changes

At 1 January 2017, the Board comprised three Executive Directors (‘Executives’) and six NEDs. Dr. Mike Watts stood down as an independent NED in January 2017. He and Jann Brown were appointed to the Board as Executives upon the retirement of Roger Cagle and Cynthia Cagle in November 2017.

In January 2017, Rob Gray was appointed Chair of the Audit & Risk Committee and in December 2017, became Deputy Chairman of the Board. As at 31 December 2017, the Board comprised three Executives and five NEDs, including the Chairman. Two of those NEDs are considered independent for the purposes of the UK Corporate Governance Code (‘UK Code’). No NED appointments were made during 2017.

### Board Balance

The Committee discussed the assessment of Board and Committee balance of skills, experience, independence and knowledge that were conducted in December 2016 and December 2017. It was determined that the balance remains appropriate to effectually promote the long term success of the Company and was in compliance with UK Code

guidelines for smaller companies. The Committee also gave consideration to the leadership needs of the Company within the context of growth and portfolio diversification discussions at the time. The Board's current balance and composition is shown in Tables A and B of this report.

### Independence

At the end of 2016, the Committee identified three Directors as independent NEDs, including Dr. Mike Watts who stepped down as an independent NED in January 2017 before rejoining the Board as an Executive in November 2017. The continuing independent NEDs during the year were Rob Gray (Senior Independent Director and Deputy Chairman) and António Monteiro, whose respective independence was further assessed and accepted in December 2017.

Further NED appointments, with a view to increasing the independent component of the Board, were planned within the context of the possible merger with Kuwait Energy. As discussions with Kuwait Energy terminated without agreement on transaction terms, increasing the balance of independence on the Board is a high priority for 2018. We have a programme to identify potential candidates for appointment to the Board.

### Diversity

SOCO's approach to diversity and inclusiveness is embedded within the Group's Human Rights Policy available on the Company's website ([www.socointernational.com](http://www.socointernational.com)). In its approach to the composition of the Board and other administrative, management and supervisory bodies, the Group pursues diversity of approach, experience, knowledge, skills, and professional, educational and cultural backgrounds. This approach, and the global perspective it brings to the governance of the Group, has been particularly beneficial in pivotal strategy discussions during the year around business and operational risk.

Tables A and B below shows the breakdown of the current Board by gender, age, nationality, experience, knowledge, professional qualifications and educational background.

TABLE A: DEMOGRAPHICS OF EXECUTIVES AND NEDS

Attribute	No of Directors as at 31 December 2017	
Gender	Male	7
	Female	1
Ages	45 and under	1
	46-65	5
	66 and over	2
Nationalities	UK	3
	Other Europe	4
	Rest of the World	1

TABLE B: DIVERSITY OF SKILLS, EXPERIENCE AND PROFESSIONAL BACKGROUNDS

Attribute	NED	Executives
Access to key strategic relationships	4	3
Industry contacts	4	3
City contacts	1	3
Entrepreneurial	2	3
Industry knowledge – Technical	1	2
Industry knowledge – Commercial	3	2
Accounting/Disclosure/Reporting	1	1
Regulatory/Governance	1	1
Banking/Finance/Markets	5	2
Education – UK	1	2
Education – USA	–	1
Education – France/ Portugal/ Switzerland/ Mexico	4	–

### Succession Planning

The Chairman led discussions on the Board's succession planning and emphasised the benefits of attracting high calibre candidates to ensure the Board continues its high standard. It was determined that there was no immediate requirement to expand the Board in view of the Committee's satisfaction that the Board's balance of skills, experience, independence and knowledge were appropriate and in compliance with UK Code guidelines for smaller companies.

It was further noted that the Company is actively pursuing growth opportunities, which was expected to result in NED changes. The 2017 Board Evaluation contained discussion of potential skills to be brought to the Board.

### APPOINTMENTS PROCESS

During the year, following the retirement of Roger Cagle and Cynthia Cagle from the Board, Jann Brown was appointed to the Board as Chief Financial Officer and Managing Director and Dr. Mike Watts was appointed Managing Director, having joined the Company in February 2017. Their appointments have brought essential skills and experience to the Board at a critical time of re-shaping the Company's strategic outlook. In the nine-month induction period leading up to their Board appointment, each attended all Board meetings and Jann Brown attended all meetings of the Audit & Risk Committee. Each received all pertinent documentation and had regular access to senior management and their teams. Noting their relevant knowledge and experience regarding the risks and responsibilities for UK directors, in particular, their experience as former FTSE-100 directors, training was carried out in relation to the risks and responsibilities relating to non-UK jurisdictions within the Group.

Further changes to the Board, particularly with a view to increasing the number of independent NEDs, were planned within the context of a

## Nominations Committee Report continued

corporate transaction. This approach having not materialised, increasing the balance of independence is a priority for 2018.

No NED appointments were made during the year. The Committee would normally utilise an independent external advisor to facilitate any such search. The Committee will make recommendations to the Board for appointment based on merit set against objective criteria and with due regard for the benefits of diversity. A letter setting out the terms and conditions of appointment, including an indicated time commitment, is signed by the Company and the new Director. Directors' appointment letters are available for inspection under standard conditions. New director induction is facilitated by the Company Secretary upon appointment.

#### BOARD PERFORMANCE AND EFFECTIVENESS

The Board carried out its annual evaluation of its own performance and that of its Committees and individual Directors. The Nominations Committee led the process and shared the results with the full Board. The Committee was assisted by the Company Secretary.

To date each of its annual evaluations have been conducted externally, with the exception of 2017 when Tony Hunter, who had previously led the external process on behalf of Nautilus Management Limited, was appointed as Company Secretary in November 2017.

The 2017 evaluation was the first to be conducted with the current complement of Directors. It was conducted through confidential questionnaires that solicited an evaluation of the Board's performance in regards to the following:

- ▶ Strategy and Risk
- ▶ Corporate and Social Responsibility
- ▶ Succession Planning
- ▶ Independent and other NEDs
- ▶ Board Effectiveness and Operation
- ▶ The operation of the principal Board committees
- ▶ Board training and development needs

A number of areas were identified for ongoing focus in 2018 including:

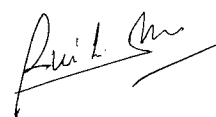
- ▶ The need to attract further high calibre independent NEDs
- ▶ The importance of maintaining an atmosphere of open discussion and challenge and informal discussion between meetings

#### RE-ELECTION

The full Board retired and offered themselves for re-election by shareholders at the Company's AGM in June 2017. The Committee formed its recommendations regarding re-election following assessments of Board balance, composition and independence. All Directors were duly re-elected, each receiving over 97% of the proxy votes lodged in advance of the meeting.

#### BOARD DEVELOPMENT, INFORMATION AND SUPPORT

Throughout 2017, all Directors received ongoing access to resources for the update of their skills and knowledge; both on an individual and a full Board basis.



**Rui de Sousa**  
Nominations Committee Chair

# Audit & Risk Committee Report



**ROB GRAY**  
AUDIT & RISK  
COMMITTEE CHAIR

## COMMITTEE ATTENDANCE

Committee Member	2017 Attendance
R Gray*	●●●
A Monteiro*	●●●

● Attended ○ Not attended \*Independent NED

## DEAR SHAREHOLDERS

### RESPONSIBILITIES OF THE AUDIT & RISK COMMITTEE

The Audit & Risk Committee's primary responsibilities include reviewing the effectiveness of the Company's and the Group's systems of internal control, risk management, overseeing the selection of and relationship with the external auditor and the review and monitoring of the integrity of Financial Statements. The Committee is responsible for the review of the Group's major financial, operational and corporate responsibility risk management processes on behalf of the Board, including environmental, social and governance risk. 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 UK Corporate Governance Code (the 'UK 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.

### MEETINGS

The Committee met three times during 2017. Subsequently, the Committee met twice in early 2018 on the 2017 financial statements. This was in order to recommend to the Board to fully impair the E&E assets, following the Board's decision to not spend substantive funds on our Africa portfolio, and to approve the change in accounting policy from modified full costs to successful efforts.

At each meeting an internal controls report is presented and discussed. There is also an update of the risk register and reports are reviewed

on environmental, social and governance matters. During the year the following areas were discussed at meetings of the Committee:

### March

- ▶ Review of the 2016 Financial Statements, including going concern review and viability statement
- ▶ Review of the 2016 external audit status
- ▶ At the end of 2016 we received communication from the FRC regarding our 2015 Annual Report and Accounts seeking further information on our disclosure of climate change and on certain notes to the accounts. Following further exchanges, they confirmed that their inquiries had been closed

### September

- ▶ 2017 Interim results and going concern review

### December

- ▶ Bribery Risk review
- ▶ Business Risk review
- ▶ Terms of reference review for the Committee
- ▶ Year-end planning, including approval of the 2017 audit plan

## MATTERS REPORTED TO THE BOARD

### External Auditor – 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 auditor, 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 auditor on their internal quality procedures. Additionally, auditor

## Audit &amp; Risk Committee Report continued

independence and objectivity were assessed, giving consideration to the auditor's confirmation that their independence is not impaired, the overall extent of non-audit services provided by the external auditor (as described below) and the past service of the auditor who were first appointed, following a tendering process, in 2002. Fees payable to the auditor were reviewed and approved by the Committee and are set out in Note 10 to the Financial Statements. The 2017 year-end is the second year the current lead audit partner, David Paterson, has been involved in the audit of the Group.

Noting the Code's guidance regarding external audit tendering and rotation, a competitive tender process is required at least once every ten years. Under the Statutory Auditors and Third Country Auditors Regulations 2016, giving regard to transitional arrangements, we will conduct a competitive tender process no later than for the 2023 year-end audit. The Committee will continue to consider whether the appropriate timeframe in which to conduct such a tender process, in light of the regulatory requirements as well as auditor performance and independence, falls before this date.

The Committee considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations which would restrict the choice of external auditor. The Board concurred with the Committee's recommendation for the reappointment of Deloitte LLP as the Company's auditor for 2018, which will be proposed to shareholders at the forthcoming AGM.

#### External Auditor – Non-Audit Services

The external auditor is 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 auditor is best placed to undertake other services on behalf of the Group. The Audit & Risk Committee has a policy which sets out those non-audit services which the external auditor 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 & Risk Committee is satisfied that appropriate safeguards are applied to ensure independence and that objectivity is 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.

Total audit and non-audit fees in 2017 were \$215,000 and \$611,000, respectively. The Committee approved all non-audit services provided by

the external auditor in 2017. The principal non-audit fees during 2017 were in relation to the half year review (\$54,000). In addition, they provided transaction services as potential reporting accountants on a proposed transaction in 2017 (\$529,000). Their experience in relation to the transaction meant there were clear economies and benefits from using the auditor for this work. The Committee reviewed the scope of the services and concluded that such services did not affect the auditor's independence and were consistent with relevant ethical guidance in place. Details of non-audit services are set out in Note 10 to the Financial Statements.

The Committee continues to review its non-audit services policy which in 2016 required all non-audit services to be pre-approved by the Committee. In 2017 whilst all non-audit services still needed to be approved by the Committee the policy specifically laid down the permitted non-audit services in relation to audit related and other permitted services and those that are prohibited.

#### Risk Assessment

The Committee undertook a robust and 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 & 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 at least 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 the Corporate Governance Report on page 62. 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 UK Code. The Committee reviewed and discussed with management and the auditor 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, which were approved in early 2018.

#### Fair, Balanced and Clear and Concise

The Committee advised the Board whether the annual report and accounts are, taken as a whole, fair, balanced, clear and concise and provide 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 on page 55 of the Annual Report of the Directors.

#### Significant Issues Related to the 2017 Financial Statements

For the year ended 31 December 2017 the Audit & 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.

#### Change from Modified Full Cost to Successful Efforts

During the period management reviewed the accounting policies in accordance with best practice to ensure that policies remain appropriate for the business. As a result of that review, we have moved from a modified full cost basis to successful efforts in order to ensure we are more comparable with our UK-listed E&P industry peers.

The new policy is set out in Note 2 of the notes to the Financial Statements on pages 100 to 103 and the impact of the restatements is described also in Note 2 on page 100. A full paper with detailed support was reviewed by the Committee at a specially convened meeting.

#### Impairment of Exploration and Evaluation Assets

The Committee considered the Group's intangible exploration and evaluation assets individually for any indicators of impairment including the indicators specified in paragraphs 18 to 20 as set out in IFRS 6 Exploration for and Evaluation of Mineral Resources (see Note 2(h) to the Financial Statements).

The Group's exploration and evaluation properties that continue to be classified as intangible assets on the balance sheet as at 31 December 2017 comprise Blocks 125 & 126 offshore Vietnam, as described in the Review of Operations on pages 16 to 23.

As part of the change to successful efforts the Company's African assets of \$219.9m were reconsidered and an amount of \$67.6m was written off via a restatement of prior-year balances. The remaining \$152.3m as at the end of 2017 was assessed under IFRS 6 for indicators of impairment. Whilst positive progress had been made on both our Cabinda North and Marine XI licence areas, following a review of the strategic priorities, the Company decided to fully impair these non-core African assets on the basis that they are no longer a core priority and there will be no substantive expenditure in the near future. A full paper with detailed support was reviewed by the Committee at a specially convened meeting.

#### Oil and Gas Reserves

The Group's estimates of oil and gas reserves have a significant impact on the financial statements, in particular in relation to DD&A and impairment. Oil and gas reserves, as discussed in the Risk Management Report on page 30, are calculated using standard evaluation techniques which have inherent uncertainties in their application.

The Committee has discussed with management and the auditor the results of third party (ERCE) reserve assessments and the audit conducted by our reserves auditor LR Senergy, which are discussed further in the Review of Operations on pages 16 to 23. These results have also been scrutinised by management, taking into account the current stage of the field's development, to satisfy itself that reserve estimates are appropriate, that the related DD&A calculations are correct and that appropriate impairment testing has been conducted (see below). Management also reviewed its estimate of future costs (including decommissioning costs) associated with producing the reserves. 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 (see below).

#### Impairment of Producing Assets Classified as Property, Plant and Equipment ('PP&E')

The Committee considered the Group's oil and gas producing assets that are classified as PP&E on the balance sheet individually for impairment with reference to indicators in IAS 36 Impairment of Assets. During 2017, the Group's PP&E oil and gas assets comprised its two Vietnam producing licences TGT and CNV, the ongoing activities of which are described in the Review of Operations on pages 16 to 23. Having given consideration to the current oil price environment, changes in operating and capital expenditure and any changes in reserves estimates, management determined that there were no indicators of impairment on the TGT Field. On CNV there was a downward revision on 2P reserves of 16% and so the Company tested for impairment. Both assets have been thoroughly assessed through economic modelling using a range of assumptions and both were determined to have a fair value equal to or in excess of its book carrying value. The CNV asset was also assessed for any potential impairment reversal, as in 2014 an impairment provision was recorded in the books. Management concluded, and the Committee agreed, that testing did not support an impairment reversal on CNV at this time. The Committee has discussed the Group's PP&E assets and associated impairment testing with both management and the auditor and concur with the treatment adopted, further details of which can be found in Note 16 to the Financial Statements.



**Rob Gray**  
Audit & Risk Committee Chair



**ANTÓNIO MONTEIRO**  
REMUNERATION COMMITTEE  
CHAIR

# Directors' Remuneration Report

## DEAR SHAREHOLDERS

On behalf of the Board, we are pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2017. 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).

During the year we renewed our directors' remuneration policy at the 2017 AGM with 99% support from our shareholders. In line with the requirements of applicable law, we intend to put the policy to a binding shareholder vote at least once every three years. Accordingly, and unless changes to the current policy are proposed before then, we expect to next propose the directors' remuneration policy to shareholders for approval at the 2020 AGM.

## HOW PERFORMANCE WAS REFLECTED IN THE PAY OF OUR EXECUTIVE DIRECTORS

As reported throughout the Strategic Report, the Company continues to be impacted by the global industry downturn. This creates unique and difficult challenges for our entire staff, including our Executive Directors, in their efforts to successfully shape the business for resilience, identify and take advantage of real opportunities as they arise, and deliver sustainable growth in a lower oil price environment. The Committee intends for its pay packages to strike an appropriate balance between incentivising and rewarding these efforts, while maximising shareholder alignment and preserving resource in a highly stressed economic climate. We have sought to achieve this in our Executive Director pay packages in 2017, whereby:

- ▶ Salaries remain frozen from the 2013 level, and the new Executive Directors were appointed on lower salaries than Roger Cagle, who stepped down as an Executive Director during the year.
- ▶ Annual bonus performance measures emphasised strategic measures designed to reflect success in meeting the current challenges. The Committee has sought to provide a clear link between these measures and our core strategic objectives in its disclosure of the bonus measures, assessment and pay-out.
- ▶ Annual bonus awards were considered in light of the continued impact of the challenging oil price environment. Bonuses for all Executive Directors in respect of 2017 were awarded at 65% of maximum (2016: 35%, which included a discretionary downward adjustment of 7.5%). Bonuses were prorated for those Executive Directors not in office throughout the year.

TABLE A: REMUNERATION COMMITTEE MEETING ATTENDANCE DURING 2017

Committee Member	Attendance
R Gray	●●●●
A Monteiro	●●●●

● Attended ○ Not attended



Whilst each of the continuing Executive Directors would have been entitled to receive the full bonus amount in cash, they voluntarily agreed to receive a portion as awards under the Deferred Share Bonus Plan. This ensures their interests remain closely aligned with shareholders.

- ▶ Long term incentive awards granted in 2014 did not meet the performance threshold and lapsed, based on relative total shareholder return measured over three years.
- ▶ Long term incentive awards will be made in 2018 on the same basis as in prior years, vesting over a three year performance period but additionally subject to a further two year holding period. As a result, any potential value will only be realised after a 5-year period and will be significantly impacted by success in delivering the long term business strategy to create value for shareholders.

Full details on incentive payments for performance achieved to December 2017 are provided in the annual report on remuneration immediately following this letter.

### KEY DECISIONS AROUND REMUNERATION FOR 2017

The Committee continued to monitor rapidly evolving market practice and relevant guidance. As described elsewhere in this letter, remuneration policies and executive pay packages were reviewed. The Committee considered the disclosure of annual bonus performance measures, and has sought to improve its reporting by providing additional detail in both retrospective and prospective disclosures. The Committee takes into account pay conditions elsewhere in the Company and actively considers ESG factors in assessing the bonus out-turn, and considered matters related to group remuneration.

### CHANGE IN DIRECTORS

After over 20 years with the Company, Roger Cagle and Cynthia Cagle stepped down from the Board in November 2017 and will remain employed until they retire in September 2018.

Roger and Cynthia have not received any termination payments and, consistent with normal practice in respect of retirement, have been treated as good leavers under the Company's bonus and LTIP arrangements with any awards suitably pro-rated.

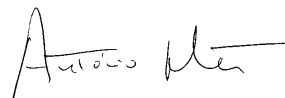
Jann Brown and Dr. Mike Watts both joined the Company in February 2017 in full time employment positions as co-heads of the newly formed

Business Development group. From November 2017, Jann and Mike became Executive Directors, serving as co-Managing Directors with Jann also becoming CFO.

They each receive an annual salary of £450,000 and participate in the Company's benefits and incentive arrangements on the normal basis. Their initial LTIP awards were set at four times salary (rather than the usual on-going two times) as this was considered a conservative (both relative to their predecessors and for their calibre and level of experience) means of both buying them out of awards forfeit on leaving their former employer and ensuring that they are only rewarded for contributing to value creation for shareholders.

They also voluntarily proposed to invest 50% of their after tax salary in buying shares.

We were pleased that the Remuneration Policy and the Directors' Remuneration Report each received strong support from shareholders at the 2017 AGM, with approximately 99% of votes cast in favour of the relevant resolutions. We look forward to receiving your support again for this year's report at the upcoming AGM.



**António Monteiro**  
Remuneration Committee Chairman

## Directors' Remuneration Report continued

## Annual Report on Remuneration (Audited section)

## 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 2017. It also provides comparative figures for 2016:

## TRANSPARENCY DISCLOSURE 2017 (UNAUDITED)

	2017					
	FEES/SALARY \$000's	BENEFITS <sup>1</sup> \$000's	BONUS \$000's	LTIP <sup>2</sup> \$000's	PENSION \$000's	TOTAL \$000's
<b>EXECUTIVE</b>						
E Story	924	158	901	-	139	2,122
R Cagle *	599	92	584	-	90	1,365
C Cagle *	408	80	398	-	61	947
J Brown *	79	7	518	-	12	616
M Watts *	79	10	518	-	12	619
<b>NON-EXECUTIVES<sup>3</sup></b>						
R de Sousa	245	2	-	-	-	247
O Barbaroux	64	2	-	-	-	66
R Cathery*	-	-	-	-	-	-
E Contini	64	-	-	-	-	64
M Daryabegui*	-	-	-	-	-	-
R Gray	86	-	-	-	-	86
A Monteiro	71	7	-	-	-	78
J Norton*	-	-	-	-	-	-
M Watts*	6	-	-	-	-	6
<b>Total</b>	<b>2,625</b>	<b>358</b>	<b>2,919</b>	<b>-</b>	<b>314</b>	<b>6,216</b>

1 The benefits receivable by Executive Directors include private medical insurance, permanent health insurance, life assurance cover, critical illness cover, travel and expatriate benefits and car benefits. The benefits column for Non-Executive Directors has been updated to include taxable travel and accommodation expenses to attend Board functions in the year, and the tax payable thereon, in accordance with changes in HMRC guidance.

2 The near term average exchange rate at the end of the performance period of 1.29 has been used to convert share price from GB pounds to US dollars. The same exchange rate has been used for both 2017 and 2016 to ensure consistency between periods.

3 Non-Executive Directors' fees and the salaries of Jann Brown and Dr. Mike Watts are set in GB pounds and are reported in US dollars at the annual average exchange rate.

\* Fees paid to the Executive and Non-Executive Directors are in proportion with their dates of service with the exception of the bonuses for Jann Brown and Mike Watts which are shown from the original date of their employment in February before taking up their appointment as Executive Directors on 12 November 2017.

	2016					
	FEES/SALARY \$000's	BENEFITS <sup>1</sup> \$000's	BONUS \$000's	LTIP <sup>2</sup> \$000's	PENSION \$000's	TOTAL \$000's
<b>EXECUTIVE</b>						
E Story	924	200	485	270	139	2,018
R Cagle *	693	114	364	202	104	1,477
C Cagle *	473	96	248	138	71	1,026
J Brown *	-	-	-	-	-	-
M Watts *	-	-	-	-	-	-
<b>NON-EXECUTIVES<sup>3</sup></b>						
R de Sousa	258	-	-	-	-	258
O Barbaroux	68	3	-	-	-	71
R Cathery*	30	-	-	-	-	30
E Contini	68	-	-	-	-	68
M Daryabegui*	55	1	-	-	-	56
R Gray	81	-	-	-	-	81
A Monteiro	75	4	-	-	-	79
J Norton*	30	-	-	-	-	30
M Watts*	75	-	-	-	-	75
<b>Total</b>	<b>2,830</b>	<b>418</b>	<b>1,097</b>	<b>610</b>	<b>314</b>	<b>5,269</b>

1 The benefits receivable by Executive Directors include private medical insurance, permanent health insurance, life assurance cover, critical illness cover, travel and expatriate benefits and car benefits. The benefits column for Non-Executive Directors has been updated to include taxable travel and accommodation expenses to attend Board functions in the year, and the tax payable thereon, in accordance with changes in HMRC guidance.

2 The near term average exchange rate at the end of the performance period of 1.29 has been used to convert share price from GB pounds to US dollars. The same exchange rate has been used for both 2017 and 2016 to ensure consistency between periods.




\* Fees paid to the Executive and Non-Executive Directors are in proportion with their dates of service with the exception of the bonuses for Jann Brown and Mike Watts which are shown from the original date of their employment in February before taking up their appointment as Executive Directors on 12 November 2017.

The aggregate emoluments of all Directors during the year was \$6.2m.

## NOTES TO THE SINGLE FIGURE TABLE ANNUAL BONUS

### Setting measures

The Company seeks to set challenging, yet achievable, performance measures designed to link pay to performance against its core strategic objectives:

-  Recognising Opportunity
-  Capturing Potential
-  Realising Value

The performance measures were chosen to ensure that Executive Directors are focused on the near term objectives that build the long term delivery of value to shareholders, which results in an emphasis on strategic goals. While we monitor SOCO's performance with a broader mix of financial and non-financial KPIs, the measures impacting the annual bonus emphasise those deemed most relevant to management performance, and take into account the annual budget and the prevailing economic environment. As outlined in the Chairman's letter, the Committee considered 2017 annual bonus awards in light of the continued impact of the challenging oil price environment. Following that process, bonuses for Executive Directors were awarded at 65% of maximum, with prorating for those Executive Directors not in office throughout the year. The Committee was satisfied with the results of the assessment.

Directors' Remuneration Report continued

Annual Report on Remuneration (Audited section) continued

2017 ANNUAL BONUS MEASURES AND OUTTURNS

The table below sets out the performance assessed against the weighted measures described in last year's Remuneration Report, and identifies the link from each of these measures to our core strategy.

● RO Recognising Opportunity     
 ● CP Capturing Potential     
 ● RV Realising Value

METRIC	WEIGHT	PERFORMANCE			BONUS AWARDED
		Threshold	Target	Maximum	
<b>BUSINESS DEVELOPMENT &amp; GROWTH</b>	40%				15%
<span style="color: red;">●</span> <b>Diversification of asset base</b>	40%				
Target		Pursue growth opportunities through key identified strategic objectives.			
Performance		Actively reviewed acquisition opportunities throughout 2017; Developed key identified strategic objectives; Pipeline of opportunities developed; Viable options explored and appropriate no-go decisions taken; Robust process and resource established for review of future opportunities: In-house capabilities strengthened.			
Outturn		The Committee recognised significant activity, strong progress and an established platform to continue impetus through 2018.			
<b>SOUTH EAST ASIA</b>	30%				25%
<span style="color: purple;">●</span> <b>Production</b>	10%				5%
Target		Programme objectives, budget and sensitivities.			
Performance		Production was within guidance.			
Outturn		The Committee recognised that production achieved was on target within guidance; but that increased water handling had not as yet resulted in higher levels.			
<span style="color: blue;">●</span> <b>TGT development programme</b>	15%				15%
Target		Execute 2017 TGT drilling programme successfully, as measured against pre-drill expectations, budgeted costs, on time completion and HSE goals.			
Performance		Formal approval of the updated TGT FFDP was received from the Vietnamese Government in February 2017. Two additional infill wells were drilled in Q1 2017 on time and within budget. I4X well not completed to avoid safety issues arising. Drilling work successful; work is ongoing to address issues with gas compressors.			
Outturn		Infill wells producing arresting decline in production.			
<span style="color: red;">●</span> <b>Blocks 125 &amp; 126</b>	5%				5%
Target		Sign PSC for Blocks 125 & 126.			
Performance		Project milestones and budget met.			
Outturn		Successful signing of PSC for Blocks 125 & 126.			
<b>AFRICA</b>	10%				5%
<span style="color: blue;">●</span> <b>Africa portfolio programmes</b>	10%				5%
Target		Progress the rationalisation of value in the African portfolio.			
Performance		3 additional PEX awards on Congo and an increase in the WI in Cabinda North from 17% to 22%.			
Outturn		Following a strategic review, the African assets moved to non-core and further work will be done to progress the rationalisation.			

METRIC	WEIGHT	PERFORMANCE			BONUS AWARDED
		Threshold	Target	Maximum	
<b>CORPORATE</b>	20%				20%
<b>RV Sustainable return of capital</b>	10%				10%
Target		Deliver the strategy for a sustainable return of capital.			
Performance		Outperformed budget against financial KPIs deemed most relevant to management performance, including revenue BOEPD, cash operating costs per barrel and cash flow from operations. Retained a strong balance sheet, with year-end cash exceeding budget (excluding Financial Asset, assessed as a separate metric below) and no debt. Delivered a fully funded capital expenditure programme, and returned 5 pence per share in cash dividends.			
Outturn		The Committee was satisfied this metric was fully achieved.			
<b>CP ESG performance</b>	5%				5%
Target		Maintain excellence in ESG performance against the objectives and KPIs adopted in the Annual Report.			
Performance		Detail of performance against ESG objectives and KPIs is set out in the CSR report.			
Outturn		For 2017, the Committee determined that any bonus for ESG performance would be weighted as a potential inflator/deflator at the discretion of the Committee, considering both performance and the duty to operate safely. The CSR report indicates a high level of achievement against objectives and KPI measures, and therefore the Committee did not consider applying a deflator. An inflator was not applied in consideration of the overall bonus quantum in the prevailing economic environment.			
<b>CP Financial asset</b>	5%				5%
Target		Collection of \$42.7m Subsequent Payment Amount from the outstanding balance associated with SOCO's 2005 sale of Mongolian assets to Daqing Oilfield Limited Company.			
Performance		Payment was received in full in March 2017.			
Outturn		The full amount has been received from Daqing Oilfield Limited Company.			
<b>FINAL APPROVED OUTTURN</b>	<b>100%</b>				<b>65%</b>

The table below sets out the annual bonuses awarded to Executive Directors in respect of performance in 2017 following the assessment process described above. Whilst they would have been entitled to receive the full bonus amount in cash, the continuing Executive Directors voluntarily agreed to receive a portion as awards under the Deferred Share Bonus Plan. This ensures their interests remain closely aligned with shareholders.

	\$/£000s	% OF MAXIMUM
E Story	\$901	65%
R Cagle	\$584	65%
C Cagle	\$398	65%
M Watts	£402	65%
J Brown	£402	65%

#### LTIP AWARDS VESTING IN RESPECT OF 2017

The LTIP awards granted in December 2014, which would have vested in January 2018, did not achieve the threshold level of vesting and, therefore lapsed. Had the award vested, the Executive Directors entitled to the awards had voluntarily committed to a further two year holding period.

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 respect of 2017 as a result:

	PERFORMANCE AGAINST COMPARATOR GROUP	
Vesting schedule	25% vesting	Median (50th percentile)
	100% vesting	Upper 16th
Actual vesting	0%	60th percentile

In all material respects, the same performance targets apply to all subsequent awards.

## Directors' Remuneration Report continued

## Annual Report on Remuneration (Audited section) continued

## LTIP AWARD GRANTS

The LTIP awards granted in 2017 were set out in last year's report. It is anticipated that future grants, including the grant to be made in 2018, will be made following the announcement of the annual results in March. These will be made on a similar basis to prior years, with awards to Executive Directors over shares worth two times salary and subject to the same TSR measure (subject to confirmation of the precise list of comparators immediately prior to grant).

## DIRECTORS' INTERESTS AS AT 31 DECEMBER 2017

The Board has a policy requiring Executive Directors to build a minimum shareholding of 200% of their annual salary. Additionally, LTIP awards require a two year holding period following vesting. This is intended to emphasise a commitment to the alignment of Executive Directors with shareholders and a focus on long term stewardship.

The table below sets out the Directors' interests as at 31 December 2017:

	SHAREHOLDING REQUIREMENT		BENEFICIALLY OWNED SHARES	AWARDS SUBJECT TO PERFORMANCE CONDITIONS <sup>1,2</sup>	AWARDS VESTED	AWARDS SUBJECT TO SERVICE CONDITIONS <sup>3</sup>
	(% of salary)	Achieved (Yes/No)				
<b>EXECUTIVE</b>						
E Story <sup>4</sup>	200%	Yes	13,716,384	2,395,152	–	521,557
R Cagle <sup>10</sup>	200%	Yes	5,476,659	1,796,779	–	391,195
C Cagle <sup>10</sup>	200%	Yes	1,492,224	1,225,418	–	266,826
J Brown <sup>5,6,11</sup>	200%	No	244,891	1,258,169	–	–
M Watts <sup>5,7,11</sup>	200%	No	378,789	1,258,169	–	–
<b>NON-EXECUTIVE</b>						
R de Sousa <sup>8</sup>	–	–	9,648,324	–	–	–
O Barbaroux	–	–	88,000	–	–	–
E Contini <sup>9</sup>	–	–	29,000,000	–	–	–
R Gray	–	–	–	–	–	–
A Monteiro	–	–	–	–	–	–

1 LTIP awards potentially vesting in respect of 2017 lapsed and are excluded from the above table.

2 LTIP awards made in respect of 2017 were made in 2018 subsequent to the date of this report and accordingly, are excluded from the above table. Details of those awards are included on page 77.

3 DSBP awards potentially vesting in 2017 will vest in March 2018, subsequent to the date of this report as described on page 77 and are included in the single figure table in respect of 2017 on page 72.

4 12,041,384 Shares are held personally by E Story. 1,675,000 Shares are held through The Story Family Trust, a closely associated person to E Story.

5 Appointed to the Board on 12 November 2017.

6 At the date of this report, J Brown was interested in 261,026 Shares.

7 At the date of this report, M Watts was interested in 394,924 Shares.

8 550,000 Shares are held personally by Rui de Sousa, 8,708,820 Shares are held through Palamos Ltd and 939,504 Shares are held by Quantic Limited, both being closely associated persons to R de Sousa.

9 220,000 Shares are held personally by E Contini. 28,780,000 Shares are held through Liquid Business Ltd, a closely associated person to E Contini.

10 The figures for Roger and Cynthia Cagle are to the date they stepped down from the Board on 12 November 2017.

R Cagle and C Cagle retired from the Board on 12 November 2017. As of the date of their leaving office, the Company had been notified of the following:

R Cagle was interested in 5,476,659 Shares, of which 556,074 Shares were held personally and 4,920,585 Shares were held through C Minor Limited, a closely associated person to R Cagle.

R Cagle was interested in 2,187,974 Share awards of which 1,796,779 were subject to performance conditions and 391,195 were subject to service conditions.

C Cagle was interested in 3,175,864 Shares, of which 371,825 Shares were held personally and 2,804,039 Shares were held through C Major Limited, a closely associated person to C Cagle.

C Cagle was interested in 1,492,244 Share awards of which 1,225,418 were subject to performance conditions and 266,826 were subject to service conditions.

R Cagle and C Cagle were closely associated persons to each other and are jointly interested in their combined holdings.

Both R Cagle and C Cagle were Directors of the Roger and Cynthia Cagle Family Foundation Limited (the Charity), a closely associated person of both and were deemed to have a non-beneficial interest in 1,148,129 Shares held by the Charity

11 At the date of this report, J Brown and M Watts are yet to reach the 200% shareholding requirement and are building up their interest.

While the Executive Directors, as potential beneficiaries, are technically deemed to have an interest in all ordinary shares held by the SOCO EBT, the table above only includes those ordinary shares held by the EBT which are potentially transferable to the Directors pursuant to Options granted to them under the Company's incentive schemes. Details of the EBT 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 2017 other than as described in the notes to the table above.

## Annual Report on Remuneration (Unaudited section)

### SHARE AWARDS OUTSTANDING AT 31 DECEMBER 2017

	TYPE OF AWARD <sup>10</sup>	AS AT 1 JAN 2017	GRANTED/ AWARDED <sup>1</sup>	ADJUSTED <sup>2</sup>	LAPSED	RELEASED <sup>3</sup>	AS AT 31 DEC 2017	DATE POTENTIALLY VESTED <sup>4,5,6</sup>	EXPIRY DATE
E Story	LTIP	313,330	–	–	167,821	145,509	–	–	–
	LTIP	491,653	–	19,407	511,060	–	–	15.12.17	–
	LTIP	848,728	–	32,129	–	–	880,857	8.01.19	–
	LTIP	–	966,500	36,735	–	–	1,003,235	25.01.20	–
	DSBP	502,533	–	19,024	–	–	521,557	8.01.18	–
	TYPE OF AWARD <sup>10</sup>	AS AT 12 NOV 2017	GRANTED/ AWARDED <sup>1</sup>	ADJUSTED <sup>2</sup>	LAPSED	RELEASED	AS AT 31 DEC 2017	DATE POTENTIALLY VESTED <sup>4</sup>	EXPIRY DATE
J Brown <sup>7</sup>	LTIP	–	1,212,100	46,069	–	–	1,258,169	06.02.20	06.02.27
M Watts <sup>7</sup>	LTIP	–	1,212,100	46,069	–	–	1,258,169	06.02.20	06.02.27
	TYPE OF AWARD <sup>10</sup>	AS AT 1 JAN 2017	GRANTED/ AWARDED <sup>1</sup>	ADJUSTED <sup>2</sup>	LAPSED	RELEASED <sup>3</sup>	AS AT 12 NOV 2017	DATE POTENTIALLY VESTED <sup>4</sup>	EXPIRY DATE
R Cagle <sup>8</sup>	LTIP	235,284	–	–	126,019	109,265	–	–	–
	LTIP	369,011	–	14,566	383,577	–	–	15.12.17	–
	LTIP	636,649	–	24,101	–	–	660,750	8.01.19	–
	LTIP	–	724,900	27,552	–	–	752,452	25.01.20	–
	DSBP	376,926	–	14,269	–	–	391,195	8.01.18	–
C Cagle <sup>8</sup>	LTIP	160,682	–	–	86,062	74,620	–	–	–
	LTIP	251,796	–	9,939	261,735	–	–	15.12.17	–
	LTIP	434,161	–	16,435	–	–	450,596	8.01.19	–
	LTIP	–	494,300	18,787	–	–	513,087	25.01.20	–
	DSBP	257,093	–	9,733	–	–	266,826	8.01.18	–

1 The face value of awards granted to E Story, R Cagle, C Cagle in the year was 2 times' salary while the face value granted to J Brown and M Watts was 4 times.

2 Outstanding awards under the Company's share schemes were adjusted for dividend equivalents in accordance with plan rules (see Note 30 to the Financial Statements).

3 LTIP awards were released to E Story, R Cagle and C Cagle in January 2017 over ordinary shares at a market price of £1.586 resulting in a gain on release of £0.5m, £0.4m and £0.3m, respectively.

4 LTIP awards vest subject to SOCO's relative TSR performance against a group of comparator companies as set out in the table on page 75 and subject to a further holding requirement. DSBP awards vest subject to continued service over a two year vesting period.

5 LTIP awards with a potential vest date in December 2017 did not achieve the performance threshold and lapsed.

6 In accordance with market regulation, DSBP awards potentially vesting in January 2018 were determined to not be capable of vesting before 22 March 2018, subsequent to the date of this report.

7 J Brown and M Watts were appointed as Executive Directors, effective 12 November 2017.

8 R Cagle and C Cagle retired from the Board, effective 12 November 2017.

9 Awards to E Story, R Cagle and C Cagle were structured as conditional awards. Awards to M Watts and J Brown were structured as nil cost options.

10 LTIP awards vest at 25% when the threshold is met.

### PAYMENTS FOR LOSS OF OFFICE AND PAYMENTS TO FORMER DIRECTORS

There have been no payments for loss of office during the year.

As mentioned in the statement of the Chairman of the Remuneration Committee, Roger Cagle and Cynthia Cagle each stepped down from the Board on 12 November 2017 and will remain employed by the Group until 11 September 2018. The single figure table included within this report includes their emoluments to the date they stepped down from the Board.

In addition, they continue to receive their salary and fixed benefits until 11 September 2018. The reported (pro-rated) bonus reflects the total bonus payable for 2017 and, consistent with the treatment under the rules for retirees, they retain all DSBP awards and LTIP awards to their normal maturity with the LTIP awards being pro-rated to the date they cease to be employed. Such vestings will be reported in subsequent reports. The Company also made a contribution of £3,500 plus VAT to each of their legal fees incurred in agreeing to their retirement terms and will reimburse the costs of shipping personal belongings to the US.

Roger Cagle and Cynthia Cagle benefit from certain historic tax equalisation arrangements under which they may continue to receive payments related to historic earnings.

Directors' Remuneration Report continued

Annual Report on Remuneration (Unaudited section) continued

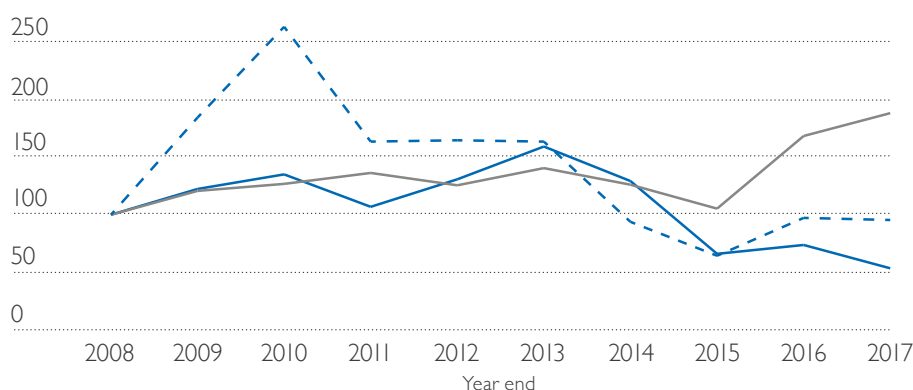
**HISTORICAL TSR PERFORMANCE AND CEO OUTCOMES**

**TSR PERFORMANCE**

The chart opposite illustrates SOCO's nine 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.

— FTSE All Share Oil & Gas  
 — SOCO International  
 - - - - - TSR Comparator Group

**TOTAL SHAREHOLDER RETURN (£)**



**CEO OUTCOMES**

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017
CEO single figure of remuneration (\$'000s) <sup>1</sup>	1,930	1,466	2,362	2,992	3,154	3,659	2,875	2,018	2,122
Annual bonus payout (% of maximum)	50%	25%	100%	100%	100%	80%	75%	35%	65%
LTIP vesting (% of maximum)	59%	34%	53%	71%	66%	100%	96%	46%	0%

<sup>1</sup> The current year annual average exchange rate has been applied to convert GB pounds to US dollars for all periods to ensure consistency between periods.

**PERCENTAGE CHANGE IN REMUNERATION OF THE CEO**

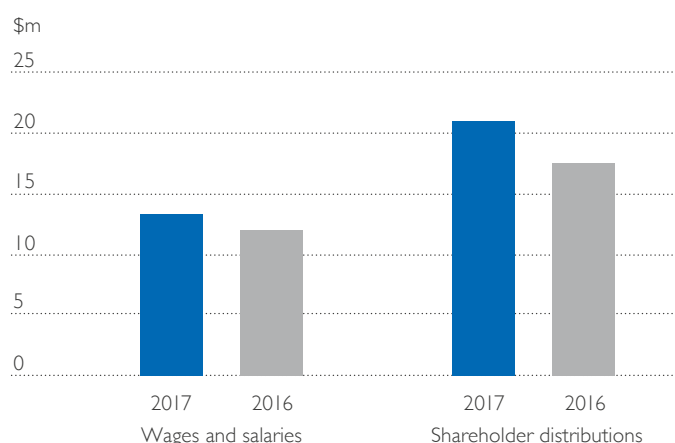
The table below illustrates the percentage change in salary, benefits and annual bonus for the CEO and all other employees.

	% CHANGE IN BASE SALARY (2017/2016)	% CHANGE IN BENEFITS (2017/2016) <sup>1</sup>	% CHANGE IN ANNUAL BONUS (2017/2016) <sup>2</sup>
CEO	0%	-22%	86%
All other employees	5%	2%	-13%

<sup>1</sup> There have been no changes to the Company's benefits packages during the year. Variances reflect other factors, including increased programme costs, employee demographics and the level to which available allowances are applicable and 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 2017.

**RELATIVE IMPORTANCE OF SPEND ON PAY**

The chart below illustrates the year on year change in total remuneration as per Note 11 to the Financial Statements compared to the change in shareholder returns, which would include capital returns, dividends and share buybacks.





## 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:

- ▶ Ed Story serves on the board of Vedanta Resources PLC, for which he retained associated fees for 2017 in the amount of \$80,000 (2016: \$80,000); and
- ▶ Jann Brown serves on the boards of John Wood Group plc and Troy Income and Growth Trust, for which she retained associated fees for 2017 in the amount of £85,800.

## IMPLEMENTATION FOR 2018 BASE SALARY

Executive Directors' salaries have not been increased for 2018.

	2018 BASE SALARY 000s	2017 BASE SALARY 000s	% INCREASE FROM 2017
E Story	\$924	\$924	0%
J Brown	£450	£450	0%
M Watts	£450	£450	0%

## BENEFITS

For 2018, benefits available to Executive Directors will be consistent with those set out in the directors' remuneration policy approved at the 2017 AGM and as summarised further below.

## ANNUAL BONUS

It is intended that annual bonus awards will be considered for Executive Directors in December 2018. The maximum total bonus opportunity for an Executive Director in each year is 150% of salary, including cash and deferred components in accordance with the approved policy. The table below sets out the weighted performance measures which will be applied in determining annual bonus awards for 2018, and identifies the link from each of these measures to our core strategy of:

- Recognising Opportunity     
 ● Capturing Potential     
 ● Realising Value

METRIC	WEIGHT	MEASUREMENT
<b>BUSINESS DEVELOPMENT &amp; GROWTH</b>	<b>40%</b>	
<span style="color: red;">●</span> Diversification of asset base		Key identified strategic objectives.
<b>FINANCIAL/OPERATIONAL</b>	<b>25%</b>	
<span style="color: purple;">●</span> Production		Programme objectives, budget and sensitivities.
<span style="color: blue;">●</span> South East Asian development programme		Programme objectives, milestones and budget.
<span style="color: red;">●</span> Africa rationalisation		Key identified strategic objectives.
<b>CORPORATE</b>	<b>35%</b>	
<span style="color: blue;">●</span> Succession planning	10%	Strategic objectives to ensure business continuity.
<span style="color: blue;">●</span> HSES Performance	10%	Programme objectives and budget.
<span style="color: blue;">●</span> Process improvement	5%	Clear, fit for purpose processes, safeguarding company assets.
<span style="color: blue;">●</span> CSR and Business Ethics	10%	Maintain industry standards and performance.
<b>TOTAL ASSESSMENT</b>	<b>100%</b>	

Details of how the Committee assessed performance against these weighted measures will be set out in next year's report. 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 Group's strategy, as well as the prevailing economic environment.

Directors' Remuneration Report continued

Annual Report on Remuneration (Unaudited section) continued

LTIP

It is intended that annual LTIP awards will be made to Executive Directors in early 2018 following announcement of the preliminary results for the year to 31 December 2017, in line with the director's remuneration policy approved at the 2017 AGM. 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 respect of 2017, the same performance measures will apply as for prior awards.

MALUS AND CLAWBACK PROVISIONS

All variable pay arrangements for Executive Directors are subject to provisions which enable the Committee to reduce vesting, or recover value delivered if certain circumstances occur. These circumstances include serious misconduct, an error in calculation, misstatement of the Company's financial results or serious reputational damage to the Company. In each case the occurrence of those circumstances and the effect on variable pay arrangements will be determined by the Committee.

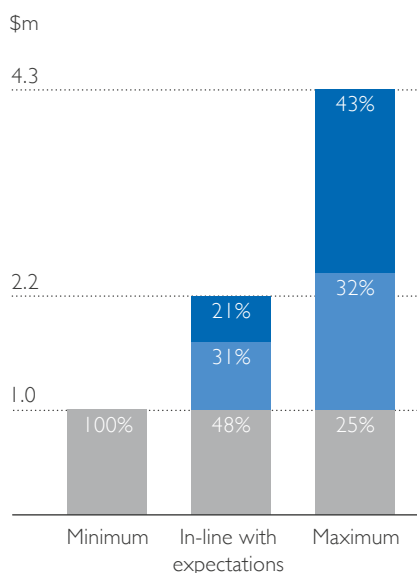
PENSION

For 2018, a pension benefit at 15% of salary will be provided to each Executive Director through contributions to SOCO's money purchase plan up to plan limits or a cash supplement.

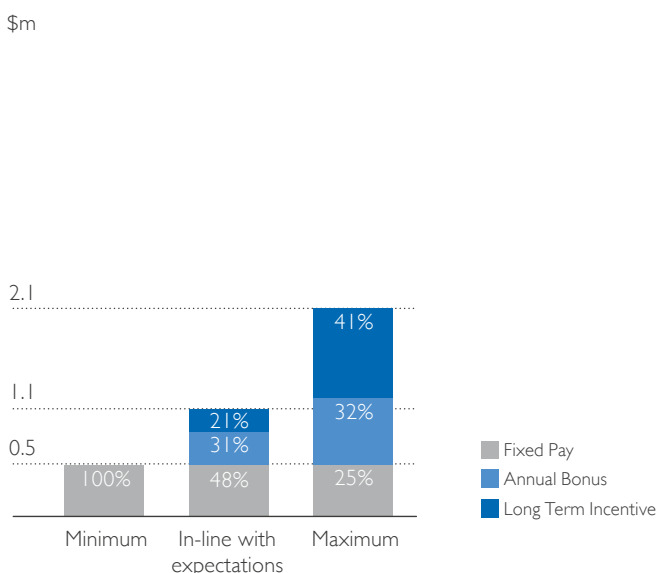
Illustration of policy

The charts below illustrate the potential application of these arrangements for the Executive Directors.

ED STORY



JANN BROWN AND DR MIKE WATTS



The assumptions used for the above charts are as follows:

LEVELS OF PERFORMANCE	ASSUMPTIONS	
Fixed pay	All scenarios	Total fixed pay comprises base salary, benefits and pension Base salary – effective as at 1 January 2017 Benefits – value received by each director in 2017 Pension – 15% of salary, the benefit currently set for all Executive Directors
Variable pay	Minimum performance	No payout under the annual bonus and no vesting under the LTIP
	Performance in line with expectations	50% of the maximum payout under the annual bonus (i.e. 75% of salary) 25% vesting under the LTIP (i.e. 50% of salary)
	Maximum performance	100% of maximum payout under the annual bonus (i.e. 150% of salary) 100% of maximum vesting under the LTIP (i.e. 200% of salary)

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

## NON-EXECUTIVE DIRECTOR REMUNERATION

Non-Executive Director fees, which have been set within the aggregate limits set out in the Company's articles of association and approved by shareholders, have not been reviewed and therefore remain as set out in the table below.

	FEE FROM 1 JANUARY 2018	FEE FROM 1 JANUARY 2017
Chairman of the Company	£190,000	£190,000
Deputy Chairman	£100,000	£100,000
Non-Executive Director	£50,000	£50,000
Additional fee: Senior Independent Director	£10,000	£10,000
Additional fee: Chairman of Audit & Risk Committee	£5,000	£5,000
Additional fee: Chairman of Remuneration Committee	£5,000	£5,000

For 2018, benefits available to Non-Executive Directors will be consistent with those set out in the policy approved at the 2017 AGM and summarised further below. Non-Executive Directors are not eligible for participation in the Company's incentive or pension schemes.

### 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 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 and will also be available at the location of the 2018 AGM from at least 15 minutes before the start of the meeting and for the duration of the meeting. The dates of each director's service contract or letter of appointment, together with the corresponding notice period where applicable, are set out on page 52 of the annual report.

## CONSIDERATION BY COMMITTEE 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 were Ambassador António Monteiro and Rob Gray. Dr. Mike Watts was a member of the Remuneration Committee until stepping down as an independent Non-Executive Director on 31 January 2017.

The Committee received assistance from Ed Story (President and CEO) and Cynthia Cagle (former Executive Director and Company Secretary) until November 2017 and Jann Brown (Managing Director and CFO) subsequently, except when matters relating to their own remuneration were being discussed. The Committee additionally received assistance from other Non-Executives Directors when required.

The Committee has appointed FIT Remuneration Consultants LLP ("FIT") as its remuneration advisors, and fees of £38,618 were paid in 2017 for their advisory services. FIT is a member of the Remuneration Consultants Group and complies with their professional code of conduct. FIT was originally selected to provide project-based advice related to group remuneration, following a robust review and due diligence process. FIT do not provide any other services to the Group which, along with FIT's credentials and proven performance, contributes to the Committee's view that the advice received has been appropriate, objective and independent.

The Committee reviews all aspects of remuneration on an annual basis and with respect to individual and corporate performance during the year. The review is aided by comparison to published data on executive pay in the sector and in similar sized companies. More detailed benchmarking may be conducted, such as upon an indication of a change in market ranges, with results being monitored for indications of potential unwarranted upward ratcheting. The Committee receives regular updates on evolving regulatory and market practice including market trends, key developments, and a broad range of published principles and guidelines.

During the year, the Committee approved the retirement terms of Roger Cagle and Cynthia Cagle and the appointment terms of Dr. Mike Watts and Jann Brown. The Committee takes into account pay conditions elsewhere in the Company, and considered matters related to Group remuneration.

## SHAREHOLDER VOTING

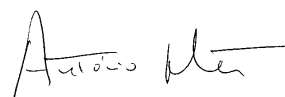
The binding resolution on the directors' remuneration policy and the advisory resolution on the annual report on Directors' remuneration proposed and passed at last year's AGM received the following votes from shareholders:

	REMUNERATION POLICY		REMUNERATION REPORT	
	VOTES	%	VOTES	%
Votes in favour	211,638,153	99.15%	210,659,206	98.94%
Votes against	1,807,216	0.85%	2,251,214	1.06%
Total Votes	213,445,369	100.00%	212,910,420	100.00%
Votes Withheld	2,500	–	551,542	–

## 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 Investment Association Principles of Remuneration currently in force, in respect of all share plans (10% in any rolling ten year period) and executive share plans (5% in any rolling ten year period).

This report was approved by the Board of Directors and signed on its behalf by:



**António Monteiro**

Remuneration Committee Chairman

21 March 2018

## Directors' Remuneration Report continued

## Policy Report

Consistent with good practice, we set out extracts from the directors' remuneration policy approved at the 2017 AGM. The full policy is available in the 2016 annual report and on the Company's website.

### POLICY TABLE FOR EXECUTIVE DIRECTORS

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

BASE SALARY		
<b>Purpose and link to strategy</b>		
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	MAXIMUM	PERFORMANCE CRITERIA
<ul style="list-style-type: none"> <li>▶ Contractual fixed cash amount paid monthly.</li> <li>▶ 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.</li> <li>▶ The Committee takes into account a number of factors when setting salaries, including (but not limited to):               <ul style="list-style-type: none"> <li>• Size and scope of individual's responsibilities</li> <li>• Skills and experience of the individual</li> <li>• Performance of the Company and the individual</li> <li>• Appropriate market data</li> <li>• Pay and conditions elsewhere in SOCO</li> </ul> </li> <li>▶ Base salaries are normally reviewed annually.</li> <li>▶ Results of benchmarking exercises are monitored for indications of potential unwarranted upward ratcheting.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Any salary adjustments will normally be in line with those of the wider workforce.</li> <li>▶ 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. In these circumstances a base salary increase will not exceed 20% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>▶ N/A</li> </ul>
BENEFITS		
<b>Purpose and link to strategy</b>		
To provide Executive Directors with market competitive benefits consistent with the role.		
OPERATION	MAXIMUM	PERFORMANCE CRITERIA
<ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ Reasonable business related expenses will be reimbursed (including any tax payable thereon).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Benefits are positioned at an appropriate market level for the nature and location of the role. Whilst the actual value of benefits may vary from year to year based on third party costs, it is intended that the maximum annual value will not exceed \$250k or £200k, per Directors' base currency.</li> <li>▶ In addition to the above cap, the Company may contribute to relocation expenses up to 100% of salary.</li> </ul>	<ul style="list-style-type: none"> <li>▶ N/A</li> </ul>
PENSION		
<b>Purpose and link to strategy</b>		
To provide retirement benefits consistent with the role		
OPERATION	MAXIMUM	PERFORMANCE CRITERIA
<ul style="list-style-type: none"> <li>▶ Pension benefits are delivered through contributions to SOCO's money purchase plan up to relevant plan limits and/or a cash supplement.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 20% of base salary per annum.</li> </ul>	<ul style="list-style-type: none"> <li>▶ N/A</li> </ul>

## ANNUAL BONUS

### Purpose and link to strategy

Incentivises and rewards for the delivery of the strategic plan on an annual basis.

OPERATION	MAXIMUM	PERFORMANCE CRITERIA
<ul style="list-style-type: none"> <li>▶ Payments are based on performance in the relevant financial year.</li> <li>▶ At the beginning of the year, the Committee sets objectives which it considers are critical to the delivery of the business strategy.</li> <li>▶ Performance against these key strategic objectives is assessed by the Committee at the end of the year.</li> <li>▶ 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.</li> <li>▶ Bonus payouts are subject to deferral into SOCO shares which vest after a period of not less than 2 years. At a minimum, deferral will apply to any bonus exceeding 100% of salary. The Committee may require higher levels including deferral of up to 100% of the bonus payout.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 150% of base salary per annum, including cash and deferred components at the discretion of the Committee.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The annual bonus is based on individual and corporate performance during the year.</li> <li>▶ 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.</li> <li>▶ 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.</li> <li>▶ The Committee determines the appropriate weighting of the metrics each year.</li> </ul>

## LTIP

### Purpose and link to strategy

Incentivises and rewards for the Company's strategic plan of building shareholder value.

OPERATION	MAXIMUM	PERFORMANCE CRITERIA
<ul style="list-style-type: none"> <li>▶ Typically a conditional award of shares or a nil price option is made annually, normally in December, in the course of the annual review cycle.</li> <li>▶ Vesting of the awards is dependent on the achievement of performance targets, which are typically measured over a three year performance period.</li> <li>▶ Awards (post of tax) will also be subject to a two-year post-vesting holding period during which they cannot be sold (accept in exceptional circumstances and with the Committee's prior approval).</li> </ul>	<ul style="list-style-type: none"> <li>▶ Usually 200% of base salary per annum.</li> <li>▶ In circumstances which the Committee determines to be exceptional, annual awards of up to 400% of base salary per annum may be made.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ No less than 50% of the award will be based on share price measures. The remainder will be based on financial, operational measures.</li> <li>▶ 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.</li> </ul>

## SHAREHOLDING GUIDELINES

### Purpose and link to strategy

Further increases alignment between Executive Directors and shareholders.

OPERATION	MAXIMUM	PERFORMANCE CRITERIA
<ul style="list-style-type: none"> <li>▶ The Board has a policy of requiring Executive Directors to build a minimum shareholding in SOCO shares equivalent to 200% of salary.</li> </ul>	<ul style="list-style-type: none"> <li>▶ N/A</li> </ul>	<ul style="list-style-type: none"> <li>▶ N/A</li> </ul>

## Directors' Remuneration Report continued

## Policy Table for Non-Executive Directors

COMPONENT	SOCO'S APPROACH
Chairman fees	Comprises an all-inclusive fee for Board and Committee positions. Determined by the Remuneration Committee and approved by the Board.
Non-Executive Director	Comprises a basic fee in respect of their Board duties. Further fees may be paid in respect of additional Board or Committee roles. Recommended by the Chairman and Chief Executive Officer and approved by the Board.
Other	In the event of a temporary but material increase in the time commitment required, fees may be increased on a pro-rata basis to reflect the additional workload. Reasonable business related expenses will be reimbursed (including any tax payable thereon).

## 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 reserves the right not to apply the caps contained within the policy table for fixed pay, either on joining or for any subsequent review within the policy period, although, in practice, the Committee does not envisage exceeding these caps.
- ▶ The Committee will consider all relevant factors as appropriate. This may include, but is not limited to, the calibre and experience 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 development and 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.
- ▶ Depending on the timing of appointment it may be necessary to set different performance measures and targets to those used for existing Executive Directors, although this would only be expected to operate for the remainder of the first financial year of appointment.

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, timing, impact of any performance conditions and the anticipated vesting of the forfeited remuneration. There is not a specified limit on the value of such awards, but 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 directors' remuneration policy approved at last year's AGM and summarised 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 seek to compromise any claims made against the Company in relation to a termination and reserves the right to pay reasonable legal fees and/or for outplacement services if considered necessary.
- ▶ 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 overleaf.

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 of the 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 of the 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 award 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, vesting 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>

# Financial Statements



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOCO International plc

## Report on the audit of the Financial Statements

### Opinion

#### 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 2017 and of the group's loss 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.

We have audited the Financial Statements of SOCO International plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- ▶ the Consolidated Income Statement;
- ▶ the Consolidated Statement of Comprehensive Income;
- ▶ the group and parent company Balance Sheets;
- ▶ the group and parent company Statements of Changes in Equity;
- ▶ the group and parent 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.

#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independent Auditor's Report continued

## SUMMARY OF OUR AUDIT APPROACH

**Key audit matters** The key audit matters that we identified in the current year were:

- ▶ Change in Exploration & Evaluation Accounting Policy
- ▶ Impairment of Producing Oil & Gas Assets
- ▶ Impairment of Intangible Exploration & Evaluation Assets
- ▶ Oil & Gas Reserves and Contingent Resource Estimates

Within this report, any new key audit matters are identified with **1** and any key audit matters which are the same as the prior year are identified with **2**. We have also determined that Accounting for Depletion, Depreciation and Amortisation ("DD&A") of Producing Oil & Gas Assets is no longer a key audit matter as there is no history of material error.

**Materiality** The materiality that we used for the group Financial Statements was \$7.4 million which was determined on the basis of 1.5% of net assets.

**Scoping** 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 London, together with the parent company which is also based in London. These locations account for 80% of the group's net assets, 100% of revenue and 100% of the loss before tax. All of these locations were subject to a full scope audit. Specified audit procedures were then performed on the remaining 20% of the group's net assets.

**Significant changes in our approach** There have been no significant changes to our approach to the audit, except for the changes in key audit matters identified above.

## CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

**Going concern**

We have reviewed the directors' statement in Note 2 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

**Principal risks and viability statement**

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- ▶ the disclosures on pages 28 to 33 that describe the principal risks and explain how they are being managed or mitigated;
- ▶ the directors' confirmation on page 33 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- ▶ the directors' explanation on page 33 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## CHANGE IN EXPLORATION & EVALUATION ('E&E') ACCOUNTING POLICY

### Key audit matter description



During the year management have voluntarily elected to change the unit of account (cash generating unit) applied in assessing their E&E assets for impairment under IFRS 6 Exploration for and Evaluation of Mineral Resources. In previous periods they assessed E&E assets for impairment on a geographical cost pool basis, which in practice was applied at the licence level. In the current year, management has changed the unit of account such that impairment is now assessed on a well-by-well basis. This represents a change in accounting policy and has therefore resulted in a restatement of the group's prior year results, including a reduction in net assets at 1 January 2016 of \$199.4 million, as disclosed in Note 2(a).

Under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, voluntary changes in accounting policy can only be made if they result in more relevant and reliable information about the effect of transactions on an entity's financial position.

We have identified a key audit matter associated with the appropriateness of the change in accounting policy as well as the accuracy and completeness of the resulting restatement of prior year balances and related disclosures.

Further details of this matter are provided in Note 2(a) of the Financial Statements and in the Audit & Risk Committee Report on pages 67 to 69.

### How the scope of our audit responded to the key audit matter



Our procedures included:

- ▶ understanding the basis for management's conclusion that the change in accounting policy resulted in more relevant and reliable information about the entity's financial position; this assessment took into account our knowledge of the industry as well as a comparison of the revised unit of account with reference to a selection of the company's peer group;
- ▶ assessing the process applied by management to calculate the impact of the change in accounting policy on prior periods;
- ▶ validating the accuracy and completeness of the restatement of prior period balances; this included obtaining a supporting schedule of adjustments from Management and verifying key inputs to appropriate supporting evidence, including past annual reports, press releases, joint operator reports and evidence obtained in prior year audits; and
- ▶ assessing the completeness and accuracy of the associated disclosure for compliance with IAS 8.

### Key observations



We are satisfied that management's revised policy is in accordance with the principles of IAS 8 and that the related impact on prior period balances has been appropriately calculated and disclosed.

## IMPAIRMENT OF PRODUCING OIL & GAS ASSETS

### Key audit matter description



The value of property, plant and equipment relating to the Group's producing oil and gas assets as at 31 December 2017 was \$505.4 million (2016 restated: \$553.6 million). This is considered a key audit matter due to the significant judgements and estimates involved in assessing whether any impairment, or impairment reversal, has arisen at year-end, and in quantifying any such impairments or reversals. Given the importance of producing assets to the Group and the judgemental nature of the inputs used in determining the recoverable amounts, we also considered there to be a fraud risk in this area.

Management reviewed both of its producing fields in Vietnam for indicators of impairment, with no indicators identified for Te Giac Trang ('TGT') but an indicator identified in relation to Ca Ngu Vang ('CNV'), primarily due to a reduction in reserves. Management has estimated the fair values less costs of disposal of each field and compared these to the carrying amount of each field on the balance sheet. For TGT whilst Management concluded there were no impairment indicators, the recoverable value was nonetheless calculated to demonstrate the existence of significant available headroom. Management's fair value estimate is based on key assumptions which include:

- ▶ oil and gas prices;
- ▶ reserves estimates and production profiles;
- ▶ the incremental value of contingent resources for CNV; and
- ▶ the discount rate adopted, which was unchanged for TGT at 10% but for CNV was reduced from 12.5% to 10%.

As referenced in Note 4 of the Financial Statements the carrying value of property, plant and equipment is considered by management as a critical accounting judgement and key source of estimation uncertainty.

No impairment charges or impairment reversals were recorded during the year. Further details of the key assumptions used by management in their impairment evaluation are provided in Note 16 of the Financial Statements and in the Audit & Risk Committee Report on pages 67 to 69.

### How the scope of our audit responded to the key audit matter



As well as our work on reserves as noted below;

- ▶ we understood the basis for management's conclusion as to the existence or otherwise of impairment triggers for TGT and CNV;
- ▶ we compared oil and gas price assumptions with third party forecasts and publicly available forward curves;
- ▶ we understood the basis for management's decision to reduce the CNV discount rate to 10% and used our internal valuation specialists to perform an independent recalculation of the discount rates used for both TGT and CNV;
- ▶ we assessed management's other assumptions by reference to third party information, our knowledge of the group and industry and also budgeted and forecast performance;
- ▶ we tested management's impairment calculations for mechanical accuracy;
- ▶ we considered whether the incremental value attributed to contingent resource estimates for CNV was appropriate;
- ▶ we completed a scenario analysis for CNV, through which we conducted sensitivities for a range of input assumptions, including oil price and discount rates, and computed what we believed to be a reasonable range of recoverable amounts for CNV, and then compared the carrying value of CNV against this range; and
- ▶ we considered whether management's disclosures relating to impairment and associated estimation uncertainty were adequate.

### Key observations



We are satisfied that there were no indicators of impairment for TGT. For CNV we are satisfied that, based on the scenario analysis outlined above, neither an additional impairment charge nor an impairment reversal are required and that the related disclosures in Note 16 of the Financial Statements are appropriate.

## IMPAIRMENT OF INTANGIBLE EXPLORATION & EVALUATION ASSETS ↻

### Key audit matter description



The total value of E&E assets as at 31 December 2017 held by the Group was \$3.8 million (2016 restated: \$150.6 million), after recording an impairment of \$152.3 million. The Group's principal E&E interests, being the Marine XI licence in the Republic of Congo (Brazzaville) and the Cabinda North licence in Angola, were both impaired in full during the year. The remaining capitalised exploration balance as at 31 December 2017 relates to Blocks 125 & 126 in Vietnam.

In accordance with relevant accounting standards, E&E assets are assessed for impairment at least annually. This is considered a key audit matter due to the significant judgments that are required and the material carrying values of E&E assets that were previously recorded in the financial statements. These judgements include the effect of the significant and prolonged fall in oil price on the viability of the Group's E&E projects.

Management assesses whether there were any indicators of impairment of the Group's E&E assets by reference to IFRS 6 Exploration for and evaluation of mineral resources, such as;

- ▶ expiry or relinquishment of exploration and evaluation licences;
- ▶ substantive expenditure for further exploration and evaluation in the specific area is neither budgeted nor planned;
- ▶ whether exploration and evaluation activities have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue activities in the area; or
- ▶ whether data exists to suggest that the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale.

As referenced in Note 4 of the Financial Statements, the carrying value of E&E assets is considered by management as a critical accounting judgement and key source of estimation uncertainty.

The current status of the Marine XI and Cabinda North licences together with activity during the year is summarised in the review of operations. As outlined in the financial review, in January 2018 the company announced that following a review of its strategic priorities the directors had decided that its African E&E asset portfolio was no longer a core priority for the group with minimal capital due to be spent on the related assets in the near future. Therefore these assets were fully impaired in the 2017 financial year. Further details of the group's E&E assets and the related impairment judgements are given in Note 15 of the Financial Statements and in the Audit & Risk Committee Report on pages 67 to 69.

### How the scope of our audit responded to the key audit matter



Our procedures were focused on challenging management's conclusions that the Marine XI and Cabinda North licences should be impaired in full. This included:

- ▶ participating in meetings with key operational and finance staff to understand the future intention for each asset;
- ▶ confirming that substantive expenditure for these assets is neither budgeted nor planned;
- ▶ understanding the basis for management's conclusion that there is currently limited ability to realise value from these assets; this included understanding the extent to which material value was attributed to these licences during recent new business discussions.

### Key observations



Management do still plan on conducting some limited work in future periods on these assets, primarily to retain legal title and hence enable them to continue marketing these assets for disposal. However, based on information gathered through recent new business discussions, there is no reliable evidence that the group will be able to realise material value from these assets. Accordingly, also taking into consideration that these assets are no longer a core priority, we are satisfied that the full impairment of the Marine XI and Cabinda North E&E assets in the current year is appropriate.

## Independent Auditor's Report continued

OIL & GAS RESERVES AND CONTINGENT RESOURCE ESTIMATES **Key audit matter description**

This was considered to be a key audit matter due to the subjective nature of reserves and contingent resource estimates, their impact on the Financial Statements as key inputs within the assessment of impairment and the depreciation, depletion and amortisation ('DD&A') calculations, and because both the TGT and CNV fields are complex fields contributing all of the value of the Group's recognised reserves.

Management has engaged a third party reservoir engineering expert to provide an independent report on the Group's reserves and contingent resource estimates using standard industry reserve estimation methods and definitions for both the CNV and TGT fields.

Management's reserves and contingent resource estimates are included in the review of operations. In addition, management has explained the scope of work of the third party expert and their findings 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. The Audit & Risk Committee Report has also outlined its considerations on pages 67 to 69.

**How the scope of our audit responded to the key audit matter**

For both TGT and CNV assets:

- ▶ we understood the process used by management to derive their estimates of reserves and contingent resources and how they provide information to, and interact with, the third party expert;
- ▶ we reviewed the third party expert's report on SOCO's reserves and contingent resource estimates as summarised in the review of operations and checked that these estimates were used consistently throughout the accounting calculations reflected in the financial statements; and
- ▶ we communicated directly with the third party experts to discuss and assess their scope of work, expertise and objectivity.

**Key observations**

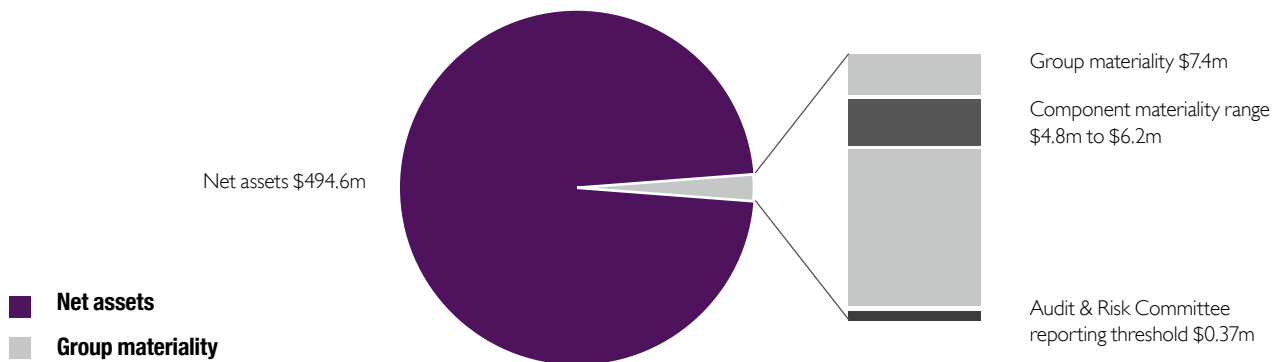
We are satisfied that the reserves and contingent resources figures used by SOCO in the group's DD&A and impairment calculations are appropriate and consistent with those reported by the third party experts.

## 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	Group : \$7.4 million (2016: \$12 million)  Parent company : \$5.7 million (2016: \$7.9 million)
<b>Basis for determining materiality</b>	Group and parent company: 1.5% of net assets (2016: 1.5% of net assets).
<b>Rationale for the benchmark applied</b>	In respect of the group, given the recent volatility in oil prices and the uncertain outlook for future oil prices, and the existence of losses in the current year, we do not consider that focusing solely on the group's profit or loss before tax would represent a stable basis for materiality or be representative of the underlying scale of the group. Accordingly, consistent with the prior year, we have concluded that net assets represents the most appropriate benchmark which reflects the long term value of the group through its portfolio of production and exploration assets and their associated reserves and contingent resources.  For the parent company, as the primary nature of this holding company is to hold investments in subsidiaries, we have concluded that net assets represents the most appropriate benchmark.



We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of 5% of group materiality being \$370,000 (2016: \$600,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & 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 scoped in both of 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 London, together with the parent company which is also accounted for in London. The Vietnamese and African components and the parent company, which were all subject to full scope audits, accounted for 80% of the group's net assets, 100% of revenue and 100% of loss before tax. Specified audit procedures have been performed on the remaining 20% of the group's net assets. The Vietnamese and African component materialities ranged from \$4.8 million to \$6.2 million. We also audited the consolidation of the group's business units. In both the current and prior year, each of the key audit matters that had the greatest effect on our audit strategy, as described above, were audited directly by the group audit team in London.

The group audit team assesses each year how best to be appropriately involved in the audit work undertaken in Vietnam. In the current year, this was achieved by regular interaction and review through correspondence, telephone and other electronic media as well as performing a review of the underlying work of the component auditors in selected key areas.

#### OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

## Independent Auditor's Report continued

- ▶ Fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- ▶ Audit & Risk Committee reporting – the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee; or
- ▶ Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**We have nothing to report in respect of these matters.**

## RESPONSIBILITIES OF DIRECTORS

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## USE OF OUR REPORT

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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### OPINIONS 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.

In our opinion, based on the work undertaken in the course of the audit:

- ▶ 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; and
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.



## 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.

**We have nothing to report in respect of these matters.**

## OTHER MATTERS

### **Auditor tenure**

Following the recommendation of the Audit & Risk Committee, we were appointed by the Directors on 1 August 2002 to audit the Financial Statements for the year ending 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 December 2002 to 31 December 2017.

### **Consistency of the audit report with the additional report to the audit & risk committee**

Our audit opinion is consistent with the additional report to the Audit & Risk Committee we are required to provide in accordance with ISAs (UK).

David Paterson ACA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
London, United Kingdom  
21 March 2018

## Consolidated Income Statement for the year to 31 December 2017

	Notes	2017 \$ million	(Restated) <sup>1</sup> 2016 \$ million
Revenue	5, 6	<b>156.2</b>	154.6
Cost of sales	7	<b>(115.0)</b>	(119.9)
<b>Gross profit</b>		<b>41.2</b>	34.7
Administrative expenses		<b>(18.3)</b>	(13.5)
Exploration (expense) write back	8	<b>(152.3)</b>	2.2
<b>Operating (loss) profit</b>		<b>(129.4)</b>	23.4
Investment revenue	5	<b>1.4</b>	0.5
Finance costs	9	<b>(1.6)</b>	(2.0)
<b>(Loss) profit before tax</b>	6	<b>(129.6)</b>	21.9
Tax	6, 12	<b>(27.7)</b>	(26.1)
<b>Loss for the year</b>		<b>(157.3)</b>	(4.2)
<b>Loss per share (cents)</b>	14		
<b>Basic</b>		<b>(47.7)</b>	(1.3)
<b>Diluted</b>		<b>(47.7)</b>	(1.3)

## Consolidated Statement of Comprehensive Income for the year to 31 December 2017

	Notes	2017 \$ million	(Restated) <sup>1</sup> 2016 \$ million
Loss for the year	29	<b>(157.3)</b>	(4.2)
Items that may be subsequently reclassified to profit or loss:			
Unrealised currency translation differences	29	<b>(0.4)</b>	(0.2)
<b>Total comprehensive loss for the year</b>		<b>(157.7)</b>	(4.4)

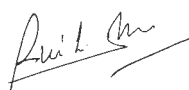
<sup>1</sup> In 2017, the Group changed its accounting policy for intangible exploration and evaluation assets and has adopted the successful efforts method of accounting. This change in accounting policy has been applied retrospectively and consolidated income statement, balance sheet and cash flow statement and related notes of the financial statements have been restated accordingly. Full details are provided in Note 2(a).

## Balance Sheets as at 31 December 2017

	Notes	(Restated)		(Restated) Group	Company	
		2017 \$ million	2016 \$ million	As at 1 January 2016 \$ million	2017 \$ million	2016 \$ million
<b>Non-current assets</b>						
Intangible assets	15	3.8	150.6	142.8	–	–
Property, plant and equipment	16	505.9	554.2	609.0	0.5	0.6
Investments	17	–	–	–	388.2	530.6
Other receivables	18	36.9	33.8	29.5	–	–
		<b>546.6</b>	738.6	781.3	<b>388.7</b>	531.2
<b>Current assets</b>						
Inventories	19	4.2	5.7	3.1	–	–
Trade and other receivables	20	20.7	24.7	19.5	0.7	0.8
Tax receivables		0.6	0.7	0.7	0.1	0.3
Financial asset	21	–	42.7	52.7	–	–
Liquid investments	22	25.3	15.3	–	–	–
Cash and cash equivalents	22	112.4	85.0	103.6	1.0	0.5
		<b>163.2</b>	174.1	179.6	<b>1.8</b>	1.6
<b>Total assets</b>		<b>709.8</b>	912.7	960.9	<b>390.5</b>	532.8
<b>Current liabilities</b>						
Trade and other payables	23	(23.1)	(22.4)	(37.2)	(9.6)	(6.7)
Tax payable		(6.8)	(9.2)	(7.8)	(0.2)	(0.1)
		<b>(29.9)</b>	(31.6)	(45.0)	<b>(9.8)</b>	(6.8)
<b>Net current assets (liabilities)</b>		<b>133.3</b>	142.5	134.6	<b>(8.0)</b>	(5.2)
<b>Non-current liabilities</b>						
Deferred tax liabilities	24	(132.6)	(147.0)	(162.9)	–	–
Long term provisions	25	(52.7)	(62.9)	(59.9)	–	–
		<b>(185.3)</b>	(209.9)	(222.8)	–	–
<b>Total liabilities</b>		<b>(215.2)</b>	(241.5)	(267.8)	<b>(9.8)</b>	(6.8)
<b>Net assets</b>		<b>494.6</b>	671.2	693.1	<b>380.7</b>	526.0
<b>Equity</b>						
Share capital	26	27.6	27.6	27.6	27.6	27.6
Other reserves	27	245.9	243.8	242.3	195.8	194.5
Retained earnings	29	221.1	399.8	423.2	157.3	303.9
<b>Total equity</b>		<b>494.6</b>	671.2	693.1	<b>380.7</b>	526.0

The loss for the financial year in the accounts of the Company (Co number 3300821) was \$176.6m inclusive of dividends from subsidiary undertakings (2016: profit of \$17.5m). 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.

The financial statements were approved by the Board of Directors on 21 March 2018 and signed on its behalf by:



Rui de Sousa  
Chairman



Jann Brown  
Director

## Statements of Changes in Equity for the year to 31 December 2017

	Group				
	Notes	Called up share capital (see Note 26) \$ million	Other reserves (see Note 27) \$ million	Retained earnings (see Note 29) \$ million	Total \$ million
As at 1 January 2016 (as previously reported)		27.6	242.3	622.6	892.5
Effect of change in accounting policy for intangible exploration and evaluation assets (Note 2(a))		–	–	(199.4)	(199.4)
As restated		27.6	242.3	423.2	693.1
Loss for the year		–	–	(4.2)	(4.2)
Unrealised currency translation differences		–	(0.2)	(0.2)	(0.4)
Distributions		–	–	(17.5)	(17.5)
Share-based payments		–	0.2	–	0.2
Transfer relating to share-based payments		–	1.5	(1.5)	–
<b>As at 1 January 2017</b>		<b>27.6</b>	<b>243.8</b>	<b>399.8</b>	<b>671.2</b>
Loss for the year	29	–	–	(157.3)	(157.3)
Unrealised currency translation differences	27, 29	–	0.4	(0.4)	–
Distributions	28, 29	–	–	(21.0)	(21.0)
Share-based payments	27	–	1.7	–	1.7
<b>As at 31 December 2017</b>		<b>27.6</b>	<b>245.9</b>	<b>221.1</b>	<b>494.6</b>

	Company				
	Notes	Called up share capital (see Note 26) \$ million	Other reserves (see Note 27) \$ million	Retained earnings (see Note 29) \$ million	Total \$ million
As at 1 January 2016		27.6	195.3	412.6	635.5
Retained profit for the year	13	–	–	17.5	17.5
Unrealised currency translation differences		–	(0.2)	(107.2)	(107.4)
Distributions		–	–	(17.5)	(17.5)
Share-based payments		–	0.2	–	0.2
Transfer relating to share-based payments		–	(0.8)	(1.5)	(2.3)
<b>As at 1 January 2017</b>		<b>27.6</b>	<b>194.5</b>	<b>303.9</b>	<b>526.0</b>
Loss for the year	13	–	–	(176.6)	(176.6)
Unrealised currency translation differences	27, 29	–	0.4	51.0	51.4
Distributions	28, 29	–	–	(21.0)	(21.0)
Share-based payments	27	–	1.7	–	1.7
Transfer relating to share-based payments	27	–	(0.8)	–	(0.8)
<b>As at 31 December 2017</b>		<b>27.6</b>	<b>195.8</b>	<b>157.3</b>	<b>380.7</b>

## Cash Flow Statements for the year to 31 December 2017

	Notes	Group		Company	
		2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
<b>Net cash from (used in) operating activities</b>	31	<b>45.0</b>	46.0	<b>(12.9)</b>	(7.9)
<b>Investing activities</b>					
Purchase of intangible assets		(5.4)	(27.4)	–	–
Purchase of property, plant and equipment		(20.8)	(8.4)	(0.1)	(0.1)
Increase in liquid investments <sup>1</sup>		(10.0)	(15.3)	–	–
Payment to abandonment fund	18	(3.1)	(4.3)	–	–
Deferred proceeds on disposal of Mongolia assets	21	42.7	10.0	–	–
Investment in subsidiary undertakings	17	–	–	(3.1)	(2.9)
Dividends received from subsidiary undertakings		–	–	37.6	30.0
<b>Net cash (used in) from investing activities</b>		<b>3.4</b>	(45.4)	<b>34.4</b>	27.0
<b>Financing activities</b>					
Share-based payments	30	(0.3)	(0.9)	(0.3)	(0.9)
Distributions	28	(21.0)	(17.5)	(21.0)	(17.5)
<b>Net cash used in financing activities</b>		<b>(21.3)</b>	(18.4)	<b>(21.3)</b>	(18.4)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>27.1</b>	(17.8)	<b>0.2</b>	0.7
<b>Cash and cash equivalents at beginning of year</b>		<b>85.0</b>	103.6	<b>0.5</b>	0.2
Effect of foreign exchange rate changes		0.3	(0.8)	0.3	(0.4)
<b>Cash and cash equivalents at end of year<sup>1</sup></b>	22	<b>112.4</b>	85.0	<b>1.0</b>	0.5

<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 2017 was \$137.7 million (2016: \$100.3 million).

# Notes to the Consolidated Financial Statements

## I GENERAL INFORMATION

SOCO International plc is a company limited by shares and incorporated in the England and Wales 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, in the Review of Operations and Financial Review on pages 16 to 23 and 24 to 27, respectively. SOCO International plc is the ultimate parent company of the Group and except where otherwise indicated the following accounting policies apply to both the Group and the Company.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Changes in accounting policy

In 2017, the Group has voluntarily changed its accounting policy for intangible exploration and evaluation assets and has adopted the successful efforts method (see Note 2(h)) to align with the more prevalent method of accounting for oil and gas assets within its peer group. This has resulted in the Group changing the unit of account used for assessing intangible exploration and evaluation assets for impairment from a licence by licence basis to a well by well basis.

The change in accounting policy has been applied retrospectively and the comparative information has been restated where needed. The table below shows the effect of this change in accounting policy on consolidated income statement, consolidated balance sheet, reported loss for the year, equity, basic and diluted loss per share. There was no impact on the consolidated cash flow statement.

#### Impact on Consolidated Income Statement:

	2016 \$ million
Decrease in Cost of sales (Depreciation)	15.1
Decrease in Exploration expense	1.1
Increase in Tax	(2.1)
<b>Net reduction in loss for the year</b>	<b>14.1</b>

#### Impact on loss per share (cents)

Decrease in basic	4.3
Decrease in diluted	4.3

#### Impact on Consolidated Balance Sheet

	31.12.2016 \$ million	01.01.2016 \$ million
Decrease in Intangible assets	<b>(67.6)</b>	(68.7)
Decrease in Property, plant and equipment	<b>(136.4)</b>	(151.5)
<b>Net decrease in assets</b>	<b>(204.0)</b>	(220.2)
Decrease in Deferred tax liabilities	<b>18.7</b>	20.8
<b>Net decrease in liabilities</b>	<b>18.7</b>	20.8
<b>Net decrease in net assets</b>	<b>(185.3)</b>	(199.4)

### (b) Basis of preparation

The Financial Statements have been prepared in accordance with, and comply with, 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 55 and in the Financial Review on page 27. 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.

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

At the date of authorisation of these financial statements, the following IFRSs and IASs, 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 EU):

- ▶ Amendments to IFRS 2: Classification and Measurement of Share-based payment transactions
- ▶ IFRS 10 and IAS 28 (amendments) Sale of Contribution of Assets between Investor and its Associate or Joint Venture
- ▶ IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 "Financial Instruments" which is effective for annual periods beginning on or after 1 January 2018. IFRS 9 is a comprehensive standard to replace IAS 39 Financial instruments: Recognition and Measurement, and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The classification and measurement of financial assets is now based on the entity's business model for managing the financial asset, and the contractual cash flow characteristics of the financial asset. The classification and measurement of financial liabilities is materially consistent with that required by IAS 39 with the exception of the treatment of modification or exchange of financial liabilities which do not result in de-recognition.

The new impairment model requirements apply to financial assets measured at amortised costs and FVOCI, lease receivables, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are in "stage 1"; financial assets that are considered to have experienced a significant increase in credit risk are in "stage 2"; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in "stage 3".

The hedge accounting requirements in the standard do not have an impact on SOCO as we do not undertake any hedging activities at this time.

SOCO has undertaken an assessment of the classification and measurement requirements, as well as the new impairment model, and expects that the standard will not have a material quantitative effect, when first applied on 1 January 2018, on the consolidated financial statements of the Group and the separate financial statements of SOCO International plc.

### ► IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which the Group will adopt for annual periods beginning on or after 1 January 2018. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. SOCO will adopt the standard on its mandatory effective date, and it will impact the qualitative and quantitative disclosures of revenue arrangements; to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. SOCO has assessed the impact of IFRS 15 and expects that the standard will have no material quantitative effect, when applied, on the consolidated financial statements of the Group and the separate financial statements of SOCO International plc.

### ► IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 "Leases" which the Group will adopt for annual periods beginning on or after 1 January 2019. The adoption of IFRS 16 will impact both the measurement and disclosures of leases over a value threshold and with terms longer than one year. The lease expense recognition pattern for lessees will generally be accelerated. Additional lease liabilities and right of use assets are expected to be recorded, including amounts in relation to FPSO facilities and certain office properties. The cash flow statement will be affected as payments for the principal portion of the lease liability will be presented within financing, not operating, activities. SOCO is in the process of identifying all lease agreements that exist across the Group. SOCO is currently assessing the impact of IFRS 16, and it is not practicable to quantify the effect at the date of the publication of these financial statements.

### (d) 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 investor is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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.

### (e) Investments

Non-current investments in subsidiaries of the Company are shown at cost less provision for impairment. Liquid investments comprise short term liquid investments of between three to six months maturity.

### (f) Interests in joint ventures

A joint arrangement is an arrangement where two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements where the Group has the rights to assets and obligations for liabilities of the arrangement are classified as joint operations and are accounted for by recognising the Group's share of assets, liabilities, income and expenses. Joint arrangements where the Group has the rights to the net assets of the arrangement are classified as joint ventures and are accounted for using the equity method of accounting.

### (g) Revenue

Revenue represents the fair value of the Group's share of oil and gas sold during the year on a liftings basis and is recognised when the risks and rewards of ownership have been transferred to the buyer. In accordance with the Group's sales agreements for oil and gas, the risks and rewards are transferred to the buyer at the point of delivery. 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.

## Notes to the Consolidated Financial Statements continued

### 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

The Group adopts the successful efforts method of accounting for exploration and evaluation costs. Pre-licence costs are expensed in the period in which they are incurred. All licence acquisition, exploration and evaluation costs and directly administration costs are initially capitalised as intangible non-current assets in cost centres by well (most typically), field or exploration area, as appropriate. Interest payable is capitalised insofar as it relates to specific development activities.

These costs are then written off as exploration costs in the income statement unless commercial reserves have been established or the determination process has not been completed and there are no indicators of impairment.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities is amortised in accordance with the Group's depletion and amortisation accounting policy.

Cash consideration received on farm-down of exploration and evaluation assets is credited against the carrying value of the asset.

##### 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 specified in paragraphs 18 to 20 of IFRS 6. The impairment indicators in IFRS 6 for each exploration asset are:

- ▶ The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- ▶ Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted or planned;
- ▶ Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commerciality viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- ▶ Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

##### 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.

#### (i) Changes in estimates

The effects of changes in estimates on the unit of production calculations are accounted for prospectively, from the date of adoption of the revised estimates, over the estimated remaining proven and probable reserves.

#### (j) Inventories

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

Physical inventories of hydrocarbons are valued at net realisable value in line with well established industry practice. 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.



## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (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.

For cash-settled share-based payments, a liability is recognised measured initially at fair value. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is measured, with any changes in fair value recognised in profit or loss for the year.

### (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.

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 16, 20, 21 and 23.

### 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 generally stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

### Trade payables

Trade payables are generally stated at amortised costs using the effective interest rate.

### 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 daily rate of exchange 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 other comprehensive income 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.

## Notes to the Consolidated Financial Statements continued

### 3 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 & Risk Committee. The main financial risks affecting the Group are discussed in the Risk Management Report on pages 28 to 33.

### 4 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. Management considers these assets for impairment at least annually with reference to indicators in IFRS 6. Note 15 discloses the carrying value of intangible exploration and evaluation assets. 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.

##### (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 within the next financial year are discussed below:

##### Oil and gas reserves and DD&A

Note 2(h) sets out the Group's accounting policy on DD&A. Proven and probable reserves are estimated using standard recognised evaluation techniques and are disclosed on page 121. The estimate is reviewed at least twice a year and is audited at year end. 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 22, the TGT and CNV proved and probable reserves estimates have been revised slightly based on ongoing work of ERCE and audited by our reserves auditors, Senergy International Sdn Bhd as part of Lloyds Register Group Limited. 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.

##### Impairment of producing oil and gas assets

If impairment indicators are identified in relation to a producing oil and gas field, management is required to compare the net carrying value of the assets and liabilities which represent the field cash generating unit (CGU) with the estimated recoverable amount of the field. Management generally determines the recoverable amount of the field by estimating its fair value less costs of disposal, using a discounted cash flow method. Calculating the net present value of the discounted cash flows involves key assumptions which include commodity prices, 2P reserves estimates and discount rates. Other assumptions include production profiles, future operating and capital expenditures. Further information relating to the specific assumptions and uncertainties relevant to impairment tests performed in the year are discussed in Note 16.

### 5 TOTAL REVENUE

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

	2017 \$ million	2016 \$ million
Oil and gas sales (see Note 6)	156.2	154.6
Investment revenue	1.4	0.5
	<b>157.6</b>	155.1

## 6 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.

	2017			
	SE Asia \$ million	Africa <sup>2</sup> \$ million	Unallocated \$ million	Group \$ million
Oil and gas sales (see Note 5)	156.2	–	–	156.2
Depreciation, depletion and amortisation (see Note 7)	56.5	–	0.3	56.8
Exploration expense (see Note 8)	–	152.3	–	152.3
Profit (loss) before tax <sup>1</sup>	39.9	(152.3)	(17.2)	(129.6)
Tax charge (see Note 12)	27.7	–	–	27.7
				(Restated) 2016
	SE Asia \$ million	Africa <sup>2</sup> \$ million	Unallocated \$ million	Group \$ million
Oil and gas sales	154.6	–	–	154.6
Depreciation, depletion and amortisation	64.7	–	0.2	64.9
Exploration write back	–	(2.2)	–	(2.2)
Profit (loss) before tax <sup>1</sup>	32.9	1.7	(12.7)	21.9
Tax charge	25.9	–	0.2	26.1

<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> In December 2017, an impairment indicator of IFRS 6 was triggered following the Group's announcement that no substantive expenditure for the Africa assets is either budgeted or planned in the near future. The remaining costs capitalised associated with exploration areas in Africa of \$152.3m was therefore fully impaired in the income statement (see Note 8).

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 \$102.9m and \$21.1m which arose from the Group's two largest customers who contributed more than 10% to the Group's oil and gas revenue (2016: \$115.1m and \$34.1m from the Group's two largest customers).

### Geographical information

The Group's oil and gas revenue and non-current assets (excluding 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 oil and gas revenue is derived from foreign countries. The Group's oil and gas revenue by geographical location is determined by reference to the final destination of oil or gas sold.

	2017 \$ million	2016 \$ million
Vietnam	105.7	117.2
Thailand	36.3	–
China	3.3	33.4
Other	10.9	4.0
	156.2	154.6

### Non-current assets

	2017 \$ million	(Restated) 2016 \$ million	(Restated) 1 January 2016 \$ million
United Kingdom	0.4	0.6	0.8
Vietnam	509.3	555.9	609.1
Congo	–	100.3	107.3
Other – Africa	–	48.0	34.6
	509.7	704.8	751.8

Excludes other receivables.

## Notes to the Consolidated Financial Statements continued

### 7 COST OF SALES

	2017 \$ million	(Restated) (see Note 2(a)) 2016 \$ million
Depreciation, depletion and amortisation	56.5	64.7
Production based taxes	13.6	13.4
Production operating costs	43.4	44.4
Inventories	1.5	(2.6)
	<b>115.0</b>	<b>119.9</b>

### 8 EXPLORATION EXPENSE / (WRITE BACK)

	2017 \$ million	(Restated) (see Note 2(a)) 2016 \$ million
Exploration expense (write back)	152.3	(1.1)
Licence commitments (write back)	–	(1.1)
	<b>152.3</b>	<b>(2.2)</b>

In December 2017, an impairment indicator of IFRS 6 was triggered following the Group's announcement that no substantive expenditure for its exploration areas in Africa (being Congo and Angola) is neither budgeted or planned in the near future, as they are no longer a core priority for the Group. The remaining costs capitalised of \$152.3m, after taking into consideration \$67.6m which was separately impaired through the restatement of prior year balances due to the change in accounting policy, was therefore fully impaired in the income statement.

### 9 FINANCE COSTS

	2017 \$ million	2016 \$ million
Other interest payable and similar fees	–	0.1
Unwinding of discount on provisions (see Note 25)	1.6	1.9
	<b>1.6</b>	<b>2.0</b>

In 2017, \$1.6m relates to the unwinding of discount on the provisions for decommissioning (2016: \$1.9m). The provisions are 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 TGT and CNV (currently estimated to be 13-14 years) in the removal and decommissioning of the facilities currently in place (see Note 25).

### 10 AUDITOR'S REMUNERATION

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

	2017 \$000s	2016 \$000s
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	190	167
Fees payable to the Company's auditor and their associates for other services to the Group:		
Audit of the Company's subsidiaries	25	27
Total audit fees	215	194
Audit related assurance services - half year review	54	52
Taxation compliance services	–	23
Corporate finance services	529	296
Other assurance services	11	18
Other services	17	–
Total non-audit fees	611	389

## 10 AUDITOR'S REMUNERATION CONTINUED

The non-audit fees during 2017 included the half year review, regulatory advice and other advice to management. In addition, the auditors provided corporate finance services as reporting accountants on a transaction which was proposed in 2017. All non-audit fees were fully approved by the Audit & Risk Committee, having concluded such services were compatible with auditor independence and were consistent with relevant ethical guidance in place. In 2016, other assurance service included the half year review, advice to the regulatory advice, other advice to management and reporting accountant services on a transaction proposed in 2016.

Details of the Company's policy on the use of auditors for non-audit services are set out in the Audit & Risk Committee Report on pages 67 to 69.

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.

## 11 STAFF COSTS

The average monthly number of employees of the Group including Executive Directors was 19 (2016: 17), of which 16 (2016: 14) were administrative personnel and 3 (2016: 3) were operations personnel. Their aggregate remuneration comprised:

	Group	
	2017 \$ million	2016 \$ million
Wages and salaries	8.5	6.1
Social security costs	0.5	0.4
Share-based payment expense (see Note 30)	2.5	4.3
Other pension costs under money purchase schemes	0.7	0.6
Other benefits	1.1	0.6
	<b>13.3</b>	12.0

In accordance with the Group's accounting policy \$1.5m of the Group's staff costs above have been capitalised (2016: \$3.9m) all of which related to our Vietnam assets (2016: \$1.8m Vietnam and \$2.1m Africa).

## 12 TAX

	2017	(Restated) 2016
	\$ million	\$ million
Current tax	42.1	42.0
Deferred tax (see Note 24)	(14.4)	(15.9)
	<b>27.7</b>	26.1

The Group's corporation tax is calculated at 50% (2016: 50%) of the estimated assessable profit for the year in Vietnam. During 2017 and 2016 both current and deferred taxation have arisen in overseas jurisdictions only.

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

	2017	2016
	\$ million	\$ million
(Loss) / Profit before tax	(129.6)	21.9
(Loss) / Profit before tax at 50% (2016: 50%)	(64.8)	11.0
Effects of:		
Non-deductible expenses	10.1	10.9
Tax losses not recognised	6.2	5.1
Non-deductible exploration costs written off / (back)	76.2	(1.1)
Adjustments to tax charge in respect of previous years	–	0.2
<b>Tax charge for the year</b>	<b>27.7</b>	26.1

## Notes to the Consolidated Financial Statements continued

### 12 TAX CONTINUED

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 above.

The effect of non-deductible exploration costs written off of \$76.2m relates to the impairment of exploration assets in Africa (see Note 8) (2016 restated: (\$1.1m)).

Non-deductible expenses primarily relates to Vietnam DD&A charges for costs previously capitalised, which are non-deductible for Vietnamese tax purposes, contributing \$6.9m (2016 restated: \$8.1m) to the effect of non-deductible expenses. A further \$3.2m (2016: \$2.8m) relates to non-deductible corporate costs including share scheme incentives.

The effect from tax losses not recognised relates to costs, primarily of the Company, deductible for tax in the UK but not expected to be utilised in the foreseeable future.

### 13 PROFIT ATTRIBUTABLE TO SOCO INTERNATIONAL PLC

The loss for the financial year in the accounts of the Company was \$176.6m inclusive of dividends from subsidiary undertakings (2016: profit of \$17.5m). 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 LOSS PER SHARE

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

	Group	
	2017 \$ million	(Restated) 2016 \$ million
Loss for the purposes of basic loss per share	<b>(157.3)</b>	(4.2)
Effect of dilutive potential ordinary shares - Cash settled share awards and options	<b>(0.7)</b>	(0.5)
Loss for the purposes of diluted loss per share	<b>(158.0)</b>	(4.7)
	Number of shares (million)	
	2017	2016
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>329.8</b>	329.4
Effect of dilutive potential ordinary shares – Share awards and options	<b>3.6</b>	2.8
Weighted average number of ordinary shares for the purpose of diluted loss per share	<b>333.4</b>	332.2

In accordance with IAS 33 "Earnings per Share", the effects of antidilutive potential shares have not been included when calculating dilutive loss per share for the year ended 31 December 2017 or the prior year.

### 15 INTANGIBLE ASSETS

	Group	
	2017 \$ million	(Restated) 2016 \$ million
<b>Exploration and evaluation expenditure</b>		
As at 1 January	<b>150.6</b>	142.8
Additions	<b>5.5</b>	6.7
Exploration (expense)/write back	<b>(152.3)</b>	1.1
<b>As at 31 December</b>	<b>3.8</b>	150.6

Intangible assets at 2017 year-end comprise the Group's exploration and evaluation project which is pending determination and relate to Block 125&126 in Vietnam (\$3.8m). The outcome of ongoing exploration, and therefore whether the carrying value of E&E assets will ultimately be recovered, is inherently uncertain.

Included within 2017 additions is \$4.0m relating to our African assets and \$1.5m relating to Blocks 125&126 in Vietnam (2016: \$5.4m Africa and \$1.3m Vietnam).

## 15 INTANGIBLE ASSETS CONTINUED

In 2017, the amount of \$152.3m was written off to the income statement as one of the impairment indicators specified in paragraphs 18 to 20 of IFRS 6 (see Note 2(h)) have been triggered for Africa licences Marine XI, Congo (Brazzaville) and Cabinda North, Angola as no substantive expenditure on further exploration is budgeted or planned for those assets, as they are no longer a core priority for the Group. The write back in 2016 was associated with the Marine XI, Congo (Brazzaville) and Cabinda North licences following the completion of contractual drilling commitments.

## 16 PROPERTY, PLANT AND EQUIPMENT

	Group			Company
	Oil and gas properties \$ million	Other \$ million	Total \$ million	Other \$ million
<b>Cost</b>				
As at 1 January 2016 (restated)	898.7	2.0	900.7	1.9
Additions	10.1	0.1	10.2	0.1
Disposals	–	–	–	–
Currency exchange	–	(0.3)	(0.3)	(0.3)
As at 1 January 2017	<b>908.8</b>	<b>1.8</b>	<b>910.6</b>	<b>1.7</b>
Additions	<b>20.1</b>	<b>0.1</b>	<b>20.2</b>	<b>0.1</b>
Revision in decommissioning asset	<b>(11.8)</b>	–	<b>(11.8)</b>	–
Currency exchange	–	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>As at 31 December 2017</b>	<b>917.1</b>	<b>2.1</b>	<b>919.2</b>	<b>2.0</b>
<b>Depreciation</b>				
As at 1 January 2016 (restated)	290.5	1.2	291.7	1.1
Charge for the year	64.7	0.2	64.9	0.2
Currency exchange	–	(0.2)	(0.2)	(0.2)
As at 1 January 2017	<b>355.2</b>	<b>1.2</b>	<b>356.4</b>	<b>1.1</b>
Charge for the year	<b>56.5</b>	<b>0.3</b>	<b>56.8</b>	<b>0.3</b>
Currency exchange	–	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>As at 31 December 2017</b>	<b>411.7</b>	<b>1.6</b>	<b>413.3</b>	<b>1.5</b>
<b>Carrying amount</b>				
<b>As at 31 December 2017</b>	<b>505.4</b>	<b>0.5</b>	<b>505.9</b>	<b>0.5</b>
As at 31 December 2016	553.6	0.6	554.2	0.6
As at 1 January 2016 (restated)	608.2	0.8	609.0	0.8

As discussed in the Review of Operations on pages 16 to 23, proved and probable oil and gas reserves, audited by Senergy International Sdn Bhd as part of Lloyds Register Group Limited dated 1 October 2017, show a slight decrease to 2P reserves numbers for TGT and a more significant decrease for CNV. This downward revision triggered an impairment test on the Group's CNV asset in Vietnam. No impairment trigger was identified for TGT. The recoverable amount of the CNV producing asset has been determined using the fair value less costs of disposal method which constitutes a level 3 valuation within the fair value hierarchy. The majority of net book value is supported by the fair value derived from a discounted cash flow valuation of the 2P production profile, but with a further portion supported by the risk adjusted incremental value of 2C contingent resources. The key assumptions to which the fair value measurement is most sensitive are oil price, discount rate and 2P reserves (2016: oil price, discount rate and 2P reserves). In 2017, the post tax nominal discount rate was lowered from 12.5% to 10% following a change in management of the reservoir and proven reservoir performance which has led to improved technical confidence and therefore a reduced risk profile. As at 31 December 2017, the fair value of the asset is estimated based on a post tax nominal discount rate of 10.0% (2016: 12.5%) and an oil price reflecting a gradual increase over five years from \$61/bbl in 2018 (2016: \$57/bbl for 2017) to \$71/bbl in 2022 (2016: \$69/bbl for 2020) plus inflation of 2.0% (2016: 2.0%) thereafter.

Testing of sensitivity cases indicated that neither a \$5/bbl reduction in the long term oil price nor a 1% increase in discount rates, used when determining fair value less costs of disposal method, would result in an impairment of CNV oil and gas asset. Details of the uncertainties relating to the 2P reserves are provided in Note 4 (b).

Other fixed assets comprise office fixtures and fittings and computer equipment.

## Notes to the Consolidated Financial Statements continued

### 17 FIXED ASSET INVESTMENTS AND JOINT ARRANGEMENTS

#### Group Investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2017 which affected the profits or net assets of the Group, all of which (unless indicated) are indirectly held.

	Country of incorporation	Country of operation	Principal activity	Percentage holding	Footnotes	Registered address
OPECO Vietnam Limited	Cook Islands	Vietnam	Oil and gas development and production	100	2,9	e
SOCO Vietnam Ltd	Cayman Islands	Vietnam	Oil and gas development and production	100	2,8	b
SOCO Congo Limited	Cayman Islands	Congo (Brazzaville)	Investment holding	85	2,4	b
SOCO Exploration Limited	Jersey	–	Investment holding	100	1,4,5,6,7	a
SOCO Finance (Jersey) Limited	Jersey	–	Group Financing	100	1	a
SOCO SEA Limited	Jersey	–	Investment holding	100	1	a
SOCO Vietnam Acquisition Limited	Jersey	–	Investment holding	100	2	a
SOCO Congo BEX Limited	Cayman Islands	–	–	100	2,3	b
SOCO Cuu Long Limited	Cayman Islands	–	–	100	2,3	b
SOCO Exploration (Asia) Limited	Cayman Islands	–	–	100	2,3	b
SOCO Exploration (Vietnam) Limited	Cayman Islands	Vietnam	Oil and gas exploration	100	2,10	b
SOCO MED Limited	Cayman Islands	–	–	100	2,3	b
SOCO Vietnam (Holdings) Limited	Cayman Islands	–	Investment holding	100	2,3	b
SOCO DRC Limited	Cayman Islands	–	–	85	2,3,5	b
SOCO North Africa Ltd	Cayman Islands	–	–	85	2,3,7	b
SOCO Cabinda Limited	Cayman Islands	Angola (Cabinda)	Oil and gas exploration and appraisal	80	2,6,11	b
SOCO Exploration & Production Congo SA	Congo (Brazzaville)	Congo (Brazzaville)	Oil and gas exploration and appraisal	85	2,4,12	c
SOCO Exploration & Production DRC SARL	DRC	–	–	85	2,3,5	d
Torobex Limited	British Virgin Islands	–	–	100	2,3	f
OPECO Inc	USA	–	Investment holding	100	2,9	g
SOCO International Operations LLC	USA	–	Investment holding	100	2	g
SOCO Management Services, Inc.	USA	USA	Management services	100	2	g

#### Footnotes:

##### Group investments

<sup>1</sup> Investments held directly by SOCO International plc.

<sup>2</sup> Investments held indirectly by SOCO International plc.

<sup>3</sup> Dormant pending voluntary dissolution.

<sup>4</sup> SOCO Exploration Limited is the 85% shareholder of SOCO Congo Limited, which owns 100% of SOCO Exploration & Production Congo SA, the holder of the Group's working interest in the Lidongo, Lideke, Loubana and Viодо Exploration Permits Congo (Brazzaville) asset. The Group funds 100% of SOCO Congo Limited and is entitled to receive 100% of the distributions made by SOCO Congo Limited until it has recovered such funding including a rate of return. The 15% non-controlling interest is held by the Quantic group of companies, of which Rui de Sousa is a 50% beneficial interest holder (see Note 34).

<sup>5</sup> SOCO Exploration Limited is the 85% shareholder of SOCO DRC Limited, which wholly owns SOCO Exploration & Production DRC SARL. The 15% non-controlling interest is held by Quantic group of companies, of which Rui de Sousa is a 50% beneficial interest holder (see Note 34).

<sup>6</sup> SOCO Exploration Limited is the 80% shareholder of SOCO Cabinda Limited, which holds the Group's working interest in its Cabinda North licence. The Group funds 100% of SOCO Cabinda Limited and is entitled to receive 100% of the distributions made by SOCO Cabinda Limited until it has recovered such funding including a rate of return. The non-controlling interest is held by Quill Trading Corporation (10%) and Middle East Partnership SAL (10%).

<sup>7</sup> SOCO Exploration Limited is the 85% shareholder of SOCO North Africa Ltd. The 15% non-controlling interest is held by Middle East Partnership SAL.

##### Joint arrangements

<sup>8</sup> SOCO Vietnam Ltd holds a 28.5% working interest in Block 16-1, TGT Field. The Field operational base is development/production and is operated by Hoang Long Joint Operating Company which is registered in Vietnam. SOCO Vietnam Ltd holds a 25% working interest in Block 9-2, CNV Field. The Field operational base is development/production and is operated by Hoan Vu Joint Operating Company which is registered in Vietnam.

<sup>9</sup> OPECO Vietnam Limited holds a 2% working interest in Block 16-1, TGT Field. The Field operational base is development/production and is operated by Hoang Long Joint Operating Company which is registered in Vietnam.

<sup>10</sup> SOCO Exploration (Vietnam) Limited holds a 70% working interest in Blocks 125 & 126 and is the Operator. The operating office is registered in Vietnam. The main activity is exploration.

<sup>11</sup> SOCO Cabinda Limited holds a 17% working interest in Cabinda North licence. Subject to final Angolan governmental approval, this working interest will increase to 22% and Eni will become operator. The country of branch incorporation is Angola (Cabinda). The main activity is exploration.

<sup>12</sup> SOCO Exploration and Production Congo SA holds a 40.39% working interest in Marine XI Block and is the Operator. The country of incorporation is Congo (Brazzaville). The main activity is exploration and appraisal.



## 17 FIXED ASSET INVESTMENTS AND JOINT ARRANGEMENTS CONTINUED

### Registered addresses:

- (a) 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands
- (b) 196 Raleigh Quay, Governors Harbour, P.O. Box 1968, Grand Cayman, Cayman Islands, KY1 1104
- (c) Avenue Kouanga Makosso, Immeuble Socotrans, BP 299, Pointe Noire, Republic of Congo
- (d) Sutter & Pearc (DRC), Av Democratie no. 7476/I, Commune de la Gombe, Kinshasa, DRC
- (e) 3/F BCI House, P.O. Box 208, Avarua, Rarotonga, Cook Islands
- (f) Craigmuir Chambers, Road Town, Tortola VG1110, British Virgin Islands
- (g) Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, USA

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.

In 2017 the reduction in investment value of \$142.4m (2016: reduction of \$106.5m) was due to an impairment to investments in subsidiaries of \$196.2m (2016: nil) and a \$0.8m (2016: \$2.3m) transfer relating to share based payments offset by further investment in subsidiaries of \$3.1m (2016: \$2.9m) and a foreign exchange gain of \$51.3m (2016: loss of \$107.1m).

## 18 OTHER RECEIVABLES

Other receivables comprise the Group's share of contributions made into two abandonment security funds which were established to ensure that sufficient funds exist to meet future abandonment obligations on TGT and CNV fields. The funds are operated by PetroVietnam and the JOC partners retain the legal rights to the funds pending commencement of abandonment operations. During 2017, the Group has contributed \$3.1m (2016: \$4.3m). As at 31 December 2017 the Group's total contribution to the funds was \$36.9m (2016: \$33.8m).

## 19 INVENTORIES

Inventories comprise crude oil and condensate and are valued at net realisable value in line with well established industry practice with changes in hydrocarbon inventories adjusted through cost of sales (see Note 7).

## 20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017	2016	2017	2016
	\$ million	\$ million	\$ million	\$ million
<b>Amounts falling due within one year</b>				
Trade receivables	<b>17.5</b>	21.9	–	–
Other receivables	<b>0.8</b>	0.9	–	0.1
Prepayments and accrued income	<b>2.4</b>	1.9	<b>0.7</b>	0.7
	<b>20.7</b>	24.7	<b>0.7</b>	0.8

There are no amounts overdue or allowances for doubtful debts in respect of trade or other receivables (2016: nil). There is no material difference between the carrying amount of trade and other receivables and their fair value.

Trade and other receivables are financial assets and measured at amortised cost. Included in trade and other receivables arising from South East Asia at 31 December 2017 are trade receivables of \$12.9m and \$4.0m which arose from the Group's two largest customers (2016: \$21.4m and \$0.5m from the Group's two largest customers). Further information relating to credit and other financial risks and how the Group mitigate these risks are discussed in the Risk Management Report on pages 28 to 33.

## Notes to the Consolidated Financial Statements continued

### 21 FINANCIAL ASSET

In 2005, the Group disposed of its Mongolia interest to Daqing Oilfield Limited Company. Under the terms of the transaction the Group was entitled to receive a subsequent payment amount of up to \$52.7m, once cumulative production reached 27.8 million barrels of oil, at the rate of 20% of the average monthly marker price for Daqing crude multiplied by the aggregate production for that month. Daqing notified SOCO that the production threshold of crude oil in excess of 27.8 million barrels was achieved in December 2015. The fair value of the subsequent payment amount was determined using a valuation technique as there was no active market against which direct comparisons can be made (Level 3 as defined in IFRS 13). The Directors expected the full subsequent payment amount to be settled by the end of 2016. On 19 December 2016, the Group received the first payment of \$10.0m from Daqing Oilfield Limited Company as partial payment for the subsequent payment amount of \$52.7m. The full remainder of \$42.7m was received in March 2017.

### 22 CASH AND CASH EQUIVALENTS AND LIQUID INVESTMENTS

As at 31 December 2017, cash and cash equivalents of \$112.4m (2016: \$85.0m), 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.

As at 31 December 2017, liquid investments of \$25.3m (2016: \$15.3m) 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 2017 was \$137.7m (2016: \$100.3m).

### 23 TRADE AND OTHER PAYABLES

	Group		Company	
	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
Trade payables	1.5	3.8	–	–
Amounts due to Group undertakings	–	–	–	1.4
Other payables	7.4	8.9	3.9	3.7
Accruals and deferred income	13.3	8.1	5.7	1.6
Liability for onerous commitments	0.9	1.6	–	–
	<b>23.1</b>	<b>22.4</b>	<b>9.6</b>	<b>6.7</b>

There is no material difference between the carrying value of trade payables and their fair value. The above trade and other payables are held at amortised cost and are not discounted as the impact would not be material.

Trade and other payables are financial liabilities and are therefore measured at amortised cost. The average credit period for settlement of trade payables is standard 30 days or later if this falls within the agreed terms. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. Further information relating to financial risks and how the Group mitigate these risks are discussed in the Risk Management Report on pages 28 to 33.

### 24 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 depreciation \$ million	Other temporary differences \$ million	Group \$ million
As at 1 January 2016 (restated)	136.2	26.7	162.9
Credit to income	(17.2)	1.3	(15.9)
Reclassification <sup>1</sup>	25.1	(25.1)	–
As at 1 January 2017	<b>144.1</b>	<b>2.9</b>	<b>147.0</b>
Credit to income (see Note 12)	<b>(13.6)</b>	<b>(0.8)</b>	<b>(14.4)</b>
<b>As at 31 December 2017</b>	<b>130.5</b>	<b>2.1</b>	<b>132.6</b>

<sup>1</sup> The adjustment relates to reclassification between timing differences arising from accelerated tax depreciation and other temporary differences with no impact on the Group's consolidated financial statements.

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 \$134.5m (2016: \$117.0m). The gross losses have no expiry date.

## 25 LONG TERM PROVISIONS

### Decommissioning

	Group	
	2017 \$ million	2016 \$ million
As at 1 January	62.9	59.9
New provisions and changes in estimates	(11.8)	1.1
Unwinding of discount (see Note 9)	1.6	1.9
<b>As at 31 December</b>	<b>52.7</b>	<b>62.9</b>

In 2017, the new provision and change in estimate was based on the revised decommissioning plan associated with TGT field which was received and subsequently approved by all partners of Hoang Long Joint Operating Company.

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 13 - 14 years) in the removal and decommissioning of the facilities currently in place. The provision is calculated using an inflation rate of 2.5% (2016: 2.5%) and a discount rate of 3% (2016: 3%).

## 26 SHARE CAPITAL

### Ordinary Shares of £0.05 each

	2017 Shares	2016 Shares	2017 \$ million	2016 \$ million
Issued and fully paid	341,076,911	341,076,911	27.6	27.6

As at 31 December 2017 authorised share capital comprised 600 million (2016: restated - 600 million) ordinary shares of £0.05 each with a total nominal value of £30m (2016: restated - £30m). The Company did not issue any new ordinary shares during 2017 (2016: \$nil).

## 27 OTHER RESERVES

	Group				
	Capital redemption reserve \$ million	Merger reserve \$ million	Own shares \$ million	Share based payments \$ million	Total \$ million
As at 1 January 2016	100.3	188.7	(50.2)	3.5	242.3
Currency exchange translation differences	-	-	-	(0.2)	(0.2)
Share-based payments	-	-	-	0.2	0.2
Transfer relating to share-based payments	-	-	2.3	(0.8)	1.5
As at 1 January 2017	100.3	188.7	(47.9)	2.7	243.8
Currency exchange translation differences	-	-	-	0.4	0.4
Share-based payments	-	-	-	1.7	1.7
Transfer relating to share-based payments	-	-	0.8	(0.8)	-
<b>As at 31 December 2017</b>	<b>100.3</b>	<b>188.7</b>	<b>(47.1)</b>	<b>4.0</b>	<b>245.9</b>

## Notes to the Consolidated Financial Statements continued

### 27 OTHER RESERVES CONTINUED

	Company				
	Capital redemption reserve \$ million	Merger reserve \$ million	Own shares \$ million	Share based payments \$ million	Total \$ million
As at 1 January 2016	100.3	131.8	(40.3)	3.5	195.3
Currency exchange translation differences	–	–	–	(0.2)	(0.2)
Share-based payments	–	–	–	0.2	0.2
Transfer relating to share-based payments	–	–	–	(0.8)	(0.8)
As at 1 January 2017	<b>100.3</b>	<b>131.8</b>	<b>(40.3)</b>	<b>2.7</b>	<b>194.5</b>
Currency exchange translation differences	–	–	–	0.4	0.4
Share-based payments	–	–	–	1.7	1.7
Transfer relating to share-based payments	–	–	–	(0.8)	(0.8)
<b>As at 31 December 2017</b>	<b>100.3</b>	<b>131.8</b>	<b>(40.3)</b>	<b>4.0</b>	<b>195.8</b>

The Group's other reserves comprise reserves arising in respect of merger relief, upon the purchase of the Company's own Shares held in treasury and held by the Trust.

The number of treasury Shares held by the Group and the number of Shares held by the Trust at 31 December 2017 was 9,122,268 (2016: 9,122,268) and 2,114,596 (2016: 2,299,767), respectively. The market price of the Shares at 31 December 2017 was £1.1150 (2016: £1.5950). The Trust, a discretionary trust, holds Shares for the purpose of satisfying employee share schemes, details of which are set out in Note 30 and in the Directors' Remuneration Report on pages 70 to 85. 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.

### 28 DISTRIBUTION TO SHAREHOLDERS

In June 2017, the Company paid dividends to shareholders of \$21.0m (2016: \$17.5m) or 5 pence per Ordinary Share (2016: 4 pence per Ordinary Share in two equal payments of 2 pence per share).

The SOCO EBT, which is consolidated within the Group, waived its rights to receive a dividend in 2017 and 2016.

The Board is recommending a final dividend of 5.25 pence per Ordinary Share, which amounts to approximately \$24.3m, assuming that the SOCO EBT waives its entitlement to dividends in respect of its holding of Ordinary Shares. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these Financial Statements. The proposed dividend, if approved by shareholders, will be paid on 15 June 2018 to shareholders on the register of members at the close of business on 25 May 2018.

**29 RETAINED EARNINGS**

	(Restated) Group		
	Retained profit \$ million	Unrealised currency translation differences \$ million	Total \$ million
As at 1 January 2016 (as previously reported)	617.1	5.5	622.6
Effect of change in accounting policy for intangible exploration and evaluation assets (Note 2(a))	(199.4)		(199.4)
As restated	417.7	5.5	423.2
Loss for the year	(4.2)	–	(4.2)
Unrealised currency translation differences	–	(0.2)	(0.2)
Distributions	(17.5)	–	(17.5)
Transfer relating to share-based payments	(1.5)	–	(1.5)
As at 1 January 2017	<b>394.5</b>	<b>5.3</b>	<b>399.8</b>
Loss for the year	<b>(157.3)</b>	–	<b>(157.3)</b>
Unrealised currency translation differences	–	<b>(0.4)</b>	<b>(0.4)</b>
Distributions (see Note 28)	<b>(21.0)</b>	–	<b>(21.0)</b>
As at 31 December 2017	<b>216.2</b>	<b>4.9</b>	<b>221.1</b>

	Company		
	Retained profit \$ million	Unrealised currency translation differences \$ million	Total \$ million
As at 1 January 2016	555.2	(142.6)	412.6
Profit for the year	17.5	–	17.5
Unrealised currency translation differences	–	(107.2)	(107.2)
Distributions	(17.5)	–	(17.5)
Transfer relating to share-based payments	(1.5)	–	(1.5)
As at 1 January 2017	<b>553.7</b>	<b>(249.8)</b>	<b>303.9</b>
Loss for the year	<b>(176.6)</b>	–	<b>(176.6)</b>
Unrealised currency translation differences	–	<b>51.0</b>	<b>51.0</b>
Distributions (see Note 28)	<b>(21.0)</b>	–	<b>(21.0)</b>
As at 31 December 2017	<b>356.1</b>	<b>(198.8)</b>	<b>157.3</b>

## Notes to the Consolidated Financial Statements continued

### 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 70 to 85. The Group recognised total expenses of \$2.5m (2016: \$4.3m) in respect of the schemes during the year; a proportion of which was capitalised in accordance with the Group's accounting policies.

#### Long Term Incentive Plan

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 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 part cash and part equity-settled through a transfer at nil consideration of the Company's ordinary shares (Shares). Awards exercised during 2017 of 329,394 Shares were part-equity settled by transferring at nil consideration 185,171 ordinary shares (Shares) held by the Trust. The remaining 144,223 awards exercised in 2017, being the number of Shares that might otherwise be sold in the market, were satisfied by cash settlement of the participants' tax liabilities of \$0.2m. 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:

	2017 No. of share awards	2016 No. of share awards
As at 1 January	4,121,158	2,987,561
Adjustments <sup>1</sup>	321,933	121,603
Granted	5,008,500	1,861,350
Exercised	(329,394)	(815,380)
Forfeited during the year	(379,902)	(33,976)
As at 31 December	8,742,295	4,121,158
Exercisable as at 31 December	–	–

<sup>1</sup> In accordance with Share Scheme rules, adjustments were made for the payment of dividends in 2017 and 2016.

Awards outstanding at the end of the year have a weighted average remaining contractual life of 1.5 (2016: 1.3) years. The weighted average market price and estimated fair value of the 2017 grants (at grant date) were £1.51 and £0.60, 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 40% (2016: 29%) 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.

#### Other Share Schemes

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 are expected to be equity-settled. 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.

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.

The Company can additionally grant awards under the Deferred Share Bonus Plan 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. Awards vest over a two year period, and are normally forfeited if the employee leaves the Group before the option vests. Such awards, which are also included in the table below, are expected to be cash-settled.

## 30 INCENTIVE PLANS CONTINUED

	2017		2016	
	No. of share awards	Weighted average exercise price £	No. of share awards	Weighted average exercise price £
As at 1 January	3,140,390	0.59	2,579,804	0.94
Adjustments <sup>1</sup>	77,370	–	90,052	–
Granted	100,000	–	1,793,600	0.10
Forfeited during the year	(174,893)	3.07	(92,751)	0.32
Expired	–	–	(233,191)	3.09
Exercised	(306,817)	–	(997,124)	–
As at 31 December	2,836,050	0.46	3,140,390	0.59
Exercisable as at 31 December	866,241	1.30	760,590	2.19

<sup>1</sup> In accordance with Share Scheme rules, adjustments were made for the payment of dividends in 2017 and 2016.

The weighted average market price at the date of exercise during 2017 was £1.40 (2016: £1.49). Awards outstanding at the end of the year have a weighted average remaining contractual life of 6.4 (2016: 6.4) years. The weighted average market price and estimated fair value of the discretionary share option scheme 2017 grants (at grant date) were £1.20 and £0.36, respectively. The weighted average market price and estimated fair value of the deferred share bonus scheme 2017 grants (at grant date) was £1.53 (2016: £1.40).

The fair value of discretionary share option scheme awards at date of grant has been estimated using a binomial option pricing model, based on the market price at date of grant. The fair value of deferred share bonus scheme awards at date of grant has been estimated based on the market price at date of grant.

## 31 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Group		Company	
	2017 \$ million	(Restated) 2016 \$ million	2017 \$ million	2016 \$ million
Operating (loss) profit	(129.4)	23.4	(18.0)	(12.5)
Share-based payments	2.0	1.1	2.0	1.1
Depletion and depreciation	56.8	64.9	0.3	0.2
Exploration expense (write back) (see Note 8)	152.3	(2.2)	–	–
<b>Operating cash flows before movements in working capital</b>	<b>81.7</b>	<b>87.2</b>	<b>(15.7)</b>	<b>(11.2)</b>
Decrease (increase) in inventories	1.5	(2.6)	–	–
Decrease (increase) in receivables	4.4	(6.8)	0.4	(0.2)
Increase in payables	0.2	7.8	2.4	3.6
<b>Cash generated by (used in) operations</b>	<b>87.8</b>	<b>85.6</b>	<b>(12.9)</b>	<b>(7.8)</b>
Interest received	1.4	0.4	–	–
Interest paid	–	(0.1)	–	(0.1)
Income taxes paid	(44.2)	(39.9)	–	–
<b>Net cash from (used in) operating activities</b>	<b>45.0</b>	<b>46.0</b>	<b>(12.9)</b>	<b>(7.9)</b>

Cash is generated from continuing operating activities only.

## Notes to the Consolidated Financial Statements continued

### 32 OPERATING LEASE ARRANGEMENTS

	2017 \$ million	2016 \$ million
Minimum lease payments under operating leases recognised in income for the year	29.2	29.2

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:

	2017 \$ million	2016 \$ million
Within one year	19.0	29.2
In two to five years	2.2	21.4
After five years	–	–
	<b>21.2</b>	<b>50.6</b>

Operating lease payments mainly represent rentals payable by the Group for FPSO facilities and for certain of its office properties. The FPSO lease is for a term of seven years from 2011, with an option to extend for a further seven years. The initial term of seven years is due to expire on August 2018.

### 33 CAPITAL COMMITMENTS

At 31 December 2017 the Group had exploration licence commitments not accrued of approximately \$26.3m (2016: \$1.9m).

### 34 RELATED PARTY TRANSACTIONS

During the year, the Company recorded a net cost of \$1.0m (2016: net credit of \$1.1m) in respect of services rendered between Group companies. The Company had a short-term payable of \$1.4m to a Group company outstanding as at 31 December 2016. 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 70 to 85.

	2017 \$ million	2016 \$ million
Short term employee benefits	6.1	4.7
Post-employment benefits	0.3	0.3
Share-based payments	1.7	2.9
	<b>8.1</b>	<b>7.9</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 Investor Group, including Quantic group of companies, of which Mr Rui de Sousa is a 50% beneficial interest holder; jointly participated in certain regions in which the Investor Group utilised 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 were modelled after the SOCO Vietnam arrangement which was negotiated with third parties. The non-controlling holdings by Quantic group of companies 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 Limited, which is part of the Quantic group companies, 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.



## Key Performance Indicators (unaudited)

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. 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 Officer's Statement on pages 10 to 13, the Review of Operations on pages 16 to 23, the Financial Review on pages 24 to 27 and the Corporate Social Responsibility Report on pages 34 to 45.

	Year ended 31 Dec 2017	(Restated) Year ended 31 Dec 2016	Year ended 31 Dec 2015
<b>Financial key performance indicators</b>			
Oil price realised (\$/bb) <sup>1</sup>	<b>56.43</b>	45.01	54.10
Oil and gas revenues (\$ million)	<b>156.2</b>	154.6	214.8
Cash operating cost per barrel (\$) <sup>2</sup>	<b>13.73</b>	11.70	10.06
DD&A per barrel (\$) <sup>3</sup>	<b>18.72</b>	17.89	22.64
Gross profit (\$ million)	<b>41.2</b>	34.7	48.4
Loss for the year (\$ million)	<b>(157.3)</b>	(4.2)	(33.8)
Basic earnings per share (cents)	<b>(47.7)</b>	(1.3)	(10.3)
Cash, cash equivalents and liquid investments (\$ million)	<b>137.7</b>	100.3	103.6
Net assets (\$ million)	<b>494.6</b>	671.2	892.5
Net cash from operating activities (\$ million)	<b>45.0</b>	46.0	80.3
Capital expenditure (\$ million)	<b>26.2</b>	35.8	87.5
Distributions (pence per share)	<b>5.0</b>	4.0	10.0
<b>Non-financial key performance indicators</b>			
Total shareholder return (%) <sup>4</sup>	<b>(27.4)</b>	11.6	(48.8)
Production (barrels of oil equivalent per day) <sup>5</sup>	<b>8,276</b>	9,883	11,976
2P Reserves (see page 121)	<b>28.1</b>	33.3	37.3
2P Reserves + 2C Contingent Resources (see page 121)	<b>48.9</b>	54.3	68.4
Lost time injuries frequency rate <sup>6</sup>	–	–	0.4
Fatal accidents frequency rate <sup>7</sup>	–	–	–
Emissions (million tonnes of CO <sub>2</sub> equivalent) (based on equity share) <sup>8</sup>	<b>0.10</b>	0.10	0.10
Oil spills <sup>9</sup>	–	–	–
Solid non-hazardous waste (tonnes) <sup>10</sup>	<b>147.95</b>	91.97	327.8
Solid hazardous waste (tonnes) <sup>11</sup>	<b>245.81</b>	83.03	207.8
HSE regulatory non compliance <sup>12</sup>	–	–	–

<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> Cash 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 DD&A costs for the period calculated over barrels of oil equivalent 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> Number of LTIs per million man-hours on projects operated by SOCO or jointly operated companies.

<sup>7</sup> Number of fatal accidents per hundred million man-hours on projects operated by SOCO or jointly operated companies.

<sup>8</sup> Scope One and Two emissions from the Group's operated and joint-operated projects on an equity share basis calculated pro-rata to its ownership interest.

<sup>9</sup> Quantities greater than 100 litres.

<sup>10</sup> Total non-hazardous waste requiring disposal, by gross project interest.

<sup>11</sup> Total hazardous waste requiring disposal, by gross project interest.

<sup>12</sup> HSE regulations and permit conditions applicable to country of operation.

## Key Performance Indicators (unaudited)

continued

**Non-IFRS measures**

The Group uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. These non-IFRS measures include cash operating costs per barrel and DD&A per barrel.

**Cash operating costs per barrel**

Cash operating costs for the period calculated over barrels of oil equivalent produced. This is a useful indicator of cash operating costs incurred to produce oil and gas from the Group's producing assets.

	2017 \$m	(Restated) 2016 \$m
Cost of sales	115.0	119.9
Less:		
Depreciation, depletion and amortisation	(56.5)	(64.7)
Production based taxes	(13.6)	(13.4)
Inventories	(1.5)	2.6
Other cost of sales	(1.9)	(2.1)
<b>Cash operating costs</b>	<b>41.5</b>	<b>42.3</b>
Production (BOEPD)	<b>8,276</b>	<b>9,883</b>
Cash operating cost per BOE (\$)	<b>13.73</b>	<b>11.70</b>

**DD&A per barrel**

DD&A per barrel is calculated as net book value of oil and gas assets in production, together with estimated future development costs over the remaining 2P reserves. This is a useful indicator of ongoing rates of depreciation and amortisation of the Group's producing assets.

	2017 \$m	(Restated) 2016 \$m
Depreciation, depletion and amortisation	56.5	64.7
Production (BOEPD)	<b>8,276</b>	<b>9,883</b>
DD&A per BOE (\$)	<b>18.72</b>	<b>17.89</b>

## Five Year Summary (unaudited)

Continuing operations only

	Year to 31 Dec 2017 \$ million	(Restated) Year to 31 Dec 2016 \$ million	(Not Restated) Year to 31 Dec 2015 \$ million	(Not Restated) Year to 31 Dec 2014 \$ million	(Not Restated) Year to 31 Dec 2013 \$ million
<b>Consolidated income statement</b>					
Oil and gas revenues	156.2	154.6	214.8	448.2	608.1
Gross profit	41.2	34.7	48.4	304.4	439.0
Operating (loss) profit	(129.4)	23.4	2.0	152.6	333.8
(Loss) profit for the year	(157.3)	(4.2)	(33.8)	14.0	104.1
<b>Consolidated balance sheet</b>					
Non-current assets	546.6	738.6	1,001.5	1,068.7	1,075.4
Net current assets	133.3	142.5	134.6	157.7	232.5
Non-current liabilities	(185.3)	(209.9)	(243.6)	(251.3)	(227.1)
Net assets	494.6	671.2	892.5	975.1	1,080.8
Share capital	27.6	27.6	27.6	27.6	27.6
Share premium	–	–	–	–	11.1
Other reserves	245.9	243.8	242.3	239.5	226.5
Retained earnings	221.1	399.8	622.6	708.0	815.6
Total equity	494.6	671.2	892.5	975.1	1,080.8
<b>Consolidated cash flow statement</b>					
Net cash from operating activities	45.0	46.0	80.3	251.2	314.4
Capital expenditure	26.2	35.8	87.5	162.5	99.1
Distributions	21.0	17.5	51.1	119.2	213.3

## Reserves Statistics (unaudited)

Net working interest, MMBOE

	TGT	CNV	Vietnam <sup>3</sup>	Congo <sup>4</sup>	Group
<b>Oil and Gas 2P Commercial Reserves<sup>1,2</sup></b>					
As at 1 January 2017	26.8	6.5	33.3	–	33.3
Production	(2.5)	(0.5)	(3.0)	–	(3.0)
Revision	(1.2)	(1.0)	(2.2)	–	(2.2)
<b>2P Commercial Reserves as at 31 December 2017</b>	<b>23.1</b>	<b>5.0</b>	<b>28.1</b>	<b>–</b>	<b>28.1</b>
<b>Oil and Gas 2C Contingent Resources<sup>1,2</sup></b>					
As at 1 January 2017	10.0	2.9	12.9	8.1	21.0
Revision <sup>5</sup>	4.9	3.0	7.9	(8.1)	(0.2)
<b>2C Contingent Resources as at 31 December 2017</b>	<b>14.9</b>	<b>5.9</b>	<b>20.8</b>	<b>–</b>	<b>20.8</b>
<b>Total of 2P Reserves and 2C Contingent Resources as at 31 December 2017</b>	<b>38.0</b>	<b>10.9</b>	<b>48.9</b>	<b>–</b>	<b>48.9</b>

<sup>1</sup> Reserves and Contingent Resources are categorised in line with 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System.

<sup>2</sup> Assumes oil equivalent conversion factor of 6000 scf/boe.

<sup>3</sup> Reserves and Contingent Resources have been independently audited by Senergy International Sdn Bhd as part of Lloyds Register Group Limited.

<sup>4</sup> Congo volumes are associated with the Viодо discovery. Contingent resources 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>5</sup> The revision for the Congo assets reflects consistency with the accounting treatment where the value of the asset was written off. Revisions to the Vietnam assets come from the approach taken by the reserve auditor.

Risks associated with reserve evaluation and estimation uncertainty are discussed in Note 4(b) to the Financial Statements.

## Report on Payments to Governments (unaudited)

### DISCLOSURE

In accordance with the Financial Conduct Authority's Disclosure and Transparency Rule 4.3A in respect of payments made by the Company to governments for the year ended 31 December 2017 and in compliance with The Reports on Payments to Governments Regulations 2014 (SI 2014/3209), SOCO presents its disclosure for the year ending 31 December 2017.

### BASIS FOR PREPARATION

#### LEGISLATION

This report is prepared in accordance with the Reports on Payments to Governments Regulations 2014 as enacted in the UK in December 2014 and as amended in December 2015.

The Reports on Payments to Government Regulations (UK Regulations) were enacted on 1 December 2014 and require UK companies in extractive industries to publicly disclose payments they have made to Governments where they undertake extractive operations. The aim of the regulations is to enhance the transparency of the payments made by companies in the extractive sector to host governments in the form of taxes, bonuses, royalties, fees and support for infrastructure improvements. The UK Regulations came into effect on 1 January 2015.

The payments disclosed for 2017 are in line with the EU Directive and UK Regulations and we have provided additional voluntary disclosures on payroll taxes, export duty, withholding tax and other taxes.

In line with the UK Regulations, a payment of a series of related payments which do not exceed \$116,341 (£86,000) have not been disclosed. Where the aggregate payments made in the period for a project or country are less than \$116,341, payments are not disclosed for the project or country.

All of the payments disclosed in accordance with the EU Directive have been made to National Governments, either directly or through a Ministry or Department, or to a national oil company, who have a working interest in a particular licence.

#### PAYMENT

The information is reported under the following payment types:

##### **Production entitlements in barrels**

These are the host government's total share of production in the reporting period derived from projects operated by SOCO. This includes the government's non-cash royalties as a sovereign entity or through its participation as an equity or interest holder in projects within its home country. In Vietnam where SOCO participates in two Joint Operating Companies ("JOCs"), production entitlements through the government's interest in the respective JOC. The figures produced are on a paid lifting basis valued at realised sale prices.

##### **Income Taxes**

This represents cash tax calculated on the basis of profits including income or capital gains. Income taxes are usually reflected in corporate income tax returns. The cash payment of income taxes occurs in the year in which the tax has arisen or up to one year later. Income taxes also include any cash tax rebates received from the government or revenue authority during the year. Income taxes do not include fines and penalties. Consumption taxes including value adding taxes, personal income taxes, sales taxes and property taxes are excluded.

##### **Royalties**

These represents during the year to governments for the right to extract oil or gas. The terms of these royalties are set within the individual Production Sharing Contracts & Agreements and can vary from project to project within a country. The cash payment of royalties occurs in the year in which the tax arisen.

##### **Dividends**

These are dividend payments, other than dividends paid to a government as an ordinary shareholder of an entity, in lieu of production entitlements or royalties. For the year ending 31 December 2017, these were no reportable dividend payments to governments.

##### **Bonuses**

This represents any bonus paid to governments during the year on achievement of commercial milestones such as signing of a petroleum agreement or contract, achieving commercial discovery, or after first production.

##### **Licence Fees**

This represents licence fees, rental fees, entry fees and other consideration for licences and/or concessions paid for access to an area during the year (with the exception of signature bonuses which are captured within bonus payments).

##### **Infrastructure improvement payments**

This represents payments made in respect of infrastructure improvements for projects that are not directly related to oil and gas activities during the year. This can be a contractually obligated payment in a Production Sharing Contract or a discretionary payment for building/improving local infrastructure such as roads, bridges, ports, schools and hospitals.

##### **Payroll Taxes**

This represents payroll and employer taxes including PAYE and national insurance paid by SOCO as a direct employer.

##### **Export Duty**

This represents payments made to governments during the year in relation to the exportation of petroleum products.

##### **Withholding Tax**

This represents the amount of tax deducted at source from third party service providers during the year and paid to respective governments.

##### **Other Taxes**

This represents business rates paid during the year on non-domestic properties.

## TRANSPARENCY DISCLOSURE 2017 (UNAUDITED)

	UK Regulations									Voluntary Disclosure				
	Production entitlements	Production entitlements	Income Taxes	Royalties	Dividends	Bonus Payments	Licence fees	Infrastructure improvement payments	Total EU Transparency Directive	Payroll Taxes	Export Duty	With-holding Tax	Other Taxes	Total
Licence/Corporate/ Area	bbbls (000)	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Vietnam*														
Block 16-1	1,713	94,074	39,123	11,172	-	-	78	-	144,447	-	1,834	-	-	1,834
Block 9.2	586	23,712	5,040	1,332	-	-	75	-	30,159	-	-	-	-	-
<b>Total Vietnam</b>	<b>2,299</b>	<b>117,786</b>	<b>44,163</b>	<b>12,504</b>	<b>-</b>	<b>-</b>	<b>153</b>	<b>-</b>	<b>174,606</b>	<b>-</b>	<b>1,834</b>	<b>-</b>	<b>-</b>	<b>1,834</b>
Republic of Congo (ROC)**														
Marine XI & Lidongo PEX	-	-	-	-	-	-	614	-	614	349	-	-	-	349
<b>Total ROC</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>614</b>	<b>-</b>	<b>614</b>	<b>349</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>349</b>
United Kingdom (UK)														
Corporate	-	-	-	-	-	-	-	-	-	3,185	-	-	341	3,526
<b>Total UK</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,185</b>	<b>-</b>	<b>-</b>	<b>341</b>	<b>3,526</b>
United States of America (US)														
Corporate	-	-	-	-	-	-	-	-	-	1,167	-	-	-	1,167
<b>Total US</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,167</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,167</b>
<b>SOCO Total</b>	<b>2,299</b>	<b>117,786</b>	<b>44,163</b>	<b>12,504</b>	<b>-</b>	<b>-</b>	<b>767</b>	<b>-</b>	<b>175,220</b>	<b>4,701</b>	<b>1,834</b>	<b>-</b>	<b>341</b>	<b>6,876</b>

## TRANSPARENCY DISCLOSURE 2017 (UNAUDITED)

	UK Regulations									Voluntary Disclosure				
	Production entitlements	Production entitlements	Income Taxes	Royalties	Dividends	Bonus Payments	Licence fees	Infrastructure improvement payments	Total	Payroll Taxes	Export Duty	With-holding Tax	Other Taxes	Total
Country/Government	bbbls (000)	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's	\$ 000's
Vietnam*														
Ho Chi Minh City Tax Dept	-	-	44,163	12,504	-	-	-	-	56,667	-	-	-	-	-
Customs Office	-	-	-	-	-	-	-	-	-	-	1,834	-	-	1,834
PetroVietnam E&P Corp (PVEP)	2,299	117,786	-	-	-	-	153	-	117,939	-	-	-	-	-
<b>Total Vietnam</b>	<b>2,299</b>	<b>117,786</b>	<b>44,163</b>	<b>12,504</b>	<b>-</b>	<b>-</b>	<b>153</b>	<b>-</b>	<b>174,606</b>	<b>-</b>	<b>1,834</b>	<b>-</b>	<b>-</b>	<b>1,834</b>
Republic of Congo (ROC)**														
Ministry Of Hydrocarbons	-	-	-	-	-	-	614	-	614	-	-	-	-	-
Tresor Public	-	-	-	-	-	-	-	-	-	349	-	-	-	349
<b>Total ROC</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>614</b>	<b>-</b>	<b>614</b>	<b>349</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>349</b>
United Kingdom (UK)														
Inland Revenue	-	-	-	-	-	-	-	-	-	3,185	-	-	-	3,185
City of Westminster	-	-	-	-	-	-	-	-	-	-	-	-	341	341
<b>Total UK</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,185</b>	<b>-</b>	<b>-</b>	<b>341</b>	<b>3,526</b>
United States of America (US)														
Internal Revenue Service	-	-	-	-	-	-	-	-	-	1,167	-	-	-	1,167
<b>Total US</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,167</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,167</b>
<b>SOCO Total</b>	<b>2,299</b>	<b>117,786</b>	<b>44,163</b>	<b>12,504</b>	<b>-</b>	<b>-</b>	<b>767</b>	<b>-</b>	<b>175,220</b>	<b>4,701</b>	<b>1,834</b>	<b>-</b>	<b>341</b>	<b>6,876</b>

\*Joint Operating Company Project's tax payments reported on SOCO Net Working Interest Basis.

\*\*Projects Operated by SOCO 100% of tax payments reported.

## Glossary of Terms

<b><u>\$</u></b> United States Dollar	<b><u>CEO</u></b> Chief Executive Officer	<b><u>FY</u></b> Full year	<b><u>PETROVIETNAM</u></b> Vietnam Oil and Gas Group	<b><u>TGT</u></b> Te Giac Trang
<b><u>\$m</u></b> Million dollars	<b><u>CFO</u></b> Chief Financial Officer	<b><u>G&amp;A</u></b> General and administrative	<b><u>POSSIBLE RESERVES</u></b> Possible Reserves are those additional Reserves which are less likely to be recoverable than Probable Reserves	<b><u>THE TRUST</u></b> SOCO Employee Benefit Trust
<b><u>£</u></b> UK Pound Sterling	<b><u>CNV</u></b> Ca Ngu Vang	<b><u>GCA</u></b> Gaffney, Cline & Associates	<b><u>PP&amp;E</u></b> Property, plant and equipment	<b><u>TOR</u></b> Terms of Reference
<b><u>GBP</u></b> UK Pound Sterling	<b><u>CONGO (BRAZZAVILLE)</u></b> Republic of Congo	<b><u>GHG</u></b> Greenhouse gas	<b><u>PROBABLE RESERVES</u></b> Probable Reserves are those additional Reserves which are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves	<b><u>TSR</u></b> Total Shareholder Return
<b><u>IC</u></b> Low estimate scenario of Contingent Resources	<b><u>CONTINGENT RESOURCES</u></b> Those quantities of petroleum to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies	<b><u>HLJOC</u></b> Hoang Long Joint Operating Company	<b><u>PROVED RESERVES</u></b> Proved Reserves are those quantities of petroleum which can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations	<b><u>UK</u></b> United Kingdom
<b><u>IP</u></b> Equivalent to Proved Reserves; denotes low estimate scenario of Reserves	<b><u>CSR</u></b> Corporate Social Responsibility	<b><u>HSES</u></b> Health, Safety, Environment and Social	<b><u>PTTEP</u></b> PTT Exploration and Production Public Company Limited	<b><u>US</u></b> United States of America
<b><u>2C</u></b> Best estimate scenario of Contingent Resources	<b><u>DD&amp;A</u></b> Depreciation, depletion and amortisation	<b><u>HSES MS</u></b> Health, Safety, Environmental and Social Management System	<b><u>RESERVES</u></b> Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial and remaining based on the development projects applied	<b><u>WHP</u></b> Wellhead Platform
<b><u>2P</u></b> Equivalent to the sum of Proved plus Probable Reserves; denotes best estimate scenario of Reserves. Also referred to as 2P Commercial Reserves	<b><u>DELOITTE</u></b> Deloitte LLP	<b><u>HVJOC</u></b> Hoan Vu Joint Operating Company		
<b><u>3C</u></b> High estimate scenario of Contingent Resources	<b><u>DRC</u></b> Democratic Republic of Congo	<b><u>IAS</u></b> International Accounting Standards		
<b><u>3P</u></b> Equivalent to the sum of Proved plus Probable plus Possible Reserves; denotes high estimate scenario of Reserves	<b><u>DSBP</u></b> Deferred Share Bonus Plan	<b><u>IFC</u></b> International Finance Corporation		
<b><u>AGM</u></b> Annual General Meeting	<b><u>E&amp;E</u></b> Exploration and Evaluation	<b><u>IFRS</u></b> International Financial Reporting Standards		
<b><u>ARTICLES</u></b> Articles of Association	<b><u>E&amp;P</u></b> Exploration and Production	<b><u>IOA</u></b> Joint operating agreement		
<b><u>BBL</u></b> Barrel	<b><u>EBT</u></b> Employee Benefit Trust	<b><u>JOC</u></b> Joint operating company		
<b><u>BHCPP</u></b> Bach Ho Central Processing Platform	<b><u>ERCE</u></b> ERC Equipoise	<b><u>KPI</u></b> Key Performance Indicators		
<b><u>BLPD</u></b> Barrels of liquids per day	<b><u>ESIA</u></b> Environmental and Social Impact Assessments	<b><u>LISTING RULES</u></b> The Listing Rules of the Financial Conduct Authority		
<b><u>BN</u></b> Billion	<b><u>EU</u></b> European Union	<b><u>LTI</u></b> Lost Time Injury		
<b><u>BOE</u></b> Barrels of oil equivalent	<b><u>FFDP</u></b> Full Field Development Plan	<b><u>LTIF</u></b> Lost Time Injury Frequency		
<b><u>BOEPD</u></b> Barrels of oil equivalent per day	<b><u>FPSO</u></b> Floating, Production, Storage and Offloading Vessel	<b><u>LTIP</u></b> Long Term Incentive Plan		
<b><u>BWPD</u></b> Barrels of water per day	<b><u>FSO</u></b> Floating, Storage and Offloading Vessel	<b><u>M&amp;A</u></b> Mergers and Acquisitions		
<b><u>CDP</u></b> Carbon Disclosure Project		<b><u>MMBBL</u></b> Million barrels		
		<b><u>MMBOE</u></b> Million barrels of oil equivalent		
		<b><u>OPECO VIETNAM</u></b> OPECO Vietnam Limited		

# Company Information

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### Company Secretary

Tony Hunter

### Financial Calendar

Group results for the year to 31 December are announced in March. The Annual General Meeting is held during the second quarter. Interim Results to 30 June are announced in September.

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### Design and production

Wardour, London  
[www.wardour.co.uk](http://www.wardour.co.uk)

### Photography

iStockphoto  
Oscar Nord  
John Hepler

Board and Management:  
Barry Willis

### Print

CPI Colour





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