SOCO International plc

Annual Report and Accounts
2008

SOCO plc
INTERNATIONAL

We are an international oil and gas exploration and production company headquartered in London and listed on the London Stock Exchange. The Company has designated core areas in South East Asia and Africa and employs a strategy for building shareholder value through a portfolio of oil and gas assets by focusing on:

Recognising Opportunity

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

Capturing Potential

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

Realising Value

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

Contents

2008 Highlights

$m	2008	2007	2006
Profit for the year	**411.1**	32.3	29.1
Net cash from operating activities	**45.1**	49.0	33.2
Cash and cash equivalents	**303.4**	68.3	187.8
Net assets	**710.4**	329.0	295.8

Financial

- Year end cash balance of $303.4 million (2007 – $68.3 million)
- Record after tax profit of $411.1 million (2007 – $32.3 million)
  - Record profit of $54.4 million pre Yemen gain on disposal of $356.7 million

Operational

South East Asia

- Commenced production operations in Vietnam and Thailand
  - Production from continuing operations, averaged over the period since start up, was 6,415 barrels of oil per day
- Continued Vietnam drilling success with TGT-6X and TGT-7X wells delivering strong results
  - TGT Field Development Plan now at final stage of Government approval
- TGD Prospect “E” discovery confirmed hydrocarbon system indicating new area for high impact appraisal
  - High pressure/high temperature (HPHT) appraisal area now awaiting Government approval

Africa

- Acquired our first seismic programme in the Democratic Republic of Congo (Kinshasa)
- Completed 3D seismic interpretation offshore the Republic of Congo (Brazzaville) as precursor to commencing exploration drilling in 2009
- Expanded the Africa portfolio through two additional blocks

Corporate

- Completed sale of Yemen assets for approximately $465 million

Outlook

- Ramping up production in both Vietnam and Thailand
- Expect to accelerate development programme on TGT for first oil in mid-2011
- Preparing for appraisal drilling in the HPHT area in Vietnam next year
- Commencing exploration drilling programme in Africa

SOCO Around the World

Africa

Congo (Brazzaville)

Block: Marine XI
Location: North Congo Basin, offshore Congo (Brazzaville)
Operational phase: Block evaluation/exploration/appraisal
SOCO interest: SOCO EPC (37.5% – Operator)
Project partners: Lundin Petroleum (18.75%), Raffia Oil (18.75%), SNPC (15%), AOGC (10%)

Block: Marine XIV
Location: North Congo Basin, offshore Congo (Brazzaville)
Operational phase: Block evaluation/exploration
SOCO interest: SOCO EPC (29.4% – Operator)
Project partners: Lundin Petroleum (21.55%), Raffia Oil (21.55%), SNPC (15%), PA Resources Congo (12.5%)

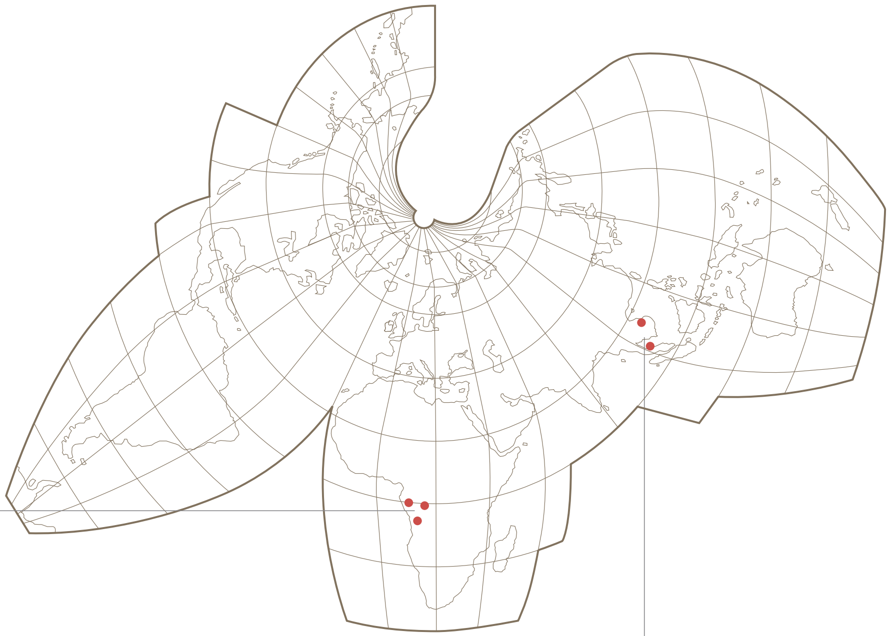
DR Congo (Kinshasa)

Block: Nganzi
Location: North Congo Basin, onshore western DRC
Operational phase: Block evaluation/exploration
SOCO interest: SOCO E&P DRC (85% – Operator)
Project partner: Cohydro (15%)

Block: Block 5
Location: Albertine Graben, onshore eastern DRC
Operational phase: Block evaluation/exploration
SOCO interest: SOCO E&P DRC (38.25%)
Project partners: Dominion Petroleum (46.75% – Operator), Cohydro (15%)

Angola

Block: Cabinda Onshore North Block
Location: North Congo Basin, onshore western Cabinda
Operational phase: Block evaluation/exploration
SOCO interest: SOCO Cabinda (17%)
Project partners: Sonangol P&P (20% – Operator), Interoil (21%), Teikoku Oil (17%), Angola Consulting Resources (15%), ENI Angola (10%)



South East Asia

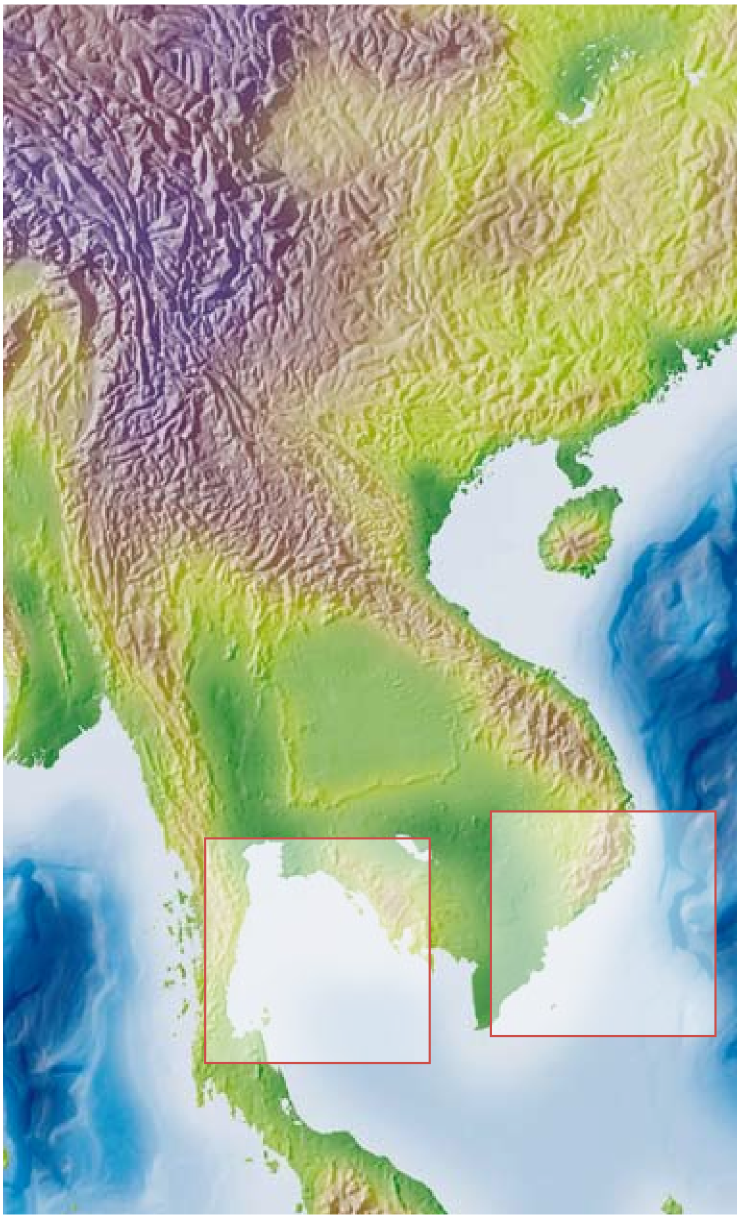
Vietnam

Block: 9-2, operated by the Hoan Vu Joint Operating Company
Location: Cuu Long Basin, offshore south east Vietnam
Operational phase: Field development/production
SOCO interest: SOCO Vietnam (25%)
Project partners: Petrovietnam (50%), PTTEP (25%)

Block: 16-1, operated by the Hoang Long Joint Operating Company
Location: Cuu Long Basin, offshore south east Vietnam
Operational phase: Appraisal/field development
SOCO interest: SOCO Vietnam (28.5%), OPECO Vietnam (2%)
Project partners: Petrovietnam (41%), PTTEP (28.5%)

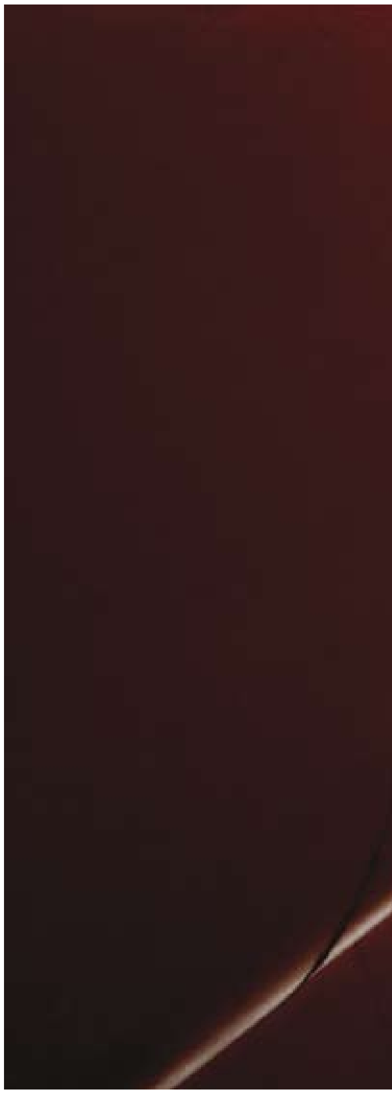
Thailand

Block: Bualuang field Block B8/38
Location: Western Basin, offshore Thailand
Operational phase: Field development/production
SOCO interest: SOCO Thai (40%)
Project partner: Salamander (60% – Operator)



On Location

SOCO has interests in Vietnam, Thailand, the Republic of Congo (Brazzaville), Democratic Republic of Congo (Kinshasa) and Angola




SOCO DRC


60
58
56
54
52
50
48
46
44
42

Chairman's and Chief Executive's Statement

Dear Shareholders

SOCO closes out one of the most tumultuous years ever in this industry with the strongest balance sheet in the Company's history and began ramping up to the highest production rate in years.

Rui de Sousa (left)
Chairman

Ed Story (right)
President and Chief Executive Officer

Profit from continuing operations

$30.6m

Profit from the sale of our Yemen interest

$356.7m

During the year we demonstrated our ability to bring a major project on stream, essentially on time and on budget, during a period of high material costs and scarcity of qualified contractors. With further work to be done, we have what could become one of our most significant exploration discoveries. In line with our business strategy, value was realised from our mature asset in Yemen in order to provide funds for reinvestment in areas with material upside that promise the potential to further add significant shareholder value.

Our business model is about progressive sustainability as we aim to refresh our asset portfolio by replacing disposals with potentially high impact new projects. Although Vietnam assets are already in the portfolio, the high pressure/high temperature (HPHT) area in Block 16-1 where we had the discovery with the Te Giac Den 1X side track (TGD-1XST1) well represents an exciting new area for appraisal. We added to our growing presence in West and Central Africa by farming into a prospective block adjacent to our Marine XI Block offshore the Republic of Congo (Congo Brazzaville) and by signing a production sharing agreement on a block in the Democratic Republic of Congo (DRC) in the highly prospective Albertine Graben where other industry participants have announced several significant discoveries in the basin on the Uganda side of the border. We also have a memorandum of understanding on a very large interior block in the DRC.

Adding or replacing components of the asset portfolio are only meaningful if this leads to value creation. Bringing two projects into production in South East Asia and clearing the initial hurdle in embarking into the development of what has been the Company's largest field discovery in its history indicates that we can progress the impressive asset portfolio that we have built.

Financial and Operating Results

Three items dominate the Company's results for 2008. The completion of the sale of SOCO's Yemen interest in April contributed $356.7 million to 2008 earnings along with $36.4 million of operating profit through to April and provided $438.5 million cash inflow from the transaction. In July, the Company announced the commencement of production operations at the Ca Ngu Vang (CNV) field on Block 9-2 in Vietnam. This was followed by the commencement of production from the Bualuang development in Thailand in August. All three events underpin the Group's strong balance sheet and financial position to ensure that it can meet its future development and exploration goals. After tax profit from continuing operations was $30.6 million from just four and five months of producing operations from the Group's Thailand and Vietnam assets, respectively, representing a significant addition to earnings. Production from continuing operations, averaged over the period since start up, was 6,415 barrels of oil per day (BOPD).

2008 was an extremely active year for the Group. Continuous drilling in Vietnam; construction of development facilities on the CNV field in Vietnam and the Bualuang field in Thailand; and pre-drill exploration activity in the DRC and Congo Brazzaville meant that the Group's capital expenditures reached a record $217.6 million (2007 – $178.6 million). The Company not only funded its commitments through the funds raised on the disposal of its Yemen asset, operating cash flows of $45.1 million (2007 – $49.0 million) and with the remainder of proceeds from the convertible bonds issued in 2006, but ended the year with its highest ever cash balance of $303.4 million (2007 – $68.3 million). This ensures that the Company is well placed to progress its existing exploration and development opportunities and to consider other opportunities that may arise.

The Directors do not recommend the payment of a dividend as the reinvestment of cash will be utilised to fund our ongoing exploration and development activities.

2008 Operations Review

Vietnam

Block 16-1

To date, seven exploration/appraisal wells have been drilled in the Te Giac Trang (TGT) field, with an average oil and gas flow of approximately 11,300 BOPD from each well. The TGT field reserve assessment report (RAR) received approval from the Vietnam Government in April 2008 and the field subsequently received a Declaration of Commerciality under the Petroleum Contract. The Outline Development Plan was approved by the national oil company, Petrovietnam, in September. The TGT Field Development Plan is anticipated to be submitted for approval by the Vietnam Government in the first quarter of 2009.

During the year, two appraisal wells were drilled. In June, the TGT-6X appraisal well was drilled on the H4 fault block as a down dip test to the TGT-3X exploration well. Two drill stem tests (DSTs) flowed at a combined maximum rate of 14,490 BOPD of 39 degree API gravity crude oil. The TGT-7X appraisal well on a previously

Chairman's and Chief Executive's Statement
continued

untested fault block, designated H3N, within the TGT field, was spud in July. The well flowed at a combined maximum rate of approximately 8,100 BOPD from two DSTs.

The addition of a productive interval discovered by the TGT-6X, combined with the success on the previously untested fault block penetrated by TGT-7X, adds confidence to our recoverable crude oil range estimates for this field. Moreover, six wells over a 15 kilometre structure testing a total of 60,000 BOPD provides comfort relative to an expected full field production outlook in excess of 100,000 BOPD with first phase production targeted for mid-2011.

The Outline Development Plan for the TGT field was submitted early in the second quarter of 2008. In August, the shareholders of the Hoang Long Joint Operating Company (HLJOC) unanimously approved the Declaration of Commerciality for the TGT field. The final approval by the Government of Vietnam is now anticipated in the first half of 2009.

"We are confident in the sustainability of our business model as we begin exploration drilling in Africa this year and progress development and appraisal programmes in Vietnam."

Ed Story
President and Chief Executive Officer

Concurrent with moving toward the development of TGT, exploration drilling continued on the Block when in January 2008, the Company received formal notification that the Prime Minister of The Socialist Republic of Vietnam had granted the extension of the deadline of the HLJOC's obligation of surrendering the remainder of the Block 16-1 Contract Area until 6 June 2008. This extension was granted to allow the completion of the previously agreed active work programme.

The HLJOC gave notice in June of a discovery at the TGD-1XST1 following completion of the first DST from the prospect "E" well. Although significant downhole damage sustained during drilling and preparations for completion precluded recording meaningful sustained flow rates, the test flowed gas and condensate to surface. The second DST recovered black oil, condensate and gas, indicating the presence of oil with similar qualities to that of the CNV field. The test was hampered by apparent limitations of the perforations, which had to penetrate two casing strings and associated cementing. Additionally, operational issues during both the drilling and testing of the well impacted on its ability to flow and accordingly there are no meaningful sustainable flow rates from either test.

The main objective of TGD-1XST1 was to identify the presence of a working hydrocarbon system. This was achieved confirming a high pressure environment necessary to recover hydrocarbons at these extended depths.

Based on the TGD-1XST1 discovery and a previous discovery at the Voi Trang (VT) prospect, Petrovietnam approved the application for two appraisal areas within Block 16-1 in January 2009. The TGD appraisal area encompasses an area of 150 square kilometres including prospect "E" and the analogous "E" South Prospect. This area borders the southern boundary of the TGT field. The VT appraisal area, the award of which is conditional upon a successful RAR of the commerciality of the previous discoveries in the awarded area, encompasses the VT discovery and several adjacent leads, and covers an area of approximately 100 square kilometres.

Chairman's and Chief Executive's Statement
continued

HLJOC has submitted the requisite documentation to the Government of Vietnam for formal approval. Upon receiving final governmental approval of the appraisal areas, which is expected in the first quarter of 2009, work will commence immediately to reprocess the 3D seismic over the TGD appraisal area in anticipation of drilling a well in 2010. The RAR on the VT appraisal area is anticipated to be complete by the end of the second quarter of 2009.

Block 9-2

The first flow of crude oil and wet gas from the CNV field occurred on 25 July 2008. It was developed as an unmanned platform tied back to the Bach Ho facilities and was the first project in Vietnam to utilise the existing facilities of Bach Ho in order to maximise the life of existing infrastructure and minimise the investment costs. Five development wells have been drilled in the field and a sixth is drilling as at the time of this report. The Hoan Vu Joint Operating Company (HVJOC) is evaluating the necessity for additional development wells in the fractured Basement reservoir. The field is expected to be in production for the next 20 years. Oil production is expected to be between 10,000 to 20,000 BOPD and wet gas production to be between 25 and 50 million cubic feet per day. The HVJOC has signed a provisional gas contract, with final pricing to be determined by an independent expert during 2009 and applied retroactively to the start of production.

Thailand

First production of crude oil from the Bualuang oil field in Block B8/38, in the Gulf of Thailand, occurred on 27 August 2008. Following the successful hook up and commissioning of the floating production storage and offloading vessel, production from the field began from well BA-05. After a period of multi-rate testing of this well, the other producers were brought on-stream sequentially over the subsequent days. In total, six development wells have been drilled on the field, five producers and one water injector.

Republic of Congo (Brazzaville)

In March 2008, SOCO Exploration and Production Congo SA (SOCO EPC) entered into an agreement to farm-out 8.5% of its interest in the offshore Marine XI Block to Petrovietnam, subject to approval of the appropriate regulatory authorities of the Government of Congo Brazzaville. SOCO EPC will remain as the operator with a 29% working interest in the Block. SOCO EPC is finalising the terms of a rig contract for a two well drilling programme in the Marine XI Block that is expected to commence in the third quarter of 2009.

In September, SOCO EPC entered into a farm-in agreement to acquire a 29.4% working interest in the Marine XIV Block, which received regulatory approval from the Government of Congo Brazzaville in March 2009. The Marine XIV Block, which will also be operated by SOCO EPC, is located in the Lower Congo Basin in shallow water, adjacent to the Company's Marine XI Block, and will complement SOCO's activity both operationally and technically. The Block comprises three discontinuous sections located in water depths ranging up to 115 metres and covers approximately 265 square kilometres. Previous exploration activity on the Block has resulted in oil discoveries. A multi azimuth 3D seismic acquisition programme is currently underway.

Democratic Republic of Congo (Kinshasa) (DRC)

In March 2008, SOCO Exploration and Production DRC Sprl (SOCO E&P DRC) entered into a new production sharing contract (PSC) with the Government of the DRC, Dominion Petroleum Limited (Dominion) and Cohydro, to acquire exclusive rights for hydrocarbon exploration on Block 5, located in the southern Albertine Graben in eastern DRC adjacent to the border with Uganda where there have been recent discoveries in the same basin. The Block has an area of 7,105 square kilometres, including part of Lake Edward. SOCO E&P DRC holds a 38.25% participating interest in the PSC.

In April our PSC over the Nganzi Block, onshore DRC, received a Presidential Decree thus passing the final regulatory hurdle before becoming effective. Confirmation of our first PSC in the DRC is a very important first step to commencing a full scale exploration programme in the country. Acquisition of a 360 kilometre 2D seismic programme was completed during the year and processing is underway.

Angola

Activity on the Cabinda Onshore North Block, in which SOCO Cabinda Limited holds a 17% participating interest, had been suspended pending review of the security situation. The seismic acquisition programme is now expected to commence in the second quarter of 2009 with approximately 1,300 kilometres of 2D and 100 square kilometres of 3D seismic planned.

Net cash from operating activities

$45.1m

Cash and cash equivalents at 31 December 2008

$303.4m

Corporate

Disposal of Yemen Interests

The Company completed the sale in April 2008 of its interest in the East Shabwa Development Area to Sinochem Petroleum Limited for approximately $465 million. The proceeds from the disposal have strengthened the Company's balance sheet and provide funding for its existing exploration and development projects and other opportunities that may arise. Details of the disposal can be found in the Financial Review section of this report.

The Board

John Snyder has officially notified the Board that he will retire at the upcoming Annual General Meeting from his role as a Non-Executive Director. John was instrumental in the formation and listing of SOCO and has been a valuable contributor to the Board and its Committees as an independent Non-Executive Director since his appointment in 1997. Further details can be found in the Corporate Governance Report on pages 38 to 43.

Outlook

2009 is set to be another significant year on a number of fronts. First and foremost, the development programme at TGT will gather momentum as it progresses toward first oil targeted for mid-2011. Concurrently in Vietnam, work will commence immediately on TGD to reprocess the 3D seismic over the appraisal area in anticipation of drilling a well in 2010.

In Africa, we will start a multi-well exploration and appraisal programme on Marine XI offshore Congo Brazzaville and possibly be ready to drill the first well on the onshore DRC Nganzi Block. We also expect to conduct the largest 2D seismic survey in the Company's history in the Cabinda North Block. Preliminary exploratory activities will commence on the new licences in Marine XIV in the first quarter of 2009 and the Albertine Graben following the award of the Presidential Decree.

SOCO's track record of delivering projects from inception through the exploration and development phases to first oil has clearly been established. Our strong partnerships within Vietnam have enabled our ambitions for the CNV field to be realised and we now look forward to continue to establish similar relationships in the Africa Region and to targeting further exploration and development success, in both Vietnam and Africa.

We have never been stronger financially and never had a more prospective portfolio. We have delivered on our promises in the past and fully expect to do so again in 2009. We trust your patience will be well rewarded as the industry rebounds and the resilience of our Company is demonstrated.

Rui de Sousa
Chairman

Ed Story
President and Chief Executive Officer

Review of Operations

Several significant milestones were reached during 2008 that advanced SOCO's projects. Oilfields in both Thailand and Vietnam commenced first production. A Declaration of Commerciality was approved at the Company's largest field discovery to date. Two appraisal areas were approved by the national oil company in Vietnam, one of which has the potential to equal our success to date in this country. Pre-drilling work has us poised to begin drilling in Africa this year. Additionally, new projects were added to the portfolio that will allow us to potentially realise even more value in the future.

During January 2009 production net to the Company's working interest averaged 3,724 barrels of oil equivalent per day (BOEPD) and 2,874 barrels of oil per day (BOPD) from the Ca Ngu Vang field offshore Vietnam and the Bualuang field offshore Thailand, respectively. During the cost recoupment phase of the Ca Ngu Vang field, entitlements production is considerably higher than our 25% working interest.

Vietnam

SOCO holds its interests in the Cuu Long Basin through its 80% owned subsidiary SOCO Vietnam Ltd (SOCO Vietnam) and through its 100% ownership of OPECO, Inc. SOCO Vietnam holds a 25% working interest in Block 9-2, which is operated by the Hoan Vu Joint Operating Company (HVJOC) and holds a 28.5% working interest in Block 16-1, which is operated by the Hoang Long Joint Operating Company (HLJOC). OPECO, Inc. holds a 2% working interest in Block 16-1.

The Cuu Long Basin is a shallow water, near shore, oil rich basin defined by several high profile producing oil fields, the largest of which has been the Bach Ho field, which lies between Block 9-2 and Block 16-1. Bach Ho has produced more than one billion barrels of oil to date.

Block 9-2

Ca Ngu Vang (CNV)

As all remaining acreage has been relinquished, activity during 2008 on Block 9-2 focused on the development of the CNV field, which came on stream in July. Since that time, additional development drilling has been taking place concurrent with production. Development drilling began in the prior year with the first production well, the CNV-1PST reaching total depth on the last day of 2007. In the subsequent abbreviated test, carried out in the first quarter of 2008, the well tested at approximately 10,000 barrels of liquid per day with a 30% water cut.

Between February and May, a further development well was drilled but suspended pending installation of the unmanned platform. A high sea state at the end of May caused an intermittent shut down of operations on the pipe laying barge, slowing the installation of the production and water injection pipelines between the CNV well head platform and the Bach Ho central processing platform. Nevertheless, despite the unanticipated delay, oil production remained on target to begin by the end of July 2008. During June, the installation of the topsides and modules on the platform were completed and the PVD-1 drilling rig returned to CNV from the Te Giac Trang (TGT) field, where it had been redeployed to drill TGT-6X during the platform installation. The three existing development wells were then tied-back and completed.

The first flow of crude oil and wet gas occurred from CNV on 25 July 2008. The hydrocarbons are transported from CNV via a 25 kilometre subsea pipeline system to the processing facilities at Bach Ho. Crude oil is processed and then stored in a floating storage and offloading vessel before being sold. The wet gas produced from CNV is separated offshore and transported to an onshore gas facility for further distribution to meet domestic demand of natural gas, LPG and condensate. The HVJOC has signed a provisional gas contract with Vietnam Oil and Gas Group, with final pricing to be determined by an independent expert during 2009 and applied retroactively back to the start of production.

Antony Maris
Vice President –
Operations and Production

The CNV field utilises an unmanned platform that is tied back to the Bach Ho central processing platform. This marks a key milestone in the growth of the Vietnam petroleum industry, being the first project in Vietnam to utilise the existing facilities of Bach Ho in order to maximise the life of existing infrastructure and minimise the investment costs.

Development continued after first oil and the sixth well, the CNV-6P, is currently being drilled. The HVJOC is evaluating the necessity for further drilling locations for additional development wells in the fractured Basement reservoir. The CNV field is expected to be in production for the next 20 years, with oil production anticipated to be between 10,000 and 20,000 BOPD and wet gas production to be between 25 and 50 million standard cubic feet per day (MMSCFD).

Block 16-1

Te Giac Trang (TGT)

The TGT field comprises five fault blocks extending over 15 kilometres on a north to south trend along the eastern portion of Block 16-1. Exploration drilling began on this structure in 2005 with the wildcat discovery well, TGT-1X. To date, seven exploration/appraisal wells have been drilled in the TGT field, with an average oil and gas flow of approximately 11,300 BOPD from each well.

Two appraisal wells were completed in the TGT field during the period. In June, the TGT-6X appraisal well, drilled on the H4 fault block as a down dip test to the TGT-3X exploration well, reached 3,437 metres measured depth (MD) as planned. Two drill stem tests (DSTs) flowed at a combined maximum rate of 14,490 BOPD of 39 degree API gravity crude oil. Although the well flowed gas with a relatively low gas to oil ratio, measurement problems precluded recording a reliable gas rate. The first DST tested an interval between 3,064 metres and 3,094 metres in the Miocene Intra Lower Bach Ho 5.2 (ILBH) "lower" interval and flowed approximately 6,650 BOPD through an 80/64 inch choke size. The second DST tested a 28 metre section in the ILBH 5.2 "upper" interval with a maximum flow rate of approximately 7,840 BOPD through a 64/64 inch choke size.

The second appraisal well to be drilled during the period, and the seventh exploration/appraisal well to be drilled in the TGT field, was the TGT-7X. The well was drilled by the Adriatic XI rig to test a separate, previously untested fault block, designated H3N, and was drilled to improve knowledge of the reservoir distribution. The well flowed at a combined maximum rate of approximately 8,100 BOPD. The first of the two DSTs tested the lower section of the Lower Miocene ILBH

From left to right:
Vincent Duignan
Deputy General Manager, HL/HV JOC
Gordon Graham
Group Exploration Manager
George Hepler
Group Technical/Engineering Manager

5.2 in a net interval of 37 metres between 2,923 metres and 3,003 metres MD. The test flowed at rates in excess of 7,100 BOPD and 5.9 MMSCFD of gas with no water. The second test, in a net interval of 13 metres between 2,754 metres and 2,773 metres MD of the upper section of the Lower Miocene ILBH 5.2, tested a tighter previously untested part of the reservoir and produced at approximately 1,000 BOPD and 0.5 MMSCFD of gas.

Efforts to achieve declaration of commerciality on the TGT field progressed during the year. In January 2008, the reserve assessment report (RAR), which is a precursor of an official request to approve the Declaration of Commerciality, was submitted to Petrovietnam. The RAR received approval from the Vietnam Government in April 2008. In August, the HLJOC partners unanimously approved the Declaration of Commerciality on TGT. The Outline Development Plan was submitted early in the second quarter and was approved by Petrovietnam in September.

The target is to obtain formal governmental approval of the Field Development Plan, being the final hurdle, in the first half of 2009, with the ambitious target of bringing the field on production by mid-2011. We believe this ambition is achievable given the existing infrastructure in the area and the extensive appraisal programme that has been carried out on the TGT field to date. Approval of the development area will trigger full working interest payment contribution from Petrovietnam.

Te Giac Den (TGD)
Whilst the TGT field was undergoing appraisal, exploration drilling continued elsewhere on Block 16-1 after the Company received formal notification in January 2008 that the Prime Minister of Vietnam had granted an extension to the deadline for surrendering the remainder of the Block until 6 June 2008. This extension was granted to allow the completion of the previously agreed active work programme on the high potential "E" prospect.

The Adriatic XI rig was moved on site in the final quarter of 2007 to re-enter the TGD-1X borehole, which had been temporarily suspended at 4,625 metres, and drill a sidetrack well, the TGD-1XST1. The rig was fitted with high pressure well control equipment, including a 15,000 psi blow out preventer. The well kicked off at approximately 650 metres and was cased three times prior to reaching the top of the high pressure and high temperature (HPHT) section, which was the preliminary target just above Basement.

TGD-1XST1 ceased drilling in May after reaching 5,096 metres MD. Difficulties were encountered during the course of drilling, including equipment problems on the rig and the associated complexities of drilling high pressure sections. The decision was made to not drill an extended Basement section, primarily due to concerns over the integrity of the well bore and also the difficulty and anticipated time and expense of deepening the hole. The well was therefore plugged back to 4,820 metres MD prior to conducting two DSTs in the HPHT Oligocene interval.

The first DST was completed in June and a discovery was declared on TGD-1XST1 after the test flowed gas and condensate to surface, establishing the presence of a working hydrocarbon system. The second DST, completed in July, recovered black

Business Review

Review of Operations
continued

Proceeds on Yemen sale

$438.5m

Key Performance Indicators

	2008	2007	2006
Production (bopd)	**4,464**	6,316	6,766
Total proven and probable reserve additions (mmboe)	**25.0**	2.6	41.8
Proven and probable reserves (mmboe)	**144.1**	160.9	160.6

See the Five Year Summary on page 73 for definitions.

oil, condensate and gas, indicating the presence of oil with similar qualities to that of the CNV field. The well encountered approximately 120 metres of good oil and gas shows in a combined gross interval of 570 metres. Permeability and porosity were preserved and compared favourably with pre-drill estimates. The test was hampered by apparent limitations of the perforations, which had to penetrate two casing strings and associated cementing. Additionally, significant downhole damage sustained during drilling and preparations for completion precluded recording meaningful sustainable flow rates from either test. As planned, the well was plugged and abandoned and the Adriatic XI rig was moved to the TGT field to drill the TGT-7X appraisal well on the H3 north fault block.

In January 2009, the Company was notified that the application for the TGD appraisal area had been approved by Petrovietnam. The TGD appraisal area encompasses a 150 square kilometre area, including the HPHT discovery well TGD-1XST1 on prospect “E” and the analogous “E” South Prospect, and borders the southern boundary of the TGT field. The documentation required for the formal approval by the Government of Vietnam has been submitted.

Upon receiving final governmental approval of the appraisal areas, which is expected by the end of the first quarter of 2009, work will commence to reprocess the 3D seismic over the HPHT area in order to identify the optimal location for drilling an appraisal well in 2010. The well design and drilling programme will also be revised to allow a better evaluation of each of the hydrocarbon bearing formations.

Voi Trang (VT)

In January 2009, the Company was notified that Petrovietnam had approved the application for the VT appraisal area based upon an earlier discovery. The award is conditional upon a successful RAR of the commerciality of the previous discoveries in the awarded area. The VT appraisal area encompasses the discovery well and several adjacent leads and covers an area of approximately 100 square kilometres. The RAR on the VT appraisal area is anticipated to be completed by the end of the second quarter of 2009.

Thailand

The Bualuang oil field is located in Block B8/38, offshore in the Gulf of Thailand. SOCO's 99.93% owned Thailand subsidiary, SOCO Exploration (Thailand) Co. Ltd. (SOCO Thai), holds a 40% interest in the Bualuang field after farming out 60% of its 100% interest.

Oil production commenced on 27 August 2008 from well BA-05. After a period of multi-rate testing of the well, other producing wells were sequentially brought on stream over the subsequent days. In total, six development wells, five producers and one water injector, have been drilled. Crude oil is processed and stored in a floating production storage and offloading facility (FPSO) prior to onward sale. Work is currently underway to increase the water handling capability of the FPSO to allow the field to reach targeted production levels.

Under the terms of the farm-out, the farmee was designated the technical operator of the project and will engage an independent reservoir engineer to perform an analysis of the proven reserves contained in the Bualuang field. SOCO Thai will receive an amount equal to one dollar for each barrel of proven reserves over 10.4 million barrels. At a later date, the joint venture partners plan to test the remaining potential within Block B8/38, including the undrilled east flank of the field as well as analogous structures elsewhere in the production licence area. Transfer of interests earned and operatorship to the farm-in partner are subject to approval of the appropriate regulatory authorities of the Government of Thailand.

Serge Lescaut
General Manager Africa Region

Republic of Congo (Brazzaville)

SOCO's interests in Congo Brazzaville are held through SOCO Exploration and Production Congo SA (SOCO EPC), which is held through the Company's 85% owned subsidiary SOCO Congo Limited.

Marine XI

The Marine XI Block is located adjacent to the coast in the Lower Congo Basin, offshore Congo Brazzaville, in shallow waters with depths ranging up to 110 metres and covering approximately 1,400 square kilometres.

In March 2008, SOCO EPC entered into an agreement to farm-out an 8.5% interest from its 37.5% interest in the Marine XI Block to Petrovietnam Exploration Production Corporation Ltd. SOCO EPC remains as operator with a 29% working interest in the Block. The assignment of interests is subject to the approval of the appropriate regulatory authorities of the Government of Congo Brazzaville, waivers of any third party preferential rights and certain obligations of Petrovietnam. The remaining interests are held by the national oil company, Société Nationale des Pétroles du Congo (SNPC) (15%), Africa Oil and Gas Corporation (10%), Raffia Oil SARL (18.75%) and a subsidiary of Lundin Petroleum (18.75%).

During the year, pre stack depth migration processing was carried out on the data acquired in the 2006 3D seismic programme to better image the pre-salt structure. SOCO EPC is currently finalising the terms of a rig contract for a multi-well drilling programme that is expected to commence in the third quarter of 2009.

Marine XIV

In September, the Company announced that SOCO EPC had entered into a farm-in agreement to acquire a 29.4% working interest in the Marine XIV Block, offshore Congo Brazzaville, from PA Resources Congo SA (PA Congo). Regulatory approval from the Government of Congo Brazzaville was received in March 2009. SOCO EPC became the operator of the Block, with PA Congo retaining a 12.5% interest and SNPC holding a 15% carried interest. The remaining interests are held by fellow farm-in participants and SOCO's Marine XI joint venture partners, Raffia Oil SARL (21.55%) and a subsidiary of Lundin Petroleum (21.55%).

The Marine XIV Block is located in the Lower Congo Basin in shallow water, adjacent to the Company's Marine XI Block and will complement SOCO's activity, both operationally and technically. The Block comprises three discontinuous sections located in water depths ranging up to 115 metres and covers approximately 265 square kilometres. Previous exploration activity on the Block has resulted in some oil discoveries. A 3D seismic acquisition programme is currently underway.

Democratic Republic of Congo (Kinshasa) (DRC)

SOCO DRC Limited, the Company's 85% owned subsidiary, holds 99% of SOCO Exploration and Production DRC Sprl (SOCO E&P DRC) which holds the Group's interests in the DRC.

Nganzi Block

The Nganzi Block covers 800 square kilometres, onshore western DRC. SOCO E&P DRC is the designated operator with an 85% working interest. Cohydro, the state owned oil company, holds the remaining 15% interest. The production sharing contract (PSC) over the Nganzi Block became effective on 12 April 2008 after receiving final approval through a Presidential Decree.

Preparations for the acquisition of 360 kilometres of 2D seismic were carried out at Kipholo and Lukula. The seismic campaign commenced in July and was completed in October. Processing of the data is currently underway.

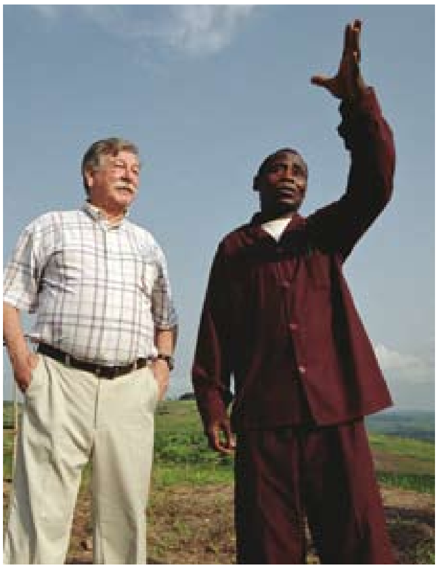
Other Blocks

In March 2008, SOCO E&P DRC entered into a new PSC with the Government of the DRC, Dominion Petroleum Limited (Dominion) and Cohydro, to acquire exclusive rights for hydrocarbon exploration on Block 5, located in the southern Albertine Graben in eastern DRC adjacent to the border with Uganda where there have been recent discoveries in the same basin.

The Block has an area of 7,105 square kilometres, including part of Lake Edward. SOCO E&P DRC holds a 38.25% participating interest in the PSC with Dominion, as operator, holding a 46.75% interest and Cohydro holding the remaining 15% interest. The first phase of the PSC has a five year span, during which SOCO and Dominion will carry out geological and geophysical work, acquire at least 300 kilometres of 2D seismic data and drill two exploration wells.

An aeromagnetic and aerogravity survey was conducted over Block 5 in July and the results are currently being reviewed. Final approval of the acreage award is pending a Presidential decree.

The Company has a memorandum of understanding as a precursor to



negotiating a PSC on a large interior block in the DRC. Interests in this block are not final until the PSC has been signed and a Presidential decree issued.

Angola

SOCO's 80% held subsidiary, SOCO Cabinda Limited (SOCO Cabinda), holds a 17% participating interest in the production sharing agreement (PSA) for the Cabinda Onshore North Block. The Angolan state owned oil company, Sonangol P&P, holds a 20% interest in the PSA and is operator, with Interoil holding 21%, Teikoku Oil Co. Limited 17%, Angola Consulting Resources 15% and ENI Angola holding the remaining interest 10%.

Activity has been suspended pending a review of the security situation. It is now expected that a seismic acquisition programme will begin in the second quarter of 2009. The programme comprises approximately 1,300 kilometres of 2D and 100 square kilometres of 3D seismic.

Yemen

On 12 January 2008, production from the East Shabwa concession reached the 100 million barrels milestone. In the first two months of 2008, both water injection and gas reinjection into Basement was at capacity with water injection rates of approximately 50,000 barrels of water per day, with an increase in capacity expected thereon. Pressure surveys confirmed pressure maintenance in both the north and western sides of the Kharir field and no significant water breakthroughs. Several Basement wells were temporarily shut-in to allow for repressuring of the reservoir in order to shrink the gas cap in the western part of the field. In addition, activity to increase the production handling capacity of the processing equipment was ongoing and existing equipment underwent debottlenecking to maximise throughput, alongside the addition of new process equipment.

In April 2008, the Company completed the sale of its wholly owned subsidiary, SOCO Yemen Pty Limited (SOCO Yemen), for a cash consideration of approximately $465 million, to Sinochem Petroleum Limited, a Chinese oil and gas company. SOCO Yemen held a 58.75% equity interest in Comeco Petroleum, Inc. which held a 28.57% direct interest in Block 10 of the East Shabwa Development Area in Yemen. The East Shabwa joint venture is operated by TOTAL E&P Yemen under a production sharing agreement with the Government of Yemen.

Financial Review

The 2008 financial statements highlight three themes of the Company's strategies toward achieving its goals. Firstly, the sale of the Group's Yemen interest (then the Group's only producing asset) in the first half of the year dominates the income statement contributing $356.7 million to earnings and providing $438.5 million cash inflow, underpinning the Group's strong balance sheet and financial position.

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

Basic earnings per share

575.3¢

Profit for the year

$411.1m

Key Performance Indicators

	2008	2007	2006
Realised oil price per barrel ($)	**66.62**	70.69	62.73
Operating cost per barrel ($)	**10.30**	6.93	5.91
DD&A per barrel ($)	**4.25**	5.32	3.70
Basic earnings per share (cents)	**575.3**	45.8	41.3
Diluted earnings per share (cents)	**497.1**	40.9	36.9
Total shareholder return (%)	**(50.2)**	59.2	75.8

See the Five Year Summary on page 73 for definitions.

Subsequently, the start up of production operations in Vietnam and then Thailand, in July and August respectively, proved SOCO's capability in delivering projects on time and cost effectively and provides a sound basis for future income and cash flows. After tax profits on continuing operations for the year was $30.6 million on production net to the Group's working interest of 2,533 barrels of oil per day (BOPD). After tax profits on all operations but excluding profit on disposal was $54.4 million on production net to the Group's working interest of 4,464 BOPD.

Basic and diluted earnings per share on continuing operations were 42.8 cents and 37.9 cents respectively. Basic and diluted earnings per share from discontinued operations (excluding the profit on disposal) decreased from 58.4 cents in 2007 to 33.3 cents in 2008 and from 52.1 cents in 2007 to 28.7 cents in 2008, respectively. The profit on disposal gave basic and diluted earnings per share of 499.2 cents and 430.5 cents respectively.

Income Statement

Continuing Operations

Operating Results

The Group commenced production operations at the Ca Ngu Vang (CNV) field offshore Vietnam during July and at the Bualuang field, offshore Thailand in August. As is common with start-up operations, production levels during the first few months were erratic due to initial testing of well flow capability and minor operational interruptions. By the end of 2008, production from both assets had stabilised. Average production, net to the Company's working interest, in 2008 despite these expected curtailments was 2,533 BOPD from these continuing operations. During the cost recoupment phase of the CNV field, entitlement production is considerably higher than the working interest. The average realised oil price per barrel was $55.27 reflecting the quality of the crude oil and the typical market discount to start-up production without an assay history, in particular in Thailand. Subsequently, discounts have reduced as buyers become familiar with the product quality and assay histories accumulate.

The cost of sales on continuing operations in 2008 was $18.9 million representing approximately five months of operations from the Group's CNV asset in Vietnam and four months from its Bualuang asset in Thailand. On a per barrel basis, excluding inventory, operating costs attributable to the Group's two new producing assets was approximately $13.50 per barrel in 2008. Depreciation, depletion and decommissioning costs (DD&A) on continuing operations in 2008, included in cost of sales, was $7.9 million. On a per barrel basis DD&A was approximately $6.00 per barrel in 2008.

Administrative costs relating to continuing operations for the year decreased to $6.2 million in 2008 from $7.8 million in 2007, primarily reflecting increased resources devoted to the Group's operational activities during the period.

Non-Operating Results

As a result of the disposal of the Group's Yemen asset, discussed below, the Group had a significantly higher cash and cash equivalents balance throughout most of the year. This, partially offset by lower interest rates, was the primary reason investment income increased from $5.9 million in 2007 to $7.2 million in 2008.

The increase in other gains and losses from $0.2 million in 2007 to $1.5 million in 2008 was primarily due to a higher gain in 2008 on the change in fair value of the financial asset associated with the subsequent payment amount tied to future oil production from the Group's divested Mongolia interest.

Finance costs decreased from $7.2 million in 2007 to $1.4 million for the reporting year as a higher proportion of interest, which is primarily payable in respect of the Group's convertible bonds, has been capitalised, in accordance with the Group's accounting policy, in 2008.

The tax charge was $6.8 million in 2008 consistent with the operating profit on continuing operations from the Group's two new producing assets.

Discontinued Operations

Group oil and gas revenues from discontinued operations in 2008 up to the date of completion of the sale of the Group's Yemen asset in April was $44.0 million compared to $98.4 million in 2007. Up to the date of completion of the disposal the Group realised a price of $97.32 per barrel of oil versus $70.69 per barrel in 2007 and the Group's pro rata working interest share of production was higher at 6,501 BOPD while for 2007 it was 6,316 BOPD.

Operating profit on the Yemen asset for the period to completion was $36.4 million compared to an operating profit in 2007 of $65.6 million. On a pro rata basis, the reason for the increase in operating profit is mainly due to higher revenues resulting from higher realised oil price and higher production volumes as described above.

Financial Review
continued

Further, once the asset was classified as held for sale in January, no additional depreciation was charged.

Profit on Disposal

The gain of $356.7 million arises from the proceeds of the sale of $465.0 million less transaction costs of $5.3 million and financial adjustments of $0.5 million less the carrying amount of the associated net assets of $102.5 million. Further details are set out in Note 12 to the financial statements.

Tax

Tax arising on discontinued operations decreased to $12.7 million in 2008 compared to $24.7 million in 2007. This decrease reflects the lower operating profit period on period. No tax arose on disposal of the Yemen asset.

Cash and cash equivalents at 31 December 2008

$303.4m

Cash

SOCO's cash and cash equivalents increased from the year end 2007 amount of $68.3 million to $303.4 million at 31 December 2008 mainly due to cash inflow from the disposal of the Group's Yemen interest of $438.5 million reflecting the $465.0 million cash consideration net of the Group's share of cash held by the Yemen interest of $20.7 million, transaction costs of $5.3 million and financial adjustments of $0.5 million. Further, the Group benefited from cash inflows from its two new producing assets offset by the capital expenditure as described below.

Debt

As at 31 December 2008 the Group's only debt was the convertible bonds issued in 2006 at a par of $250 million, further details of which are in Note 23 to the financial statements. During the year the Group utilised then repaid and cancelled a financing facility with BNP Paribas and cancelled a reserve-based, revolving credit facility with the International Finance Corporation against which no drawdowns had been made (see Corporate Developments below).

Capital Expenditure

Capital expenditure of $217.6 million in 2008 compared to $178.6 million for 2007 reflects the Group's continued drilling activity in Vietnam, facilities construction on the CNV development in Vietnam and the Bualuang development in Thailand (which was transferred to property, plant and equipment from intangible assets during the year, see Notes 15 and 16 to the financial statements) and seismic acquisition in SOCO's Nganzi Block in Congo (Kinshasa). These increases were offset slightly by reduced expenditures in Yemen.

Dividend

Due to the continuing need to finance current and future exploration, appraisal and development projects, the Board of Directors are not recommending the payment of a dividend.

Key Performance Indicators

SOCO uses a number of financial and operating Key Performance Indicators (KPIs) against which it monitors its performance. Reference is made to KPIs in the appropriate section of this Annual Report and in the Five Year Summary on page 73 where the KPIs are defined.

Own Shares

The SOCO Employee Benefit Trust (the Trust) was established in 2001 to administer a Long Term Incentive Plan (LTIP). At the end of 2008, the Trust held 1,919,680 (2007 – 2,165,780) of the Company's ordinary shares (Shares), representing 2.56% (2007 – 2.97%) of the issued share capital after using 246,100 (2007 – 107,520) Shares for the exercise of certain share options under the LTIP. Associated with the convertible bonds issue in May 2006, the Trust entered into a Global Master Securities Lending Agreement (GMSLA) with Merrill Lynch International. During 2008, the Group terminated the GMSLA, consequently at 31 December 2008, no Shares held by the Trust were lent under the GMSLA (2007 – 1,000,000). As at 31 December 2008, the Company held 27,500 (2007 – 27,500) treasury Shares.

Corporate Developments
Appointment of Corporate Broker

In January 2008, SOCO appointed

Citigroup Global Markets Limited to be its joint Corporate Broker along with Merrill Lynch International.

Disposal of Yemen Interest

In April 2008, the Company completed the sale of its wholly owned subsidiary SOCO Yemen Pty Limited (SOCO Yemen) to Sinochem Petroleum Limited for $465.0 million, subject to certain financial adjustments (the Disposal). The consideration for the Disposal was paid in cash on completion.

The Disposal has strengthened the Company's balance sheet significantly and the resulting gain dominates SOCO's income statement during 2008. As a result, the Company cancelled the unsecured revolving term loan facility of $50 million with BNP Paribas, which had superseded the unutilised International Finance Corporation $45 million credit facility (see below).

The majority of the Yemen disposal proceeds will be used to fund the Company's exploration and development programmes. In particular, capital will be deployed in order to further develop SOCO's assets in Vietnam.

SOCO Yemen held an indirect interest of 16.785% in the East Shabwa Development Area (ESDA) of Yemen through its 58.75% equity interest in Comeco Petroleum, Inc. (Comeco). Comeco, in turn, had a 28.57% interest in the ESDA. The ESDA joint venture is operated by TOTAL E&P Yemen under a production sharing agreement with the government of Yemen. The Group's interest in the ESDA in Yemen was the only component of the Middle East segment disclosed in Note 6 to the financial statements. Further details of the disposal are in Note 12 to the financial statements.

Financing Facilities

In March 2008, the Company entered into an unsecured revolving term loan facility of $50 million with BNP Paribas (the BNP Facility). The BNP Facility was available for 12 months for use in the Group's Vietnam developments. Accordingly, SOCO agreed to terminate the $45 million reserve-based, revolving credit facility with the International Finance Corporation (the IFC Facility), the private sector arm of the World Bank, which the Company entered into in 2005. No drawdowns have been made against the IFC Facility. In March, the Company made a drawdown of $20.0 million against the BNP Facility which was prepaid in April following the completion of the sale of the Group's Yemen asset (see Note 12). The BNP Facility was subsequently terminated.

Risk Management

Financial

SOCO's Board of Directors has designated the Chief Financial Officer as the executive responsible for the Company's risk management function. The Audit Committee provides oversight while ultimate approval authority remains with the full Board.

SOCO's business activities, its financial position, cash flows and liquidity position, together with an outlook of factors likely to affect the Group's future development, performance and position are discussed above and in the Chairman's and Chief Executive's Statement on pages 6 to 11. Further, risk management is also discussed below and in Note 3 to the financial statements. The Group has a strong financial position and should be able to satisfy its debt obligations (as set out in Note 23 to the financial statements) and continue in operational existence for the foreseeable future. Consequently, the Directors believe that the Group is well placed to manage its financial and operating risks successfully despite the current uncertain economic environment and have prepared the accounts on a going concern basis as described in the Directors' Report on page 34.

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. The Group may take short term hedging positions to protect the value of any cash balances it holds in non-US dollar currencies.

The Group seeks to minimise the impact that debt financing has on its balance sheet by negotiating borrowings in matching currencies. The Group's convertible bonds are denominated in US dollars.

Company cash balances are invested in short term, non-equity instruments or liquidity funds, not exceeding three months forward. Investments are generally confined to money market or fixed term deposits in major financial institutions. For further details of the Group's financial risk management see Note 3 to the financial statements.

Operational

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 of Directors believes that SOCO's comprehensive property, 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.

The Group does not 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 a monthly average market price. Although oil prices may fluctuate widely, it is the Group's policy not to hedge crude oil sales unless hedging is required to mitigate financial risks associated with debt financing of its assets or to meet its commitments. Accordingly, no price hedging mechanisms were in place during the year. Over time, during periods when the Group sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

As discussed in Note 4 to the financial statements, the Company uses standard recognised evaluation techniques to estimate its proven and probable oil and gas reserves. However, such techniques have inherent uncertainties in their application. As the Company has projects with booked reserves in the early stages of production or development, upward or downward revisions to reserve estimates will be made when new and relevant information becomes available.

Many of the Group's projects are in developing countries or countries with emerging free market systems. Generally, there is a greater risk of political, economic or social instability in these countries compared to nations with more established, developed economies. Some of the Group's interests are in regions identified as potentially more susceptible to business interruptions due to the consequences of possible subversive activity. The Group assesses such risks before beginning operations in any particular area and has deemed these risks commercially acceptable.

SOCO does not currently carry political risk or associated business interruption 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 cover.

Corporate Responsibility

As an international oil and gas exploration and production company SOCO has projects in regions of the world that have varied economic, social and environmental conditions, cultures and challenges.

SOCO's projects are located in five countries: Vietnam, Thailand, the Republic of Congo (Brazzaville), the Democratic Republic of Congo (Kinshasa) (DRC) and Angola and its headquarters are in the United Kingdom.

The Board recognises its primary responsibility to return value to its shareholders, but also takes into full account the interests of its other stakeholders and understands the opportunity and charge to promote sustainable economic, social and environmental development. The Company has accordingly aligned its corporate responsibility (CR) values to the detailed guidance that has been set out by the World Bank and adopted into the Equator Principles.

The Board believes that a high standard of CR, established as a core business priority, enhances the Company's effectiveness in achieving its business objectives and our risk profile is reduced when sustainable development good practice is integrated into management culture.

Policy

SOCO's framework of policy documents and procedures is reflective of the relatively small scale and nature of the Company's operations and size of organisation. Our Code of Business Conduct and Ethics (the Code) is a dynamic policy that was approved by the Board in 2004 and encapsulates the values of the Company in its economic, social and environmental performance.

We value our relationships with our business partners, host governments and local communities where we operate. The Code sets out the standards of business conduct that the Company requires of its personnel to ensure that its day-to-day business affairs are conducted in a fair, honest and ethical manner. The Code is implemented by all Directors, officers and employees of the Group who are given detailed guidelines for application. The guidelines include criteria and checklists for ethical decision making on an individual level so as to directly impede inappropriate and corrupt business practices.

SOCO has greater CR influence over some projects than others. In projects where we hold the operating interest, we are able to exercise direct CR influence. Our influence is less direct where we hold a minority interest, as an investor or participant in a project. However, in both scenarios, our approach is to clearly communicate our values and to promote sound CR management practices.

SOCO endorses the guidelines set out in the Extractive Industries Transparency Initiative and supports its goal of strengthening governance through improved transparency and accountability.

Economic and Social Development

Our host countries are primary stakeholders in each of the respective projects due to the potential for positive and sustainable economic and social benefit on a national scale that natural resources from a successful project could generate.

The Company understands that its operational success is highly dependent on the support of the communities in which we operate. Maximised local involvement is our policy in all the operations we control, providing potential for positive, economic and social benefits, both locally and nationally. All our operations are underpinned with a strong commitment to build and utilise skills among local communities through the creation and expansion of local infrastructure, the creation of jobs and our support for training, technical co-operation and capacity building. SOCO also provides support to local education and invests time and funds into the non-profit sector.

We promote a workplace culture where each person is treated with fairness and respect. We are committed to providing our employees with a working environment that is free from harassment and discrimination and where each individual has the opportunity to develop their talents and capabilities and to fulfil their potential based on merit and ability. SOCO is committed to protecting the health and safety of all our employees and to safeguarding employee records. We strive to facilitate honest, timely and two-way communication and to maintaining avenues for the equitable resolution of employee complaints.

Environmental

The health, safety and environment (HSE) policy, which has been in place since the Company's inception, conforms to international best practice and includes bespoke HSE management systems tailored to the Company's projects in Vietnam and the Africa region.

SOCO commits to meet legal and regulatory requirements governing environmental practices, as a minimum standard. We strive to ensure our activities are consistent with sound environmental management and conservation practices. We seek to minimise the adverse effects of the by-products of our processes on the natural resources and ecosystems in which we operate.

The Company recognises the environmental impact of emissions from

Corporate Responsibility
continued

both its operated and non-operated activities. Currently, SOCO has minimal operated emissions in terms of carbon dioxide equivalent. However, as part of its growth in operations, the Company is establishing a reporting mechanism, through which the environmental impact of operations is measured, and continues to seek ways of reducing its emissions of greenhouse gases in particular.

CR Management

The Chief Executive Officer is the Director responsible to the Board for HSE and other CR performance. He delegates day-to-day responsibility for managing HSE/CR matters to the Vice President – Operations and Production, who is invited to attend all Board meetings. CR matters are reported to the full Board in a monthly operations report and a separate agenda item at each quarterly Board meeting addresses any significant HSE/CR issues.

The Audit Committee is responsible for reviewing all areas of the Group's corporate risk management processes, including HSE/CR. The effectiveness of these processes is monitored on a continuous basis and a formal assessment is conducted at least annually. The Senior Independent Director, who has experience in the relevant area, reviews HSE/CR performance in detail with senior managers and is kept routinely informed of any material performance issues as they arise.

The Company recognises through its recruitment and training processes that key managers and operations personnel, who understand the CR values of the Company, have a specific role in the success of the Company's CR commitment. It is a priority consideration that the relevant employees each understand the importance of CR and have knowledge of what constitutes best practice standards. This fosters informed decision making and an instinctive appreciation of the relevant business implications associated with each operation.

External advisors are utilised to ensure that best practice is achieved and CR objectives are met. Deployment of external, rather than dedicated internal, resources ensures optimal access to sound expertise in each area which is not compromised by management numbers and layers and which would not otherwise be available in a staff of our size.

SOCO's policy is to maximise local employment and contract outsourcing in all the operations we control. Whilst realising the positive benefits of this approach, the Company recognises the CR management risks that a highly localised approach can introduce. SOCO manages this area of risk carefully, both in its selection of contractors and the subsequent monitoring of their performance.

Communication and Reporting

In major project activities, we utilise communication channels which are designed to manage communication with stakeholders, particularly the local communities, and to highlight employment and contractor opportunities arising from direct operations as well as any indirect socio-economic activities.

SOCO communicates its CR activities using its annual report and corporate website. Our reporting and participation in public benchmarking activities reflect the size and nature of our operations.

Review of 2008

Vietnam

SOCO has offshore operations in Vietnam, in the Cuu Long Basin comprising oil production from the Ca Ngu Vang (CNV) field and appraisal/ development operations in the Te Giac Trang, Te Giac Den and Voi Trang fields. SOCO holds its interest through the Hoang Long and Hoan Vu Joint Operating Companies (JOCs), along with Petrovietnam, the national oil company of Vietnam and PTTEP, the national oil company of Thailand. The JOCs currently have 106 employees and contractors of which 87 are Vietnamese nationals.

The first flow of crude oil and wet gas from CNV occurred in July 2008. The hydrocarbons are transported via a subsea pipeline system to the processing facilities at Bach Ho. Crude oil is processed and then stored in a floating storage and offloading vessel prior to sale. The wet gas is separated offshore and transported to an onshore gas facility for further distribution to meet domestic demand.

The Company, through the two JOCs, focuses its social development commitment in Vietnam through programmes aimed primarily at projects which serve those most at need in society, particularly children, the elderly and those with limited ability to work. In 2008, following Typhoon 4, we contributed to the rebuilding for households in the Phu Tho province affected by this natural disaster. At the same time, the Company contributed to the construction of a learning block with eight classrooms at Truc Thanh Preliminary School Cat Thanh, Nam Dinh

province, and the upgrading of existing and provision of new educational facilities for Thanh Tuyen Secondary School in Ha Nam province. Additionally, funds have been made available for emergency relief assistance in other parts of Vietnam during the year.

The CNV field utilises an unmanned platform that is tied back to the Bach Ho central processing platform. This is the first project in the Vietnam petroleum industry to utilise the existing facilities in order to maximise the life of existing infrastructure, minimise the investment costs and reduce the impact on the environment. Oil production will pass to existing onshore facilities, so the principal impact will be an extension of the useful life of these assets, thus having a beneficial sustainability influence.

The most material environmental issue will be the production of significant quantities of associated gas. This represents an important economic asset for the Company and for the Vietnamese people and the Company has now signed a gas sales agreement for national use.

During 2008, emissions from the Company interests in Vietnam were negligible.

Thailand

SOCO's Thailand operations are located offshore, in the Bualuang oil field in Block B8/38 in the Gulf of Thailand. SOCO's farm-in partner is designated the technical operator of the Block. Oil production commenced in August 2008. The crude oil is processed and then stored in a floating production storage and offloading facility vessel prior to sale.

Under the terms of the petroleum licence, SOCO contributes, in the form of a petroleum royalty on production, to Thailand's Petroleum Fund, which is a monetary reserve used to stablise the domestic retail price of petroleum.

In our Thailand office, all our personnel are Thai nationals and the Company utilises local contractors where feasible.

Sustainability initiatives in Thailand supported by SOCO include the Department of Mineral Fuel's reforestation project and the Fisheries Resources Conservation Project, involving the release of juvenile fish and shrimp larvae. SOCO has also supported local fund raising activities to promote tourism in the Chumpo Province, the onshore area adjacent to the Company's offshore interest. SOCO has participated in environmental impact assessments (EIA) in consultation with local stakeholders, including the Department of Mineral Fuel, the Provincial Energy Officer, local non-governmental organisations (NGOs), tourism operators, local fishermen and the Fisheries Association.

Since August 2008, emissions from the Company interests in Thailand were negligible levels of carbon dioxide, which came from engine combustion, and 1.8 million standard cubic feet of gas which was not in sufficient quantities to flare.

Yemen

Until April 2008, SOCO held a 17% non-operated interest in the onshore East Shabwa Development Area in the Say-un-Al Masilah Basin in eastern Yemen. During SOCO's period of partnership, the East Shabwa partners continued to explore options for reducing and/or eliminating the flaring of the associated gas production. At the time of SOCO's disposal of the asset, gas re-injection was operational, with a capacity of 10 million standard cubic feet per day. SOCO encouraged and supported the operator in a thorough review of all the options for gas disposal, including using gas fired power generation to replace diesel powered engines that produce more harmful emissions than gas and would also reduce road tanker traffic that transported diesel to site. Detailed studies for NGL extraction from the gas were also ongoing. The East Shabwa partners were also working closely with the Yemeni authorities to look at regional power generation and industrial gas usage, which were targeting gas flaring being reduced to a minimum.

Africa Region

In the Africa Region, SOCO has four operated interests, two offshore and two onshore, and one non-operated onshore interest. The offshore interests, the Marine XI and Marine XIV Blocks, are located in shallow waters in the Lower Congo Basin, offshore Congo (Brazzaville). The onshore interests are the Nganzi Block, which covers 800 square kilometres in the Bas-Congo Province of DRC, Block 5 located in eastern DRC, near to the border with Uganda and covering an area of 7,105 square kilometres, including part of Lake Edward, and the Cabinda Onshore North Block in Cabinda located near to the coast. Each of the projects are in the block evaluation/exploration phase. During 2008, operations activities in the Africa Region comprised a seismic campaign on the Nganzi Block and an aeromagnetic and aerogravity survey on Block 5.

Corporate Responsibility
continued

The Nganzi Block is located in the Bas-Congo Province of the DRC. Efficient road and air access was a focal consideration in SOCO's preparation for the seismic campaign and the Company invested in the introduction and upgrade of transportation infrastructure across the area. This included the building of a 1,000 metre air strip with related infrastructure at Kipholo, the construction of six bridges over the Lukunga, Lubuzi and Lemba rivers and the maintenance and improvement of 135 kilometres of road. These building initiatives will provide lasting infrastructure for the local populace and has already inspired indirect socio-economic benefits by opening up the rural area. This has stimulated an increase in trade and other stakeholder interest, including the building of a medical clinic by an NGO.

The development initiatives in Bas-Congo province were overseen by SOCO DRC Exploration & Production's Assistant Director, a DRC national, who was responsible for managing communication and consultation with the local communities. Manpower for both the seismic acquisition work and the related development initiatives was sourced from the local population. Approximately 450 local employees were recruited for geophysical work and given the relevant seismic drilling, topography and recording training. Housing improvements can be seen across the area, reflecting raised employment levels during the seismic campaign.

SOCO also supports local communities by providing resources to the non-profit sector and supporting local education. In the Bas-Congo Province of DRC, two classrooms were built and equipped at an elementary school at Ramani and four classrooms were refurbished and equipped at an elementary school at Kumbi. A water well was drilled in three villages: Kipholo in the south of the Bas-Congo Province, Sebonzobe in the north and Yenze in the central part of the Province. SOCO also sponsored a campaign against HIV and supplied mosquito nets to the Mbambi Medical Centre for pregnant women and young children. Equipment for the medical clinic built by the NGO was supplied by SOCO.

In the capital of the Republic of Congo, Brazzaville, the Company provided a patient lift and computer equipment to Petites Soeurs des Pauvres. In Pointe Noire, where SOCO Exploration and Production Congo has its offices, the Company gave resources and support to various community projects and charitable organisations. These include the construction of a public dispensary, Soeurs St Joseph de Cluny, provision of school furniture to Halte Sida, an organisation for children orphaned by HIV, and additional support given to the Africa Foundation orphanage and the Blind Association of Congo. SOCO also sponsored an orphaned child through the Association Femmes de la Charité and provided sewing machines and kitchen equipment to the same organisation.

In the suburbs of Pointe Noire, SOCO provided medical equipment to the Ngoyo maternity clinic and mosquito nets to communities in the Inda District.

In all our joint ventures in the Africa Region, virtually all our personnel, both employees and contractors, are nationals. SOCO provides access to training and experience of a high international standard. During 2008, SOCO employees from Pointe Noire and Kinshasa received formal training in France with the Institut Français du Pétrole.

Prior to the seismic acquisition in Nganzi, an EIA was carried out and approved by the DRC Minister of Environment. During the seismic campaign, progress was tracked by a committee, including representatives from SOCO and the local community and experts from the DRC Ministry of Environment, to ensure that all of SOCO's obligations listed in the EIA were fulfilled, which included repair to all damages incurred during the campaign.

An EIA is being carried out on Marine XI in preparation for the forthcoming drilling programme.

During 2008, emissions from the Company's interests in the Africa Region were negligible.

Business Review

Board of Directors

From left to right:

Ettore Contini (34)
Non-Executive Director
- A member of the Board of SOCO International since December 2001.
- Currently, a director of Eurowatt-Commerce.

John Snyder (67)
Non-Executive Director
- A member of the Board of SOCO International since April 1997 and a member of the Nominations Committee.
- Formerly, Chairman of the Board of Santa Fe Snyder Corporation and founder of its predecessor company, Snyder Oil Corporation.
- Currently, a director of Texas Capital Bancshares.

John Norton (71)
Non-Executive Director
- A member of the Board of SOCO International since April 1997 and a member of the Audit and Nominations Committees.
- A Chartered Accountant by profession and a partner at Arthur Andersen, heading the oil and gas practice in Europe, the Middle East and Africa, until his retirement in 1995.
- Formerly, a member of the Oil Industry Accounting Committee and a director of the Arab-British Chamber of Commerce.

Roger Cagle (61)
Executive Vice President, Deputy CEO and Chief Financial Officer
- A member of the Board of SOCO International since April 1997.
- Over 30 years of experience in the oil and gas industry including succeeding positions of responsibility with Exxon Corporation and senior management roles with Superior Oil Company.
- Formerly, Chief Financial Officer of Snyder Oil Corporation's international subsidiary and of Conquest Exploration Company.
- Currently, non-executive Chairman of Dominion Petroleum Ltd and a non-executive director of Vostok Energy Limited.

Rui de Sousa (53)
Non-Executive Chairman
- A member of the Board of SOCO International since July 1999 and Chairman of the Nominations Committee.
- Currently, a director of Quantic Limited, a director of New Falcon Oil Limited, a director of Gazprombank-Invest (Lebanon) SAL and Chairman of Carbon Resource Management Ltd.

Ed Story (65)
President and Chief Executive Officer

- A member of the Board of SOCO International since April 1997 and a member of the Nominations Committee.
- Formerly, a non-executive director of Cairn Energy PLC, President of Snyder Oil Corporation's international subsidiary, Vice Chairman of Conquest Exploration Company, Vice President and CFO of Superior Oil Company and holder of various positions with Exxon Corporation, including seven years resident in the Far East.

Peter Kingston (66)
Non-Executive Deputy Chairman and Senior Independent Director

- A member of the Board of SOCO International since April 1997 and Chairman of the Remuneration and Audit Committees.
- A petroleum engineer who has worked in the oil and gas industry since 1965 in various roles.
- Formerly, a founding director of Enterprise Oil plc, then Managing Director (Technical) and a director of Elf Enterprise Petroleum Ltd.
- Currently, Executive Chairman of Tower Resources plc and a director of Plexus Energy Limited, a social and environmental advisory network.

Martin Roberts (64)
Non-Executive Director

- A member of the Board of SOCO International since September 2004 and a member of the Audit and Remuneration Committees.
- A Solicitor by profession and a partner of Slaughter and May, specialising in oil and gas projects, until his retirement in 2002.

Robert Cathery (64)
Non-Executive Director

- A member of the Board of SOCO International since June 2001 and a member of the Remuneration and Nominations Committees.
- Over 40 years of City experience.
- Formerly, Managing Director and Head of Oil and Gas at Canaccord Capital (Europe) Limited, Head of Corporate Sales at SG Securities (London) Ltd., director of Vickers da Costa and director of Schroders Securities.
- Currently, a non-executive director of Vostok Energy Limited, Salamander Energy PLC, Indigovision plc and Central Asia Metals Limited.

Olivier Barbaroux (53)
Non-Executive Director

- A member of the Board of SOCO International since July 1999 and a member of the Remuneration and Nominations Committees.
- Formerly, Managing Director of Compagnie Générale des Eaux, President and Chief Operating Officer of Vivendi Water S.A., Head of the Energy Sector of Paribas and Chairman and CEO of Coparex International.
- Currently, Chairman and Chief Executive Officer of Dalkia and a member of the Executive Committee of Veolia Environment.

The 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 2008.

Cynthia Cagle
Vice President – Finance and Company Secretary

Directors Holding Office in 2008

Director	Date of contract
Rui C de Sousa (Chairman)	12.07.99
Peter E Kingston* (Deputy Chairman and Senior Independent Director)	14.05.97
Olivier M G Barbaroux*	12.07.99
Roger D Cagle	14.05.97
Robert M Cathery*	19.06.01
Ettore P M Contini	11.12.01
John C Norton*	14.05.97
Martin J D Roberts*	06.09.04
John C Snyder*	14.05.97
Edward T Story	14.05.97

* Denotes those determined by the Board to be independent Non-Executive Directors as described in the Corporate Governance Report on pages 38 to 39.

Principal Activity and Business Review

The Group's principal activity is oil and gas exploration and production. The Group has its headquarters in London and has oil and gas interests in Vietnam, Thailand, Congo (Brazzaville), the Democratic Republic of Congo (Kinshasa) and Angola. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 17 to the financial statements.

Information fulfilling the requirements of Section 417 of the Companies Act 2006 (the 2006 Act) and paragraph 4.1.8 of the Disclosure and Transparency Rules of the Financial Services Authority (DTRs) can be found within the reports described below, which are incorporated into this report by reference. A fair review of the performance and development of the Group's business during the year, its position at the end of the year and its future prospects is contained in the Chairman's and Chief Executive's Statement on pages 6 to 11; the Review of Operations on pages 12 to 21; and the Financial Review on pages 22 to 25. The principal risks and uncertainties facing the Group are set out in the Financial Review on page 25 and, in respect of the principal financial risks, in Note 3 to the financial statements. The key performance indicators (KPIs) used by management are set out on pages 18 and 23, and are summarised along with pertinent definitions in the Five Year Summary on page 73.

As set out in the Corporate Responsibility Report on page 26, SOCO is committed to high standards of corporate responsibility. However, the size and scope of those projects which the Company directly operates is small with a commensurately small organisation. While we closely monitor the health, safety and environmental matters of the full portfolio, the primary measures are relevant to the performance of third party operators. Additionally, at the current staff size, key personnel matters are measured through qualitative rather than statistical measures. KPIs will be developed in these areas at an appropriate time in the evolution of SOCO's operations.

Information about the use of financial instruments by the Company and the Group is included in Note 2(n) and Note 23 to the financial statements.

Results and Dividends

The audited financial statements for the year ended 31 December 2008 are set out on pages 52 to 72. The Directors intend to devote the Group's cash resources to its exploration and development activities and, accordingly, are not recommending the payment of a dividend (2007 – £nil).

Directors

The Directors, all of whom held office throughout the year, and the dates of their current service contracts or letters of appointment, which are available for inspection, are listed in the table opposite.

Relevant details of the Directors, which include their Committee memberships, are set out on pages 32 and 33. Details of Directors, their interests in the shares of the Company, their interests in any contracts relating to the Company's business and Directors' contracts are included in the Directors' Remuneration Report on pages 44 to 50.

Mr Snyder, having determined that he will reduce his business commitments generally, will retire from the Board at the 2009 Annual General Meeting (AGM). Mr Edward Story will retire by rotation and Mr Peter Kingston, Mr Olivier Barbaroux and Mr John Norton, having served on the Board for more than nine years, are subject to annual reppointment and will also retire at the AGM. Each of the retiring Directors, except for Mr Snyder, offers themselves for reappointment, being eligible and having been recommended for reappointment by the Nominations Committee.

The Nominations Committee carefully considered its recommendations regarding the reappointment of retiring Directors with regard to the policies and processes set out in more detail in the Corporate Governance Report on pages 38 to 43, and in particular in respect of each Director's continued independence and the relevance of tenure. The Board has given full consideration to the balance of skills, knowledge and unique breadth of experience on the Board and the manner in which each of the retiring Directors contributes to that balance. In particular, the Board has considered the value of continuity of leadership through the significant development project underway in Vietnam. These factors have been weighed in consideration of succession planning and the need to refresh Board and Committee membership. The Chairman, having given consideration to the results of the Board's formal evaluation process and other relevant factors, is satisfied that the retiring Non-Executive Directors offering themselves for reappointment continue to demonstrate the commitment level appropriate to the effective fulfilment of the responsibilities of the role.

The Annual Report of the Directors
continued

SOCO has provided liability insurance for its Directors and officers. The annual cost of the cover is not material to the Group. The Company's Articles of Association 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 2006 Act.

Directors of the Company are appointed either by the Board or by shareholders under the terms of the Company's Articles of Association. The business of the Company is managed by the Directors who may exercise all powers of the Company subject to the Articles of Association and law.

Articles of Association

The Directors are proposing specific amendments at the 2009 AGM to the Company's Articles of Association to reflect actual and expected changes in English company law brought about by the 2006 Act. Further information regarding these changes is set out in the notice of AGM.

Supplier Payment Policy

SOCO's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of and abide by the terms of payment. As the Company is a holding company, it has no trade creditors and accordingly no disclosure can be made of the year end creditor days.

Charitable Contributions

Information regarding the Company's global charitable programmes, which are principally carried out in the countries where the Group has operations, is contained in the Corporate Responsibility Report on pages 26 to 30.

Share Option Plan

Following expiry of the Company's share option plan in April 2007, the Board has recommended the introduction of a new option plan (the Plan), which will be submitted for shareholder approval at the 2009 AGM. The Plan is intended to provide flexibility in motivating and retaining senior staff members. Further details of the proposals are included in the notice of AGM. Details of the outstanding options in the Company are set out in Note 28 to the financial statements.

Share Capital

Details of changes to share capital in the period are set out in Note 25 to the financial statements. The Company has one class of share in issue, ordinary shares of 20 pence each, all of which are fully paid. Each ordinary share in issue carries equal rights including one vote per share on a poll at general meetings of the Company, subject to the terms of the Company's Articles of Association and law. Shares held in treasury carry no such rights for so long as they are held in treasury. Votes may be exercised by shareholders attending or otherwise duly represented at general meetings. Deadlines for the exercise of voting rights by proxy on a poll at a general meeting are detailed in the notice of meeting and proxy cards issued in connection with the relevant meeting. Voting rights relating to the shares held by the SOCO Employee Benefit Trust are not exercised. The Company's Articles of Association may only be amended by a resolution of the shareholders.

No shareholder is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or she or any person with an interest in shares has been sent a notice under Section 793 of the 2006 Act (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or she or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is earlier.

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in shares of that class from taking place on an open or proper basis. The Directors may likewise refuse any transfer of a share in favour of more than four persons jointly.

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

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Resolutions will be proposed at the 2009 AGM to authorise the Directors to exercise all powers to allot shares and approve a limited disapplication of pre-emption rights. Further information regarding these resolutions is set out in the notice of AGM.

A resolution will also be proposed at the 2009 AGM 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 7,495,071 shares representing up to 10% of the Company's issued share capital, excluding treasury shares. Shares purchased under this authority may either be cancelled or held as treasury shares.

Substantial Shareholdings

	Issued Shares		Warrants
Name of Holder	Number	% Held	Number
Pontoil Intertrade Limited	17,329,514	23.12	487,823
Chemsa Ltd	5,921,435	7.90	325,215
Lansdowne Partners Limited Partnership	4,901,549	6.54	–
BlackRock, Inc.	3,894,261	5.20	–
Legal & General Group Plc	2,973,214	3.97	–
Banca Akros	2,918,077	3.89	–
Mr Edward Story	2,874,459	3.84	–

Substantial Shareholdings

As at 9 March 2009, the Company had been notified, in accordance with the DTRs, of the interests in the issued share capital of the Company and warrants to subscribe for ordinary shares of the Company (Warrants) as set out in the table on page 36.

Auditors

A resolution to reappoint Deloitte LLP (Deloitte) as the Company's auditors will be proposed by the Directors at the forthcoming AGM. Deloitte also provide non-audit services to the Group which are set out in Note 9 to the financial statements. The Directors are currently satisfied, and will continue to ensure, that this range of services is delivered in compliance with the relevant ethical guidance of the accountancy profession and does not impair the judgement or independence of the auditors. Each of the Directors at the date of approval of this report confirms that, so far as he is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Each Director has taken all steps that he ought to have taken, having made such enquiries of his fellow Directors and the auditors and taken such other steps as are required under his duties as a Director, to make himself aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

Going Concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events which are inherently uncertain. Nevertheless, at the time of preparation of these accounts and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, and taking into consideration the additional factors in the Financial Review on page 25, they continue to adopt the going concern basis in preparing the accounts.

Directors' Responsibilities for the Financial Statements

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

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

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

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

Directors' Responsibility Statement

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

(a) the financial statements set out in pages 53 to 72, which have been prepared in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and

(b) the management report, which is incorporated into this report, 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.

By order of the Board
9 March 2009

Cynthia Cagle
Company Secretary

Corporate Governance

The Company is committed to the principles contained in the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council (the Combined Code or the Code) for which the Board is accountable to shareholders. The Group has applied the principles set out in Section 1 of the Code, as described below and, in connection with Directors' remuneration, in the Directors' Remuneration Report.

Statement of Compliance with the Combined Code

Throughout the year ended 31 December 2008, the Company has complied with the provisions set out in Section 1 of the Combined Code.

Board Composition and Reappointment

The Board of Directors, whose names and biographical details are set out on pages 32 to 33, comprises nine Directors in addition to the Chairman. After an assessment process set out in more detail below, five of these nine, including the Senior Independent Director, have been identified in the Directors' Report on page 35 as independent in character and judgement giving full consideration to those circumstances that the Code states may appear relevant. Notwithstanding this, the Board is satisfied that each of the Company's Directors strictly abides by their legal and ethical duties owed to the Company to act objectively and in the best interests of the Company and its shareholders as a whole.

Directors are subject to reappointment at least every three years. Reappointment is recommended in consideration of the results of individual evaluation and demonstrated continued satisfactory performance, commitment and effectiveness. Consideration is given to the broad capabilities represented on the Board and the ability of these to meet the unique challenges facing the Company. Consideration is additionally given to the balance of the Board's composition and the need for refreshment. A Non-Executive Director term exceeding six years is subject to particularly rigorous review, and a term exceeding nine years is subject to annual reappointment. The process for considering reappointments is described more fully in the Nominations Committee report.

As stated in the Directors' Report, Mr John Snyder has taken the decision to retire at the forthcoming Annual General Meeting (AGM). The Board recommends the reappointment of the other retiring Directors, each having offered themselves for reappointment.

Independence and Refreshing of the Board

The Board embraces the underlying principles of Code provisions regarding tenure and refreshing of the Board, and seeks to strike an appropriate balance between continuity of experience and succession. The Board recognises that an individual's independence cannot be determined arbitrarily on the basis of a set period of time. The Company manages a portfolio of long term, complex projects and benefits from long serving Directors with detailed knowledge of the Company's operations and with the proven commitment, experience and competence to effectively advise and oversee the Company's management on behalf of shareholders. The Company does not impose fixed term limits as this would assure a loss of experience and knowledge without assurance of increased independence. Accordingly, the Board's assessment of independence is of prime importance to ensure that retention of experience does not result in a failure to retain a sufficient contingent of independent Directors.

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

In conducting its current assessment the Board referred to guidance setting out criteria deemed relevant to determining whether a Director continues to exhibit those qualities and behaviours it considers essential to be considered independent. A specific set of focused criteria was

applied to the assessment of long tenured Directors. Consideration was also given to the results of individual evaluation and continued satisfactory performance.

Following assessment, Mr Martin Roberts was determined to be independent. Mr Robert Cathery was determined to be independent despite having formerly been a director of a former Company advisor. The relationships ceased more than three years ago and are not relevant to the determination of independence under the Code. Any outside links to other Directors are not considered significant and in particular do not result in reciprocal influence. Accordingly, the review of Committee memberships described below in the Succession section of this report will include a review of Mr Cathery's potential role as an independent committee member.

After particular scrutiny, Mr Peter Kingston, Mr John Norton, Mr John Snyder and Mr Olivier Barbaroux, each having served on the Board for more than nine years, were determined to be independent. Each of these Directors continues to express their individual viewpoints, debate issues and objectively scrutinise and challenge management. Each seeks clarification and amplification as deemed required, including through direct access to the Group's employees and external advisors. After careful consideration of the relevant factors, the Board has determined that the tenure of these Directors has not affected their independence or their ability to bring judgement to bear in the discharge of their duties as Board and Committee members.

The Board considers that the varied and relevant experience of these independent Directors combines to provide an exceptional balance of skills and experience required for the business.

Succession

Due to the nature of its business, the Company's expectation of a Non-Executive Director's most appropriate term of office is generally longer than that envisioned in Code guidelines. The Company undertakes projects requiring long term cycles from licence negotiation to first production and benefits from continuity of experience throughout the process. Its Vietnam programme is of major significance to the Company. As reported in the 2007 Annual Report, the Company planned for a phased succession to allow for both refreshment and a rebalance of the skills required on the Board as it enters the production phase in Vietnam. The project reached this milestone in mid-2008, but continues with a larger, more complex development phase over the next several years. After assessment of the competencies required on the Board, the current Non-Executive Directors continue to comprise an appropriate balance of skills and experience. Additionally, they have acquired, over a number of years, a sound and detailed knowledge of the Company's business and are uniquely qualified to contribute to the Company's leadership. Accordingly, a succession that allows for some refreshment while maximising continuity of experience is considered to be in the best interest of shareholders.

As set out in more detail in the Nominations Committee report, the Company has initiated a process to identify independent Non-Executive Director candidates who can add value to the Board through complementary qualifications. It is intended that a successful candidate will replace the Director retiring at the 2009 AGM. An additional suitable candidate, if identified, will be added to the Board. Board roles, including Committee memberships and Chairmanships, are additionally under review as part of this process. New Directors will be placed before shareholders for election at the first AGM following their appointment.

Board Structure and Process

The Board typically has four scheduled meetings a year and holds additional meetings as necessary. During 2008, the Board held five scheduled meetings as deemed required for the effective discharge of its duties during the period. Attendance of Directors at scheduled Board meetings and attendance of members at the Audit, Remuneration and Nominations Committees is set out in the table on page 40. The Board determines the Company's business strategy and provides the entrepreneurial leadership required to ensure its strategic aims can be achieved. The Board operates within a formal framework of decision making designed to reserve matters of establishing the strategy, business plan and nature or scope of the Company's business to the Board. Under this framework, authority for implementing the strategy and decisions taken by the Board is largely delegated to the Executive Directors and management within a system of internal controls designed to enable the risks of the Group to be managed effectively. Additionally, the Board has established clear expectations for the Company's economic, social and environmental conduct to promote the highest level of integrity and honesty in meeting its obligations to its stakeholders.

Corporate Governance
continued

SOCO's Board membership comprises a broad range of skills, knowledge and experience, which is critical to the success of the Company. The Board functions as a unitary body, within which Directors assume certain roles to ensure the Board as a whole fulfils its responsibilities. These roles, including Committee memberships, are designed to maximise the effective contribution of each of the Non-Executive Directors to the Board, its Committees and to the Executive Directors, while ensuring an appropriate balance is maintained. The composition of the Board and its committees is in accordance with Code guidelines. No Director serves on more than two committees. At least annually, the Non-Executive Directors meet without the Executives present and, led by the Senior Independent Director, meet without the Chairman present. Such meetings are conducted in the spirit of good governance and process, and are intended to ensure a forum for open dialogue without disruption of Board unity.

The Chairman and the Chief Executive collectively are responsible for the leadership of the Company. The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness. The Chief Executive is responsible for leading the executives and ensuring their effectiveness in the running of the Company's business. Their division of responsibilities is set by the Board. Together they are responsible for promoting the highest standards of integrity and probity.

Executive Directors are responsible for implementing the Board's agreed strategy through the development of an appropriate business plan and for executing actions approved by the Board in accordance with relevant authorities. The Non-Executive Directors contribute to the development of strategic proposals through constructive probing based on review and analysis that brings to bear the unique skills and knowledge each brings to the Board.

The Executive Directors provide the leadership of the senior managers in the day-to-day running of the Group's business and manage the Group's risk programmes including the environmental, health and safety performance of the business. They must ensure the Company has adequate financial and human resources to meet its objectives. They are responsible for reporting the performance and strategic direction of the Group to the Board and for providing accurate, timely and clear information to enable the Board to take sound decisions. The Non-Executive Directors review management's performance and ensure that the systems in place provide adequate and effective financial, operational and compliance controls and risk management. They must be satisfied that they have sufficient information for the discharge of their duties, which may be achieved through dialogue with management, training where appropriate to update their knowledge or skills and consultation with independent professional advisors as required.

The Company Secretary, who is appointed by the Board, is responsible for facilitating the communications and processes of the Board, both within the Board and its committees and with management, in compliance with Board procedures and governance guidelines. The Secretary facilitates an induction programme on appointment that is tailored to a new Director's individual qualifications and experience. The Secretary provides advice and service as may be required in the ongoing discharge of the Directors' duties, including ensuring that the Company provides the necessary resources for access to independent advice and individual professional development needs. Additionally, briefing sessions are provided in the course of regular Board meetings and Committee meetings on relevant issues as deemed appropriate.

Directors have power to authorise, where appropriate, a situation where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. Such authority is in accordance with Section 175 of the 2006 Companies Act (the 2006 Act) which took effect from 1 October 2008. Prior to 1 October 2008, the Board reviewed the potential for any conflicts of interests. This included the briefing of all Directors on the provisions of Section 175 of the 2006 Act by the Company's lawyers. There are procedures 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 his 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

Attendance of Directors and Committee Members

	Board	Audit Committee	Remuneration Committee	Nominations Committee
No. of meetings	●●●●●	●●●	●●	●●
R de Sousa	●●●●●			●●
P Kingston	●●●●●	●●●	●●	
O Barbaroux	●●●●		●●	●●
R Cagle	●●●●●			
R Cathery	●●●●●			
E Contini	●●●●			
J Norton	●●●●●	●●●		●●
M Roberts	●●●●●	●●●	●●	
J Snyder	●●			●
E Story	●●●●			●●

meetings and availability of Board papers, along with other measures as determined appropriate. The Board reviews its conflict authorisations at least annually.

Committees

The Board has established three Committees, as described below, each having formal terms of reference (TOR) approved by the Board which set out its delegated role and authority. The TORs, which are available for inspection, are set in consideration of the provisions of the Combined Code and are reviewed from time to time in the context of evolving guidance. Each Director's specific Committee memberships, including as Chairmen, are set out on pages 32 and 33. Whilst only Committee members are entitled to attend meetings, other Directors are invited to attend from time to time to ensure the Committees' responsibilities are undertaken with access to the Board's full breadth of knowledge and experience. The Company Secretary ensures that the Company additionally provides such resources as the Committees require in the discharge of their duties.

The Remuneration Committee

The Remuneration Committee is chaired by Mr Peter Kingston, the Senior Independent Non-Executive Director, and additionally comprises Mr Olivier Barbaroux and Mr Martin Roberts, both of whom are independent Non-Executive Directors. The names and qualifications of each of the members are set out on pages 32 and 33. The Committee is responsible for recommending for approval by the full Board the remuneration of the Chairman, the Executive Directors and the Company Secretary. During 2008, the Committee conducted a review of its TOR and of the effectiveness of its own performance. Details of the Committee's policies and objectives are set out in the Directors' Remuneration Report on pages 44 to 50.

The Audit Committee Report

The Audit Committee is chaired by Mr Peter Kingston, the Senior Independent Non-Executive Director, and additionally comprises Mr John Norton and Mr Martin Roberts, both of whom are independent Non-Executive Directors. The names and qualifications of each of the members are set out on pages 32 and 33. The Board is satisfied that the collective experience of the members includes relevant and recent financial experience and provides the complement of skills required for the Committee to discharge its functions effectively. In particular, Mr Norton is a Chartered Accountant and former member of the Oil Industry Accounting Committee. The Audit Committee meets at least three times a year. The Chief Financial Officer and a representative of the external auditors are normally invited to attend meetings. Other Directors are invited to attend as determined appropriate or beneficial. At least once a year the Committee meets with the external auditors without executive Board members present. The Committee's primary responsibilities include reviewing the effectiveness of the Company's and the Group's systems of internal control, overseeing the selection of and relationship with external auditors and the review and monitoring of the integrity of financial statements. The Committee is responsible for review of the Group's major financial, operational and corporate responsibility risk management processes. The effectiveness of these processes is monitored on a continuous basis and a formal assessment is conducted at least annually. The Committee has been delegated the responsibility for advising the full Board on compliance with the Combined Code, including its internal control requirements, as well as compliance with evolving guidance on corporate governance issues generally.

The Committee held three meetings in 2008 and has conducted one meeting to date in 2009, all of which were attended by executive management and external auditors. A private session, without executives present, was held during two of these meetings. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members, external auditors and the Company's executives and employees. The Committee reviewed and approved the terms and scope of the audit engagement, the audit plan and the results of the audit with the external auditors, including the scope of services associated with audit related regulatory reporting services. An assessment of the effectiveness of the audit process was made, giving consideration to reports from the auditors on their internal quality procedures. Additionally, auditor independence and objectivity was assessed, giving consideration to the auditors' confirmation that their independence is not impaired.

The Remuneration Committee, with approval of the Audit Committee, has independently appointed the Company's auditors as advisors. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence and the scope and value of services to the Group is under continuous review. Accordingly, it is the Committee's policy to review all proposed non-audit services on a case by case basis, rather than by reference to preallowed or disallowed services, and regardless of size or scope. The Committee approved the non-audit services provided by the external auditors in 2008, having concluded such services were compatible with auditor independence and were consistent with relevant ethical guidance. Details of these services are set out in Note 9 to the financial statements. The Board concurred with the Committee's recommendation for the reappointment of Deloitte LLP as the Company's auditors for 2009.

The Committee has reviewed, and is satisfied with, the Company's arrangements whereby staff may raise concerns regarding improprieties in confidence, which would be addressed with appropriate follow-up action. 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 Internal Control section of this report. 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 Combined Code.

The Committee reviewed and discussed with management and the auditors the Company's relevant financial information prior to recommendation for Board approval. This included in particular the financial statements and other material information presented in the annual and interim 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 TOR and of the effectiveness of its own performance.

The Nominations Committee Report

The Nominations Committee is chaired by Mr Rui de Sousa, the Non-Executive Chairman of the Company. It additionally comprises Mr Ed Story, the Chief Executive Officer, and Mr Olivier Barbaroux, Mr John Norton and Mr John Snyder, who are independent Non-Executive Directors. The Committee meets at least once a year. Its primary responsibilities include making recommendations to the Board regarding the appointment and reappointment of Directors and Committee memberships. It is responsible for review and recommendations regarding overall Board structure and composition, succession planning and establishing an ongoing process for evaluating the Board and its members.

The Committee held two meetings in 2008 and has conducted one meeting to date in 2009. Other Non-Executive Directors were in attendance at a portion of these meetings by invitation. Certain Committee functions were delegated to a Sub-Committee, which acted on behalf of the Committee after an appropriate dialogue among Committee members to ensure a consensus of views. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members and the Company's executives and employees.

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

After giving consideration to Board structure and composition, evaluations, time commitments, length of service, individual contributions, refreshment and the requirements of the Board, the Committee recommended that each of the retiring Directors offering to stand for re-election be proposed by the Board for reappointment at the forthcoming AGM. Mr John Snyder has taken the decision to retire at the AGM and, accordingly, will not stand for reappointment.

The Committee has a process in place for identifying and nominating candidates to fill vacancies which may arise from time to time, including ensuring Board membership is sufficiently refreshed and retains an appropriate balance of skills and experience. The Committee develops an appropriate description of the role, estimated time commitment and the capabilities which would complement the composition of the Board and its Committees. The Committee would expect to utilise an independent external advisor to facilitate any search. A diverse list of candidates is compiled and a rigorous review process undertaken, involving other Board members as deemed appropriate. Committee recommendations are submitted for full Board approval. The Company Secretary facilitates induction upon appointment. The Committee is currently conducting a search utilising this process to identify a successful candidate to replace Mr John Snyder. An additional suitable candidate, if identified, will be added to the Board.

The Committee led the Board in evaluating its own performance and that of its Committees and individual Directors. The Company Secretary facilitated compilation of the results. The Senior Independent Director facilitated relevant discussions regarding the role of the Chairman. The process was undertaken for the purpose of adding value to the quality of the Board and its procedures through identifying and addressing strengths and weaknesses. Additionally, it was utilised to assess Director effectiveness and the time commitments of Non-Executive Directors. Actions for improvement were undertaken as deemed appropriate. The Committee performed a review of its TOR and of its own performance as part of this process.

Relations with Shareholders

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

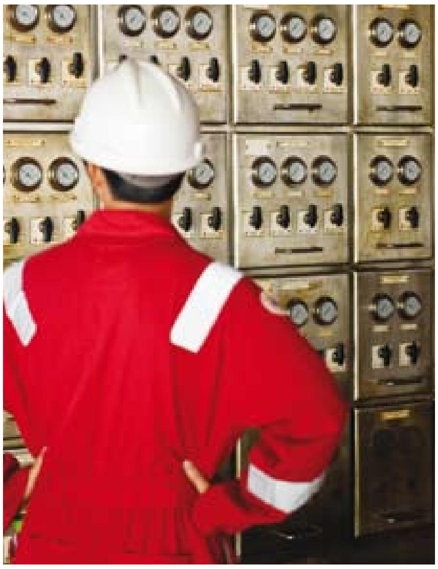
SOCO maintains an open and active dialogue with shareholders. The Company maintains an internet website wherein important information can be posted and disseminated promptly to a wide audience and through which shareholders can electronically interface with executive management. At a minimum, the Company provides three personal communication forums annually – the AGM, the presentation of Annual Results and the presentation of Interim Results – whereby shareholders can directly interface with Company executive management. Notice of the AGM is circulated to all shareholders at least 21 clear days prior to the meeting, and resolutions are proposed for each substantially separate issue. The result of proxy voting is announced after votes are taken on a show of hands. Directors are available to answer shareholder questions and, in particular, the Chairmen of the Audit, Remuneration and Nominations Committees are in attendance to respond to any specific queries.

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

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

Internal Control

The Directors are responsible for establishing, maintaining and reviewing the effectiveness of a sound system of internal control which is designed to provide reasonable assurance regarding the reliability of financial information and to safeguard the shareholders' investment and the assets of the Company and Group. Given the inherent limitations in any system of internal control, even a sound system can only provide reasonable assurance, and not absolute assurance, that the Company will not be hindered in achieving its business objectives or be protected against material misstatement or loss.



The Board has put in place formally defined lines of responsibility and delegation of authority and has delegated to executive management the implementation of material internal control systems. Documented policies and procedures are in place for key systems and processes and the authority of the Directors is required for key matters.

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

The Board has the primary responsibility for identifying the major business risks facing the Company and Group and developing appropriate policies to manage those risks. The risk management approach is used to focus attention on the Group's most significant areas of risk and to determine key control objectives. The Board has applied Principle C.2 of the Combined Code, by establishing a continuous process, which has been in place throughout the year to the date of this report and which is in accordance with Internal Control: Revised Guidance for Directors on the Combined Code published in October 2005, for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which is constantly evolving to meet the demands of a dynamic environment.

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

The Board considers whether appropriate actions are taken promptly to correct any significant weaknesses identified, and if more extensive monitoring may be required. The Board confirms that such actions as deemed necessary and appropriate have been or are being taken to remedy any significant failings or weaknesses identified in its review.

The Board seeks to ensure that internal control and risk management processes, including dealing with any identified areas of improvement, are embedded within the business.

The Board has performed a specific assessment for the purpose of this Annual Report and Accounts, which considers all significant aspects of internal control arising during the period, and is satisfied with the process employed and the results thereof. The Audit Committee spearheads the Board in discharging its review responsibilities. Audit Committee membership comprises highly experienced professionals with complementary areas of expertise in the oil and gas sector and each Committee member makes an important contribution to the assurance process. Mr Peter Kingston, Mr John Norton and Mr Martin Roberts undertake specific review processes in the areas of technical and operating, financial and audit, and commercial and legal, respectively, and report the results of their work to the full Committee and to the Board. Although the Company does not currently have an internal audit function, the Directors review at least annually the need to establish such a function. The Company's current staff size limits the ability to form an effective internal audit function and, accordingly, the Company outsources any internal audit requirements.

Directors' and Auditors' Responsibilities

The responsibilities of the Directors and auditors are set out in the Annual Report of the Directors on page 37 and in the Independent Auditors' Report on page 52.

The Directors' Remuneration Report

The Directors' Remuneration Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and the relevant requirements of the Financial Services Authority (FSA). The disclosures contained in this report that are specified for audit by the Directors' Remuneration Regulations are covered in the scope of the Independent Auditors' Report on page 52. A resolution to approve the report will be proposed at the forthcoming Annual General Meeting (AGM). The Company has complied throughout the period with the provisions relating to Directors' remuneration as issued by the Financial Reporting Council in July 2003 and set out in the Combined Code (the Code). The Company has applied the principles set out in Code provisions and in Schedule A to the Code as described below.

The Company has presented the audited section of this report in US dollars, which is consistent with the financial statement presentation, is the functional currency of its subsidiaries and represents the primary economic environment of its Group operations.

Remuneration Committee

The independent Non-Executive Directors who serve on the Remuneration Committee are Mr Peter Kingston (Chairman), Mr Olivier Barbaroux and Mr Martin Roberts. After careful consideration, including with regard to tenure, each member has been determined by the Board to be independent in character and judgement as described more fully in the Corporate Governance Report on pages 38 to 43. All members are independent of management and free from any conflicts of interest arising from cross-directorships or day-to-day involvement in running the Company's business. No member has any personal financial interest, other than as shareholders, in the matters delegated to the Committee. No Director plays a role in deciding his own remuneration. Additional information regarding the Committee is contained in the Corporate Governance Report on pages 38 to 43.

The Committee is responsible for determining and agreeing with the full Board a broad remuneration policy that is aligned with the Company's business strategy in the creation of shareholder value. Within the context of that policy, the Committee is responsible for setting the total remuneration packages of the Executive Directors and the Company Secretary. The Committee also monitors the remuneration practices and trends throughout the Group's internationally based workforce, including in particular for senior staff who contribute most significantly to achieving the Company's strategic aims. Additionally, the Committee is responsible for setting the remuneration of the Non-Executive Chairman. The Committee's recommendations and decisions are developed in full consideration of the Code, institutional guidelines and evolving market practice. In particular the Committee is mindful of rapidly evolving practice in the current economic turmoil.

In discharging its duties during the year, the Committee consulted with the other Non-Executive Directors, and received full Board approval for its proposals. In particular, the Committee has sought advice as it considers appropriate from Mr Rui de Sousa as a significant shareholder, who it considers offers the Committee a valuable perspective on the concerns of shareholders generally in ensuring the strategy to align executive interests with those of shareholders remains properly weighed against the overall quantum of remuneration and the cost to shareholders. The Committee consulted with the Chief Executive on its proposals for the other Executive Director and senior management, and received administrative assistance from the Company Secretary. The Audit Committee is consulted as deemed appropriate in setting and assessing the fulfilment of targets based on financial terms.

Deloitte LLP (Deloitte) was independently retained by the Committee as advisors and provided advice on executive remuneration in terms of relevant current market practice and developments in best practice guidance, and in particular on the testing and setting of performance criteria for incentive plans, giving full consideration to the rapidly evolving economic environment. The original appointment of advisors resulted from a tender process and alternate advisors are considered from time to time. Deloitte also provided audit services to the Group, as set out in

Note 9 to the financial statements and described more fully in the Corporate Governance Report on pages 38 to 43. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence, and the scope and value of services to the Group is under continuous review. Advice is developed with use of established methodologies and the advisors are not involved in the decision-making process. Advisory partners and staff have no involvement in audit, and are not involved in the preparation of audited information.

Remuneration Policy

The policies described in this report have been applied throughout 2008. Whilst these policies are envisaged to be consistently applied in the following and subsequent years, the Committee has an ongoing process for monitoring its policies, including its arrangements for performance based pay, against evolving market practice and relevant guidance. This is particularly pertinent in the current climate as the breadth and depth of the economic downturn continues to evolve. The Committee does not propose to amend its base policy, and any proposed change would only be implemented following a consultation, review and approval process deemed appropriate to such change.

The Directors continue to believe that a uniquely qualified and motivated executive management is vital to the effective management of the Company's international portfolio and the successful execution of the Company's stated strategy of building shareholder value. It is the Committee's objective to attract and retain high calibre executives through remuneration which is competitive with that offered in comparable businesses and is appropriate to those individuals' positions, experience and value to the Company.

The Committee aims to design remuneration packages with a significant short and long term performance-related element linking appropriate, but significantly greater, rewards for greater achievements. The Committee seeks to ensure performance based pay is linked to its business strategy. To achieve this, shorter term performance is monitored against targets based on the Company's strategic plan. In the longer term, performance targets are more closely linked to share price performance as an indicator of the Company's success in building shareholder value. Within this broad framework, the Committee is committed to taking particular care that remuneration does not reward excessive risk taking or failure.

Executive Directors

The Committee reviews all aspects of remuneration on an annual basis and with respect to individual and corporate performance during the year. These reviews are normally conducted in December. The projected value and structure of the Executive Directors' packages are benchmarked against competitive market ranges, taking into consideration the Group's size and complexity, and positioned within those ranges considering the Executive Directors' critical value to the Company and demonstrated performance over time. Similar benchmarking techniques are applied to non-Board employees and the Committee monitors senior staff packages during the review of Executive Directors' packages. Year on year results of benchmarking are monitored for indications of potential unwarranted upward ratcheting.

Package Components

Executive remuneration comprises a fixed basic salary and eligibility to receive an annual performance based cash bonus and annual awards under incentive plans approved by shareholders and designed to provide appropriate longer term incentive opportunities. Overall packages are structured to deliver 60% of the projected value of the Directors' total compensation opportunity from performance related elements at performance levels in the middle of the target range, increasing to 80% at exceptional performance levels. Executive Directors are eligible for additional benefits, including money purchase pension scheme contributions, a permanent health insurance scheme, medical insurance, life assurance cover, critical illness cover, travel benefits and car benefits.

Basic Salary

Basic salary is fixed at appointment or in relation to changes in responsibility, and is reviewed annually. Particular care is given in fixing the appropriate salary level considering that cash bonus and incentive plan awards are generally set as a fraction or multiple of basic salary. Basic salary is the only element of a Director's pay which is pensionable. Annual reviews take into consideration advice from remuneration consultants regarding relevant current market practice for salary levels and salary increases, as well as demonstrated performance.

During 2008, the decision was taken to denominate the basic salaries for Executive Directors (who are US citizens) in US dollars. This is consistent with the Group's reporting currency and the

The Directors' Remuneration Report continued

primary currency of Group operations. For the purposes of this conversion, the average exchange rate over the preceding five years was used.

Following the annual review conducted in December 2008, a salary increase was not considered appropriate in the current environment. Due to the change in the US dollar/sterling exchange rate during the year, the 2009 salary will reflect a 5% decrease in dollar terms from 2008 levels set out in the emoluments table on page 48.

For transparency, the salaries which applied during 2008 and will apply for 2009 are set out below.

Salaries

	E Story	R Cagle
2008	£440,000	£330,000
2008 (reported)	$858,000	$643,500
2009	$814,000	$610,500

Bonus

Bonus awards are considered in two levels, wherein expected performance will result in awards in a target range of up to 50% of salary, with a stretch level providing a maximum annual cash bonus opportunity of up to 100% of salary for exceptional performance. The annual cash bonus is awarded based on individual and corporate achievements during the year towards goals based on the Company's strategic plan. Goals are set annually for each portion of the Company's portfolio aimed at achieving the specific challenges the Company faces in meeting its strategic objectives. The monitored measures for particular projects may include specified timetables for seismic, drilling and construction programmes, drilling success ratios, discovery targets, reserve levels and production targets. Portfolio objectives are set regarding progress towards potential non-core asset divestitures and new ventures. Corporate goals, safety and environmental measures and financial measures against budgeted levels are additionally established as deemed appropriate.

The specific targets set against these measures are considered to be commercially sensitive and are therefore not set out herein.

The performance measures for 2009 are intended to focus behaviour and activity towards deploying the Company's strategy of progressing projects, capturing their potential and realising value for shareholders at an appropriate stage. This emphasises achievements required to grow the business over the longer term rather than short term revenues, and avoids promoting excess risk taking to achieve a short term bonus opportunity. The actual achievement of each goal is ranked against a scale of expectations. Goals targeting appropriate stewardship of the Company's resources in the current economic environment will have increased priority. The Committee retains discretion over the amount of bonus paid out to ensure that appropriate consideration is given to the relative importance of the achievements in the year and the actual contribution of these towards furthering the Company's strategic plan.

The Committee approached measurement of 2008 performance cautiously in recognition of the prevailing economic environment. Results achieved tracked an exceptional performance. In April, the Company completed the sale of its Yemen asset at a substantial profit in a transaction that exemplifies the Company's strategy of realising value at an appropriate stage of an asset's life cycle. Prior to the sale, an unsecured revolving term loan facility was negotiated to provide financial flexibility in deploying the Company's strategy. The 2008 drilling success rate on both the Te Giac Trang (TGT) and the Ca Ngu Vang (CNV) projects was 100%. The targeted TGT development area was agreed and the outline development plan approved. Benchmarks were met for the accelerated development of CNV, with first production achieved on target in mid-2008 despite a period of unprecedented competition for industry supplies and services. The Company added an additional licence interest in the Lower Congo Basin. Steady progress was made against benchmark goals for advancing the Africa Region core area through farm-out activity, licence negotiations, seismic programmes and preparation for drilling. In Thailand, the farmee completed the terms of the farm-in agreement and production commenced.

Despite the measured individual performances against the targets set out for 2008, the Committee considered a bonus award in the stretch level to be inappropriate in view of share price declines and the prevailing economic uncertainty. After consideration of these broader factors, 2008 bonuses were awarded to Mr Story and Mr Cagle at the target bonus level of 50% of salary. As reported in 2007, in order to ensure awards accurately reflected the result of 2007 performance, bonus consideration of up to 50% of salary was deferred pending results of the TGD-1XST1 well. Although operational issues hampered the drilling and testing of the well, it was declared a discovery under contract terms and Petrovietnam approved the application for the appraisal area. Additional drilling is required to determine the extent and commerciality of the discovery. After consideration, the Committee awarded the deferred bonus at 25% of salary in the amount of $209,000 and $157,000 to Mr Story and Mr Cagle, respectively.

Long Term Incentive Plan (LTIP)

Participation in the Company's LTIP is discretionary and determined in consideration of corporate and individual performance. Awards are subject to limits on individual participation whereby the market value, as measured at the date of grant, of shares subject to awards made in any financial year will not exceed 200% of the executive's total earnings in that year, except in exceptional circumstances on appointment. The Committee, however, has a policy of operating within the more restrictive annual limit of 200% of the executive's base salary.

An employee benefit trust currently holds sufficient SOCO shares to satisfy all shares conditionally awarded under the LTIP, as more fully described in Note 28 to the financial statements. Decisions governing acquisitions of shares into the trust are considered and approved by the full Board. The aggregate number of new issue shares which may be subject to awards under all relevant executive share schemes shall not exceed 5% of the ordinary share capital of the Company in any rolling 10 year period. Accordingly, at 31 December 2008, 3.7 million new issue shares (2007 – 3.6 million) may be subject to awards, of which there is available capacity remaining of 0.9 million shares (2007 – 0.5 million).

At the date of grant of an award, the Committee sets appropriate performance criteria to be measured on the third anniversary of the date of grant and deemed fulfilled to the satisfaction of the Committee before the award can be exercised or vest. LTIP awards are considered in the course of the annual review in December, which is intended to put in place an opportunity for regular annual vesting based on performance targets achieved over successive three year periods. Award levels will take into account the nature of performance targets to ensure that projected total compensation opportunity at assumed levels of share price growth is appropriate in the prevailing market.

The Remuneration Committee considers that the Company's relative total shareholder return (TSR) provides the primary basis for determining the value generated for shareholders over the longer term, and is also the primary indicator of the Company's overall corporate performance. No change to the performance measure is proposed, as the Company's long term goals remain unchanged and, despite the potential impact of market volatility on this measure, the Committee considers it will continue to align the executives' interests to those of shareholders. Accordingly, performance targets for awards to date have been set with reference to the Company's relative TSR performance over a three year period against a range of comparator companies in the oil exploration and production sector. Additionally, prior to the vesting of an award the Committee gives consideration, in light of any exceptional circumstances during the relevant three year period, to whether the TSR results are consistent with the achievement of actual underlying financial and operational performance of the Company. For awards to date, this shall primarily be assessed, on the basis of appropriate external advice, in terms of the additions to and the management and quality of the Group's oil and gas reserves in view of goals set by the Board. Once the Committee determines performance criteria have been met, there may additionally be a requirement that awards be held for a specified retention period prior to exercise or receipt.

Measurement of the Company's performance criteria is carried out with reference to external data sources provided by the Committee's remuneration advisors to ensure its independence. If the TSR ranking exceeds the median, 30% of the award will become capable of vesting, with full vesting only for performance in the top 14 percentile. The actual vesting percentage will be calculated on a pro rata basis between ranking positions to more closely reflect SOCO's actual TSR performance relative to the next highest and lowest comparators.

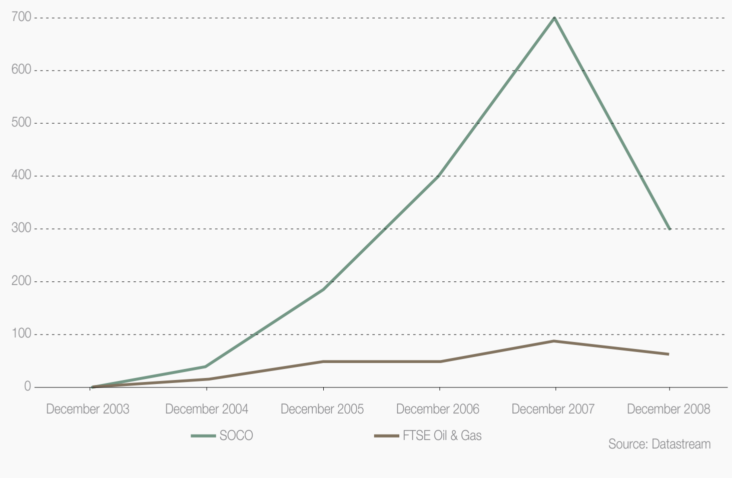
The comparator group comprises Aminex, Bowleven (from 2008), Burren Energy (through 2007), Cairn Energy, Dana Petroleum, Dragon Oil (through 2006), First Calgary (from 2007), JKX Oil and Gas (from 2007), Premier Oil, Ramco Energy (through 2006), Regal Petroleum, ROC Oil (from 2005), Salamander Energy (from 2007), SOCO, Sterling Energy (from 2007), Tullow Oil and Venture Production.

Following measurement of the Company's performance against the comparator group for awards granted in 2005, 100% of the awards have been declared vested. The Committee is satisfied that the performance criteria measurement has resulted in a vesting level appropriate to the underlying performance of the Company over the performance period.

In consideration of corporate and individual performance discretionary awards were granted over shares with a market value of 190% of base salary, being the same proportion as applied in 2007. Accordingly, 64,400 and 48,300 shares were awarded to Mr Story and Mr Cagle, respectively. While the award is over a greater number of shares than in 2007, the quantum is not considered material to dilution and is intended to promote retention, motivation and alignment with shareholders in the longer term. Approval of the 2008 awards was finalised on 7 January 2009.

Further details of incentive share awards are set out in the table on page 49 and in Note 28 to the financial statements. Charges which have been reflected in the Group's income statement in respect of incentive schemes are set out in Note 28 to the financial statements.

Total Shareholder Return %



Five Year TSR Performance

The performance graph below left sets out SOCO's TSR performance over the past five years. The FTSE Oil & Gas Index performance is similarly set out, being a broad market index which is sector specific.

Share Option Plans

The SOCO 1997 Company Share Option Plan terminated on 25 April 2007 without prejudice to the subsisting rights of participants. The Board has recommended the introduction of a new option plan (the Plan), which will be submitted for shareholder approval at the 2009 AGM. The Plan is intended to provide flexibility in motivating and retaining senior staff members. There is no current intention for Executive Directors to participate, however they will be eligible under Plan rules in order to retain flexibility in structuring remuneration packages in future. Any future participation of Directors would be subject to performance conditions with reference to best practice guidelines and fully disclosed to shareholders. Further details of the Plan are set out in the Directors' Report on pages 34 to 37, and in the notice of the 2009 Annual General Meeting.

The Directors held share options under the SOCO-sub Unapproved Share Option Plan which were granted prior to the 1997 listing of the Company's shares on the London Stock Exchange and were exercised in 2008. No additional grants are available under the plan.

Pension Contributions

Contributions are paid into two money purchase pension schemes in respect of the Executive Directors. Annual contribution levels are set at 15% of salary. The Company monitors its pension commitments, including Executive Directors' arrangements, in light of pension legislation and taxation in the relevant jurisdictions. No changes are currently contemplated.

Governance

The Directors' Remuneration Report continued

Other Policies

With prior approval of the Board, Executive Directors are allowed to accept non-executive appointments to other boards and to retain the associated directors' fees. Under this policy Mr Story served on the board of Cairn Energy PLC in 2008 and Mr Cagle serves on the boards of Vostok Energy Limited and Dominion Petroleum plc. Mr Story and Mr Cagle retained associated fees for 2008 in the amount of £50,000 and £60,000, respectively.

The Executive Directors have held a meaningful shareholding in the Company which they have continued to build since its founding in 1997. Accordingly, and giving due respect to the Executives' demonstrated actions, the Board has not set this requirement out in policy. An appropriate policy regarding shareholding targets will be given consideration upon any prospective Executive Director appointment.

Non-Executive Directors

The remuneration of the Non-Executive Chairman is set by the Committee and approved by the Board. The remuneration for other Non-Executive Directors is recommended by the Chief Executive and the Chairman and determined by the Board as a whole. Remuneration levels are set based on outside advice and the review of current practices in other companies, giving consideration to the time commitment and responsibilities of the role. In consideration of increasing demands and fee levels in recent years generally, SOCO has given particular attention to benchmarking data to ensure its fees remain appropriate. Based on these factors, the annual fees for services as Directors payable to the Non-Executive Directors were set at £40,000 and fees payable to the Chairman were set at £150,000 with effect from 1 January 2009. The fees have been set within the aggregate limits set out in the Company's Articles of Association and approved by shareholders. Non-Executive Directors are not eligible for participation in the Company's incentive schemes or pension schemes.

Directors' 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 one year specified by 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 dates of the Directors' service contracts or letters of appointment, which may not coincide with their initial date of appointment, are set out in the Directors' Report on page 35.

Directors' Emoluments (Audited)

	Fees/basic salary $000's	Benefits in kind [1] $000's	Annual bonus $000's	Total 2008 $000's	Total 2007 [2] $000's
Executive Directors					
E Story	**858**	**46**	**429**	**1,333**	1,508
R Cagle	**644**	**54**	**322**	**1,020**	1,159
Non-Executive Directors [3]					
R de Sousa	**250**	–	–	**250**	250
P Kingston [4]	**120**	–	–	**120**	130
O Barbaroux	**67**	–	–	**67**	72
R Cathery	**67**	–	–	**67**	72
E Contini	**67**	–	–	**67**	72
J Norton	**67**	–	–	**67**	72
M Roberts	**67**	–	–	**67**	72
J Snyder	**67**	–	–	**67**	72
Aggregate emoluments	**2,274**	**100**	**751**	**3,125**	3,479

1 Benefits include medical insurance, life assurance cover, critical illness cover and car benefits.

2 The 2007 figures reported above have been adjusted to include $366,000 in respect of an additional bonus opportunity which was described in the 2007 Annual Report and Accounts and subsequently awarded in a process more fully set out in the Bonus section of this report.

3 Non-Executive Directors' fees are set in GB pounds and have been reported in US dollars at the annual average exchange rate.

4 Emoluments receivable by Mr Peter Kingston are paid to Peter Kingston & Associates.

No Directors received amounts as compensation for loss of office as a Director during the year.

Directors' Pension Entitlements (Audited)

Contributions paid into two money purchase schemes by the Company in respect of the Executive Directors were as follows:

Executive Director	2008 $000's	2007 $000's
E Story	**129**	126
R Cagle	**97**	94
	226	220

Directors' Incentive Share Awards (Audited)

Details of Directors' options or rights to acquire ordinary shares in the Company are as follows:

	As at 1 January 2008	Granted/ awarded [3]	Exercised	Lapsed	As at 31 December 2008	Date potentially exercisable [4]	Expiry date
E Story							
Pre-IPO Share Plan [1]	1,973,954	–	1,973,954	–	–	29.05.97	–
Deferred Bonus [2]	160,000	–	–	–	160,000	01.01.03	21.03.11
LTIP [2]	175,140	–	–	–	175,140	24.05.04	23.05.11
	153,840	–	–	–	153,840	10.12.04	09.12.11
	111,400	–	111,400	–	–	09.12.07	–
	75,600	–	–	–	75,600	20.12.08	–
	55,600	–	–	–	55,600	18.12.09	–
	37,700	–	–	–	37,700	12.12.10	–
R Cagle							
Pre-IPO Share Plan [1]	986,977	–	986,977	–	–	29.05.97	–
Deferred Bonus [2]	112,000	–	–	–	112,000	01.01.03	21.03.11
LTIP [2]	122,580	–	–	–	122,580	24.05.04	23.05.11
	107,700	–	–	–	107,700	10.12.04	09.12.11
	77,900	–	77,900	–	–	09.12.07	–
	52,900	–	–	–	52,900	20.12.08	–
	41,700	–	–	–	41,700	18.12.09	–
	28,300	–	–	–	28,300	12.12.10	–

1 Options held under the SOCO-sub Unapproved Company Share Plan were granted prior to the listing of the Company's shares on the London Stock Exchange. These Options were exercised on 4 September 2008 at an exercise price of £0.75 and a market price of £14.08, resulting in a gain of £26.3 million and £13.2 million on exercise by Mr Ed Story and Mr Roger Cagle, respectively.

2 Additional details regarding the LTIP are set out within this report. LTIPs were exercised on 4 September 2008 at a market price of £14.08, resulting in a gain of £1.6 million and £1.1 million on exercise by Mr Ed Story and Mr Roger Cagle, respectively. Those awards set out as exercisable prior to 1 January 2008 are in the form of nil price options to acquire ordinary shares in the Company. Awards exercisable subsequently are in the form of contingent rights to acquire ordinary shares in the Company at no cost. Those awards set out as exercisable prior to 1 January 2009 have been tested against the relevant performance schedules attached to the awards and the balance held as at 31 December 2008 has been determined to be fully vested. Vesting of the awards exercisable subsequently and delivery of shares remains conditional upon performance criteria and consideration of Model Code restrictions. The date of expiry of awards may be delayed in consideration of Model Code restrictions.

3 Subsequent to 31 December 2008, conditional LTIP awards were made to Mr Ed Story and Mr Roger Cagle of 64,400 and 48,300 Shares respectively, which are potentially exercisable on 8 January 2012. The date of the awards was 7 January 2009 when the market price of the ordinary shares was £12.85.

4 Options may not be exercised without appropriate Board consents, the Board having given consideration to any requirements on participants to maintain a specified minimum number of shares under option (or equivalent shareholding requirements).

The market price of the ordinary shares at 31 December 2008 was £10.95 and the range during the year to 31 December 2008 was £10.86 to £22.36.

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. The lease, which was negotiated on an arm's length basis, has a fixed monthly rent of $1,000.

In March 2008, the Company, through its Group subsidiary, entered into a production sharing contract over Block 5, located in eastern Democratic Republic of Congo (Kinshasa). Roger Cagle is the Non-Executive Chairman of Dominion Petroleum Limited, one of the co-venturers.

Under the terms of an acquisition approved by shareholders in 1999, the Company and its strategic shareholder group (Investor Group), including Quantic Limited (Quantic) in which Mr Rui de Sousa has a non-notifiable share interest, jointly participate in certain regions in which the Investor Group utilises its long established industry and government relationships to negotiate and secure commercial rights in oil and gas projects. In the 2004 Annual Report and Accounts the form of participation to be utilised was set out to be through equity shareholdings in which the Investor Group holds a minority interest in special purpose entities created to hold such projects. The shareholding terms have been modelled after the SOCO Vietnam Ltd arrangement which was negotiated with third parties. Quantic's minority holdings in the subsidiary undertakings which principally affected the profits or net assets of the Group are shown in Note 17 of the financial statements. The Group has entered into a consulting agreement, which the parties have agreed to extend through December 2010, wherein Quantic is entitled to a consulting fee in the amount of $50,000 per month in respect of such services as are required to review, assess and progress the realisation of oil and gas exploration and production opportunities in certain areas.

Directors' Interests

The Directors who held office at 31 December 2008 had the following interests (all of which were beneficial except as noted below) in the ordinary shares of the Company (Shares), warrants to subscribe for the same number of Shares (Warrants) and contingent rights or options to acquire Shares (Options) at 31 December 2008:

	Number of Shares		Number of Options [1]		Number of Warrants	
	2008	2007	**2008**	2007	**2008**	2007
Executive Directors						
Ed Story [2]	**2,826,415**	1,567,988	**657,880**	2,743,234	**–**	–
Roger Cagle [3]	**1,726,843**	751,026	**774,340**	2,389,506	**–**	–
Non–Executive Directors						
Rui de Sousa [4]	**770,076**	770,076	**–**	–	**1,509,201**	1,509,201
Peter Kingston	**4,000**	4,000	**–**	–	**–**	–
Olivier Barbaroux	**20,000**	20,000	**–**	–	**–**	–
Robert Cathery	**100,000**	100,000	**–**	–	**–**	–
Ettore Contini	**50,000**	60,000	**–**	–	**–**	–
John Norton	**115,000**	115,000	**–**	–	**–**	–
Martin Roberts	**5,000**	5,000	**–**	–	**–**	–
John Snyder [5]	**100,000**	200,000	**–**	–	**–**	–

1 Details of Options granted to or held by the Directors in respect of their services as a director, including any relevant conditions of exercise, are set out in the table of Directors' incentive share awards.

2 Subsequent to 31 December 2008, Mr Ed Story was granted 64,400 LTIP awards and 75,600 LTIP shares vested and were released, from which 27,556 Shares were sold, resulting in an interest in 2,874,459 Shares and 646,680 Options.

3 At 31 December 2008, Mr Roger Cagle's interests included 614,338 Shares (2007 – 281,583) and 309,160 Options (2007 – 859,449) held by Ms Cynthia Cagle, the Options having been granted to her in respect to her services to the Group. Subsequent to 31 December 2008, Mr Roger Cagle was granted 48,300 LTIP awards and 52,900 LTIP shares vested and were released, from which 21,689 Shares were sold; Ms Cynthia Cagle was granted 32,900 LTIP awards and 38,500 LTIP shares vested and were released from which 15,785 Shares were sold. As a result, Mr Cagle is interested in 1,780,769 Shares and 764,140 Options at the date of this report.

4 48,652 Shares (2007 – 48,652) are held by Mr Rui de Sousa personally. 721,424 Shares (2007 – 721,424), 55,336 Warrants (2007 – 55,336) at an exercise price of £0.55 per Share, 925,187 Warrants (2007 – 925,187) at an exercise price of £0.60 per Share and 528,678 Warrants (2007 – 528,678) at an exercise price of £0.65 per Share are held by Palamos Limited, a connected person to Mr de Sousa. 48,652 Shares held by Mr de Sousa personally are pledged as security against a general loan facility and 721,424 Shares held by Palamos Limited are pledged as security against a revolving loan credit facility. Mr de Sousa and Palamos Limited remain as the respective beneficial owners and retain control of the voting rights attached to such Shares.

5 Mr John Snyder's interest is held by Snyder Family Investments, L.P., a connected person to Mr Snyder.

Whilst the Executive Directors, as potential beneficiaries, are technically deemed to have an interest in all Shares held by the SOCO Employee Benefit Trust (Trust), the table above only includes those Shares which are potentially transferable to the Directors and their families pursuant to Options which have been granted to them under incentive schemes facilitated by the Trust. Details of the Trust and its holdings are set out in Note 26 to the financial statements.

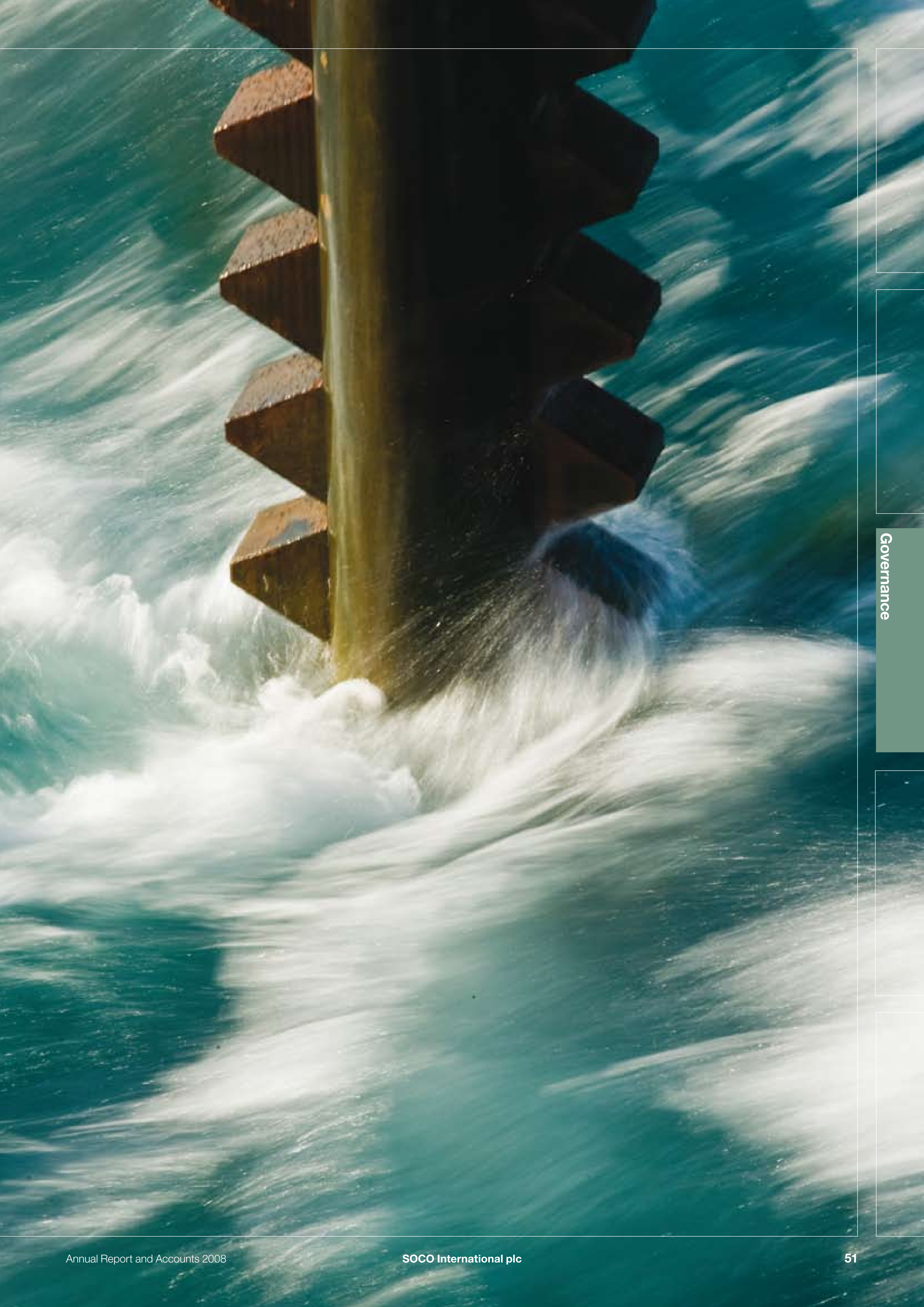
There have been no other changes in the interests of the Directors between 31 December 2008 and the date of this report.

No Director held any other interests in any Group companies.

Approval

This report was approved by the Board of Directors on 9 March 2009 and signed on its behalf by:

Peter Kingston
Remuneration Committee Chairman



Governance

Independent Auditors' Report to the Members of SOCO International plc

We have audited the Group and parent Company financial statements (the "financial statements") of SOCO International plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and parent Company Balance Sheets, the Group and parent Company Cash Flow Statements, the Group and parent Company Statements of Recognised Income and Expense and the related Notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities in the Directors' Report.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's and Chief Executive's Statement, the Review of Operations and the Financial Review that is cross referred from the Principal Activity and Enhanced Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
9 March 2009

Consolidated Income Statement
for the year to 31 December 2008

	Notes	2008 $000's	2007 $000's
Continuing operations			
Revenue	5, 6	**55,340**	–
Cost of sales		**(18,948)**	–
Gross profit		**36,392**	–
Administrative expenses		**(6,201)**	(7,845)
Other operating expenses		**(19)**	(13)
Operating profit (loss)	6, 9	**30,172**	(7,858)
Investment revenue	5	**7,175**	5,916
Other gains and losses	7	**1,488**	246
Finance costs	8	**(1,447)**	(7,164)
Profit (loss) before tax	9	**37,388**	(8,860)
Tax	11	**(6,815)**	(22)
Profit (loss) for the year from continuing operations		**30,573**	(8,882)
Discontinued operations	12		
Operating profit from discontinued operations	6	**36,419**	65,645
Investment revenue from discontinued operations	5	**107**	410
Finance costs of discontinued operations		**(1)**	(122)
Profit on disposal		**356,688**	–
Profit before tax from discontinued operations	9	**393,213**	65,933
Tax	11	**(12,726)**	(24,737)
Profit for the year from discontinued operations		**380,487**	41,196
Profit for the year	9	**411,060**	32,314
Earnings (loss) per share (cents)	14		
From continuing operations		**42.8**	(12.6)
From discontinued operations excluding profit on disposal		**33.3**	58.4
From profit on disposal		**499.2**	–
Basic		**575.3**	45.8
From continuing operations		**37.9**	(11.2)
From discontinued operations excluding profit on disposal		**28.7**	52.1
From profit on disposal		**430.5**	–
Diluted		**497.1**	40.9

Financials

Balance Sheets
as at 31 December 2008

	Notes	Group 2008 $000's	Group 2007 $000's	Company 2008 $000's	Company 2007 $000's
Non-current assets					
Intangible assets	15	**363,958**	247,178	**–**	–
Property, plant and equipment	16	**235,497**	237,699	**242**	509
Investments	17	**–**	–	**448,010**	207,006
Financial asset	18	**34,383**	32,748	**–**	–
Deferred tax assets	19	**1,251**	119	**–**	–
		635,089	517,744	**448,252**	207,515
Current assets					
Inventories	20	**3,911**	11	**–**	–
Trade and other receivables	21	**31,813**	12,370	**298**	335
Tax receivables		**172**	1,819	**85**	164
Cash and cash equivalents		**303,433**	68,337	**1,143**	424
		339,329	82,537	**1,526**	923
Total assets	6	**974,418**	600,281	**449,778**	208,438
Current liabilities					
Trade and other payables	22	**(22,512)**	(38,151)	**(2,651)**	(16,548)
Tax payables		**(1,773)**	(114)	**(60)**	(75)
		(24,285)	(38,265)	**(2,711)**	(16,623)
Net current assets (liabilities)		**315,044**	44,272	**(1,185)**	(15,700)
Non-current liabilities					
Convertible bonds	23	**(228,245)**	(224,102)	**–**	–
Deferred tax liabilities	19	**(3,219)**	(1,308)	**–**	–
Long term provisions	24	**(8,283)**	(7,639)	**–**	–
		(239,747)	(233,049)	**–**	–
Total liabilities	6	**(264,032)**	(271,314)	**(2,711)**	(16,623)
Net assets		**710,386**	328,967	**447,067**	191,815
Equity					
Share capital	25	**24,322**	23,549	**24,322**	23,549
Share premium account	26	**70,369**	68,355	**70,369**	68,355
Other reserves	26	**14,697**	49,437	**(58,520)**	(25,774)
Retained earnings	26	**600,998**	187,626	**410,896**	125,685
Total equity	27	**710,386**	328,967	**447,067**	191,815

The financial statements were approved by the Board of Directors on 9 March 2009 and signed on its behalf by:

Rui de Sousa
Chairman

Roger Cagle
Director

Cash Flow Statements

for the year to 31 December 2008

	Notes	Group 2008 $000's	Group 2007 $000's	Company 2008 $000's	Company 2007 $000's
Net cash from (used in) operating activities	29	**45,056**	49,009	**(18,764)**	(12,506)
Investing activities					
Purchase of intangible assets		**(128,361)**	(107,294)	**–**	–
Purchase of property, plant and equipment		**(89,252)**	(71,296)	**(6)**	(14)
Investment in subsidiary undertakings		**–**	–	**(418,291)**	–
Dividends received from subsidiary undertakings		**–**	–	**9,146**	12,877
Proceeds of prior period disposal		**–**	10,000	**–**	–
Proceeds on disposal of subsidiary	12	**438,505**	–	**459,242**	–
Net cash from (used in) investing activities		**220,892**	(168,590)	**50,091**	12,863
Financing activities					
Share-based payments	26	**(30,040)**	–	**(30,040)**	–
New bank loans raised	30	**20,000**	–	**–**	–
Repayment of borrowings	30	**(20,000)**	–	**–**	–
Proceeds on issue of ordinary share capital	25	**86**	47	**86**	47
Net cash (used in) from financing activities		**(29,954)**	47	**(29,954)**	47
Net increase (decrease) in cash and cash equivalents		**235,994**	(119,534)	**1,373**	404
Cash and cash equivalents at beginning of year		**68,337**	187,791	**424**	63
Effect of foreign exchange rate changes		**(898)**	80	**(654)**	(43)
Cash and cash equivalents at end of year		**303,433**	68,337	**1,143**	424

Statements of Recognised Income and Expense

for the year to 31 December 2008

	Notes	Group 2008 $000's	Group 2007 $000's	Company 2008 $000's	Company 2007 $000's
Profit for the year	13, 26	**411,060**	32,314	**459,358**	5,087
Transfer from other reserves	26	**3,196**	5,687	**–**	–
Unrealised currency translation differences	26	**(884)**	96	**(174,147)**	3,073
Total recognised income for the year		**413,372**	38,097	**285,211**	8,160

Notes to the Consolidated Financial Statements

1 General information

SOCO International plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 75. The nature of the Group's operations and its principal activities are set out in Note 6 and in the Review of Operations and Financial Review on pages 12 to 21 and 22 to 25, respectively.

2 Significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and on a going concern basis of accounting for the reasons set out in the Directors' Report on page 37 and in the Financial Review on page 25. The financial statements have also been prepared in accordance with IFRSs 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 1985 applicable to companies reporting under IFRS. 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, which is the functional currency of each of the Company's subsidiary undertakings. The functional currency of the Company remains GB pounds although its financial statements are presented in US dollars. The principal accounting policies adopted are set out below. During 2008, the Group changed the way in which it values physical inventory of hydrocarbons to follow established industry practice whereby such inventory is valued at net realisable value (NRV) rather than at the lower of cost or NRV. No prior year adjustment has been made on the grounds of immateriality.

(b) Adoption of new and revised accounting standards

At the date of approval of these financial statements the Group has not applied the following IFRSs, International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations which are in issue but not yet effective:

- IFRS 1 (amended)/IAS 27 (Amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS2 (amended) Share-based Payment – Vesting Conditions and Cancellations
- IFRS 3 (revised 2008) Business Combinations
- IFRS 8 Operating Segments
- IAS 1 (revised 2007) Presentation of Financial Statements
- IAS 23 (revised 2007) Borrowing Costs
- IAS 27 (revised 2008) Consolidated and Separate Financial Statements
- IAS 32 (amended)/IAS 1 (amended) Puttable Financial Instruments and Obligations Arising on Liquidation
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners

The adoption of these IASs, IFRSs and IFRICs in future periods are not expected to have a material impact on the financial statements of the Group.

(c) Basis of consolidation

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

(d) Investments

Except as stated below, non-current investments are shown at cost less provision for impairment.

(e) Interests in joint ventures

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

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

(f) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and no depreciation is charged.

2 Significant accounting policies continued

(g) Revenue

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

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

(h) Tangible and intangible non-current assets

Oil and gas exploration, evaluation and development expenditure

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

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

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

Depreciation and depletion

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

Impairment of value

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

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

Other tangible non-current assets

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

Decommissioning

The decommissioning provision is calculated as 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 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.

2 Significant accounting policies continued

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

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

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

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

(l) Share-based payments
In accordance with the transitional provisions, the Group has applied the requirements of IFRS 2 to all grants after 7 November 2002 that were unvested as of 1 January 2005. Under these requirements, equity-settled awards under share-based incentive plans are measured at fair value at the date of grant and expensed on a straight line basis over the performance period along with a corresponding increase in equity. Fair value is measured using an option pricing model taking into consideration management's best estimate of the expected life of the option and the estimated number of shares that will eventually vest.

(m) Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

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

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

Other than the convertible bonds there are no material financial assets and liabilities for which differences between carrying amounts and fair values are required to be disclosed. The classification of financial instruments as required by IFRS 7 is disclosed in Notes 18, 21, 22 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. Period credits for changes in the net present value of the financial asset arising from discounting are included in other gains and losses.

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

2 Significant accounting policies continued

Trade payables

Trade payables are stated at their nominal value.

Convertible bonds

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

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

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(o) Foreign currencies

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

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

(p) Pension costs

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

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 Committee. The main financial risks affecting the Group are discussed below:

Credit risk

The Group's non-current financial asset that is subject to credit risk comprises a financial asset at fair value through profit or loss arising in respect of the Group's disposal of its Mongolia interest (see Note 18). The Group's and Company's other financial assets comprise investments, trade receivables and cash and cash equivalents. The Group seeks to minimise credit risk by only maintaining balances with creditworthy third parties including major multi-national oil companies subject to contractual terms in respect of trade receivables. The credit risk on liquid funds is limited as the Board only selects institutions with high credit-ratings assigned by international credit-rating agencies and endeavours to spread cash balances over more than one institution. The level of deposits held by different institutions is regularly reviewed.

Foreign currency risk

The Group primarily conducts and manages its business in US dollars. Cash balances in Group subsidiaries are usually 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 Group may take short term hedging positions to protect the value of any cash balances it holds in non-US dollar currencies. The impact of a 10% movement in foreign exchange rates on the Group's profit and net assets for the years ended 31 December 2008 and 2007 would not have been material.

Notes to the Consolidated Financial Statements
continued

3 Financial risk management continued

Liquidity risk

The Group's cash requirements and balances are projected for the Group as a whole and for each country in which operations and capital expenditures are conducted. The Group meets these requirements through an appropriate mix of available funds, equity instruments and debt financing. The Group's ability to satisfy its debt obligations and to pursue its operational objectives are discussed in the Risk Management section of the Financial Review. The Group seeks to minimise the impact that any debt financings have on its balance sheet by negotiating borrowings in matching currencies (see Notes 23 and 30). The Group further mitigates liquidity risk by entering into arrangements with industry partners thereby sharing costs and risks, and by maintaining an insurance programme to minimise exposure to insurable losses.

Interest rate risk

The Group earns interest on its cash at bank and other short term highly liquid investments at a floating rate (see Note 29). Fixed rate interest is charged on the Group's convertible bonds (see Note 23). In addition the Group had a reserve-based revolving credit facility which was subject to a floating rate, however no drawdowns were made. During the year the Group entered into an unsecured revolving term facility which was subject to a floating rate, drawing down $20.0 million which was subsequently repaid. Both facilities were cancelled during the year (see Note 30). The fair value of the Group's non-current financial asset (see Note 18) is also dependent on the discount rate used. Management assess the Group's sensitivity to changes in interest rates. If interest rates had been 0.5% higher or lower and all other variables held constant, the Group's profit for the year ended, and its net assets at, 31 December 2008 would decrease or increase by $2.5 million (2007 – $1.2 million or $1.3 million, respectively).

Commodity price risk

The Group's production is usually sold on "spot" or near term contracts, with prices fixed at the time of a transfer of custody or on the basis of a monthly average market price. However the Board may give consideration in certain circumstances to the appropriateness of entering into fixed price, long term marketing contracts. Although oil prices may fluctuate widely, it is the Group's policy not to hedge crude oil sales unless hedging is required to mitigate financial risks associated with debt financing of its assets or to meet its commitments. Over time, during periods when the Group sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt (see Note 23), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 25 and 26.

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

Financial asset

Note 2(n) describes the accounting policy with respect to financial assets at fair value through profit or loss. The key judgements that are used in calculating the fair value of the Group's financial asset arising on the disposal of its Mongolia interest are described in Note 18 and are reviewed at least annually. The only market risk assumption that has a significant impact on the fair value of this asset is the discount rate, as described in Note 3.

Convertible bonds

Note 2(n) sets out the Group's accounting policy on convertible bonds. Management assesses the fair value of the liability component at issue and reviews the appropriateness of the amortisation period at least annually. Note 2(h) describes the nature of the costs that the Group capitalises which include applicable borrowing costs that are directly attributable to qualifying assets as defined in IAS 23 Borrowing Costs (IAS 23). Management has considered the definition of qualifying assets in IAS 23 and has determined that the only expenditure that currently meets the definition is that related to the Group's interests in Vietnam. Consequently the interest associated with capital expenditure in Vietnam has been capitalised up to the date at which such qualifying assets enter into production.

4 Critical judgements and accounting estimates continued

(b) Key sources of estimation uncertainty

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

Oil and gas reserves

Note 2(h) sets out the Group's accounting policy on depreciation and depletion. Proven and probable reserves are estimated using standard recognised evaluation techniques. The estimate is reviewed at least twice a year and is regularly reviewed by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

Financial asset

Note 2(n) describes the accounting policy with respect to financial assets at fair value through profit or loss. The key sources of estimation uncertainty that impact the fair value of the Group's financial asset arising on the disposal of its Mongolia interest are described in Note 18 and are reviewed at least annually.

Decommissioning provision

The accounting policy for decommissioning is discussed in Note 2(h). The cost of decommissioning is estimated by reference to operators, where applicable, and internal engineers. Further details are provided in Note 24.

5 Total revenue

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

	2008 $000's	2007 $000's
Continuing operations		
Oil sales (see Note 6)	**55,340**	–
Investment revenue	**7,175**	5,916
	62,515	5,916
Discontinued operations		
Oil sales (see Note 6)	**43,984**	98,420
Investment revenue	**107**	410
	106,606	104,746

6 Segment information

Geographical segments

Geographical segments form the basis on which the Group reports its primary segment information.

	Continuing operations				**Discontinued operations**	**2008**
	SE Asia $000's	**Africa $000's**	**Unallocated $000's**	**Total $000's**	**Middle East [1] $000's**	**Group $000's**
Oil sales (see Note 5)	**55,340**	**–**	**–**	**55,340**	**43,984**	**99,324**
Operating profit	**36,392**	**–**	**(6,220)**	**30,172**	**36,419**	**66,591**
Assets	**561,687**	**73,907**	**338,824**	**974,418**	**–**	**974,418**
Liabilities	**18,290**	**5,845**	**239,897**	**264,032**	**–**	**264,032**
Capital additions	**175,231**	**34,330**	**20**	**209,581**	**10,599**	**220,180**
Depletion and depreciation	**7,913**	**–**	**211**	**8,124**	**609**	**8,733**

	Continuing operations				Discontinued operations	2007
	SE Asia $000's	Africa $000's	Unallocated $000's	Total $000's	Middle East [1] $000's	Group $000's
Oil sales	–	–	–	–	98,420	98,420
Operating profit	–	–	(7,858)	(7,858)	65,645	57,787
Assets	362,447	38,183	97,244	497,874	102,407	600,281
Liabilities	20,253	928	234,258	255,439	15,875	271,314
Capital additions	137,389	10,036	75	147,500	43,438	190,938
Depletion and depreciation	–	–	234	234	12,266	12,500

[1] In April 2008, the Group completed the sale of its Middle East segment which comprised its Yemen interest (see Note 12) and is now classified as a discontinued operation for all years presented.

Financials

6 Segment information continued

Business segment

The Group has one principal business activity being oil and gas exploration and production. Revenue by destination does not materially differ from revenue by origin. There are no inter-segment sales.

7 Other gains and losses

	2008 $000's	2007 $000's
Change in fair value of financial asset (see Note 18)	**1,634**	177
Exchange (loss) gain	**(146)**	69
	1,488	246

8 Finance costs

	2008 $000's	2007 $000's
Interest payable in respect of convertible bonds (see Note 23)	**15,401**	15,111
Other interest payable and similar fees (see Note 30)	**509**	205
Capitalised finance costs	**(14,607)**	(8,152)
Unwinding of discount on provisions (see Note 24)	**144**	–
	1,447	7,164

The amount of finance costs capitalised was determined by applying the weighted average rate of finance costs applicable to the borrowings of the Group of 6.55% (2007 – 6.55%) to the expenditures on the qualifying asset (see Note 4).

9 Profit for the year

Profit for the year is stated after charging fees payable to the Company's auditors:

	2008 $000's	2007 $000's
Audit of the Company's annual accounts	**177**	127
Audit of the Company's subsidiaries pursuant to legislation	**11**	38
Other services pursuant to legislation	**73**	75
Recruitment and remuneration services	**65**	104
Corporate finance services	**101**	–
Other services:		
Audit of the Company's subsidiaries, not required by legislation	**–**	28
Other	**17**	15
Total fees	**444**	387

The amounts payable to Deloitte LLP by the Group in respect of other services pursuant to legislation comprise $73,000 relating to the Group's interim review (2007 – $75,000). The amount payable in respect of corporate finance services relates to reporting accountant work required in connection with the disposal of the Group's Yemen interest (see Note 12).

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

10 Staff costs

The average monthly number of employees of the Group including Executive Directors was 14 (2007 – 14), of which 11 (2007 – 11) were administrative personnel and 3 (2007 – 3) were operations personnel. The average monthly number of employees directly contracted to the Company was 8 (2007 – 8) of which 7 (2007 – 7) were administrative personnel and 1 (2007 – 1) was operations personnel. Their aggregate remuneration comprised:

	Group		Company	
	2008 $000's	2007 $000's	**2008 $000's**	2007 $000's
Wages and salaries	**5,454**	5,556	**1,858**	1,466
Social security costs	**1,833**	2,183	**196**	167
Share-based payment expense (see Note 28)	**971**	834	**59**	63
Other pension costs under money purchase schemes	**470**	430	**135**	116
	8,728	9,003	**2,248**	1,812

A proportion of the Group's staff costs are capitalised in accordance with the Group's accounting policy.

11 Tax

	Continuing operations		Discontinued operations		Group	
	2008 $000's	2007 $000's	**2008 $000's**	2007 $000's	**2008 $000's**	2007 $000's
Current tax	**4,728**	22	**8,689**	22,018	**13,417**	22,040
Deferred tax (see Note 19)	**2,087**	–	**4,037**	2,719	**6,124**	2,719
	6,815	22	**12,726**	24,737	**19,541**	24,759

UK corporation tax is calculated at 28.5% (2007 – 30%) of the estimated assessable profit for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. During 2008 and 2007 both current and deferred taxation have arisen in overseas jurisdictions only.

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

	2008 $000's	2007 $000's
Profit before tax on continuing operations	**37,388**	(8,860)
Profit before tax on discontinued operations	**393,213**	65,933
Profit before tax	**430,601**	57,073
Profit before tax multiplied by standard rate of corporation tax in the UK of 28.5% (2007 – 30%)	**122,721**	17,122
Effects of:		
Non-taxable income and non-deductible expenses	**(8,037)**	2,779
Non-taxable profit on disposal	**(101,656)**	–
Higher tax rates on overseas earnings	**6,515**	3,580
Adjustments to tax charge in respect of previous years	**(2)**	1,278
Tax charge for the year	**19,541**	24,759

The tax charge in future periods may also be affected by these factors. The Group's overseas tax rates are higher than those in the UK, primarily because the profits earned in Vietnam and Thailand are taxed at a rate of 50% and in Yemen are taxed at a rate of 35%.

12 Discontinued operations

In February 2008, the Group entered into a conditional sale agreement to dispose of its wholly owned subsidiary SOCO Yemen Pty Limited (SOCO Yemen), the entity that held the Company's interest in the East Shabwa Development Area (ESDA) in Yemen, to Sinochem Petroleum Limited (Sinochem). The disposal was completed in April 2008 for $465.0 million, subject to certain financial adjustments (the Disposal). The consideration for the Disposal was paid in cash on completion.

SOCO Yemen held an indirect interest of 16.785% in the ESDA of Yemen through its 58.75% equity interest in Comeco Petroleum, Inc. (Comeco). Comeco, in turn, had a 28.57% interest in the ESDA. The ESDA joint venture is operated by TOTAL E&P Yemen under a production sharing agreement with the Government of Yemen. The Group's interest in the ESDA in Yemen was the only component of the Middle East segment disclosed in Note 6.

12 Discontinued operations continued

The results of the Group's discontinued Yemen interest is shown on the consolidated income statement and in Note 6. Net operating cash flows from discontinued operations are shown in Note 29. During the period to the date of disposal the cash used in investing activities was $9.6 million (2007 – $41.1 million) and cash used in financing activities was $7.8 million (2007 – $11.2 million). Immediately prior to the sale the Group's share of net assets associated with the Yemen interest was $102.5 million (2007 – $86.6 million) comprising property, plant and equipment of $96.8 million (2007 – $86.8 million), current assets of $27.2 million (2007 – $16.9 million), current liabilities of $8.5 million (2007 – $8.2 million) and long term liabilities of $13.0 million (2007 – $8.9 million).

Upon completion the Group recognised cash inflow of $438.5 million reflecting the $465.0 million cash consideration net of the Group's share of cash held by the Yemen interest of $20.7 million, transaction costs of $5.3 million and financial adjustments of $0.5 million, and a gain of $356.7 million.

13 Profit attributable to SOCO International plc

The profit for the financial year, inclusive of dividends received from subsidiary undertakings, dealt with in the accounts of the Company was $459,358,000 (2007 – $5,087,000). As provided by Section 230 of the Companies Act 1985, no income statement is presented in respect of the Company.

14 Earnings per share

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

	2008 $000's	2007 $000's
Earnings (loss) from continuing operations	**30,573**	(8,882)
Effect of dilutive potential ordinary shares: Interest on convertible bonds (see Note 8)	**794**	–
Earnings (loss) for the purposes of diluted earnings per share on continuing operations	**31,367**	(8,882)
Earnings from discontinued operations	**380,487**	41,196
Earnings for the purposes of diluted earnings per share on continuing and discontinued operations	**411,854**	32,314

	Number of shares	
	2008	2007
Weighted average number of ordinary shares for the purpose of basic earnings per share	**71,446,122**	70,491,970
Effect of dilutive potential ordinary shares:		
Share options and warrants	**3,065,499**	6,405,279
Ordinary shares of the Company held by the Group (see Note 26)	**2,113,936**	2,193,280
Convertible bonds (see Note 23)	**6,238,000**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**82,863,557**	79,090,529

At 31 December 2007 up to 6,238,000 potential ordinary shares in the Company that are underlying the Company's convertible bonds (see Note 23) and that may dilute earnings per share in the future were not included in the calculation of diluted earnings per share because they were antidilutive for that year.

15 Intangible assets

Exploration and evaluation expenditure

	Group $000's
As at 1 January 2007	146,954
Additions	100,224
As at 1 January 2008	**247,178**
Additions	**133,758**
Transfers to property, plant and equipment (see Note 16)	**(16,978)**
As at 31 December 2008	**363,958**

Intangible assets comprise the Group's exploration and evaluation projects which are pending determination and include an amount of $293.6 million (2007 – $198.6 million) in respect of Vietnam Block 16-1 with the balance relating to the Group's Africa interests. During the year $17.0 million was transferred to property, plant and equipment (see Note 16) in respect of the Group's Thailand project.

16 Property, plant and equipment

	Group			Company
	Oil and gas properties $000's	Other $000's	Total $000's	Other $000's
Cost				
As at 1 January 2007	214,830	2,210	217,040	1,273
Additions	90,639	75	90,714	14
Foreign exchange	–	22	22	22
As at 1 January 2008	**305,469**	**2,307**	**307,776**	**1,309**
Additions	**86,402**	**20**	**86,422**	**6**
Disposals (see Note 12)	**(165,750)**	**(691)**	**(166,441)**	**–**
Transfers from intangible assets (see Note 15)	**16,978**	**–**	**16,978**	**–**
Foreign exchange	**–**	**(364)**	**(364)**	**(364)**
As at 31 December 2008	**243,099**	**1,272**	**244,371**	**951**
Depreciation				
As at 1 January 2007	56,109	1,459	57,568	593
Charge for the year	12,266	234	12,500	198
Foreign exchange	–	9	9	9
As at 1 January 2008	**68,375**	**1,702**	**70,077**	**800**
Charge for the year	**8,522**	**211**	**8,733**	**170**
Disposals (see Note 12)	**(68,984)**	**(691)**	**(69,675)**	**–**
Foreign exchange	**–**	**(261)**	**(261)**	**(261)**
As at 31 December 2008	**7,913**	**961**	**8,874**	**709**
Carrying amount				
As at 31 December 2008	**235,186**	**311**	**235,497**	**242**
As at 31 December 2007	237,094	605	237,699	509

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

17 Fixed asset investments

Principal Group investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2008 which principally affected the profits or net assets of the Group, all of which are indirectly held.

	Country of incorporation	Country of operation	Principal activity	Percentage holding
OPECO Vietnam Limited	Cook Islands	Vietnam	Oil and gas exploration	100
SOCO Exploration (Thailand) Co. Ltd	Thailand	Thailand	Oil and gas exploration	99.9
SOCO Congo Limited [1]	Cayman Islands	Congo (Brazzaville)	Investment holding	85
SOCO DRC Limited [2]	Cayman Islands	Congo (Kinshasa)	Investment holding	85
SOCO Vietnam Ltd [3]	Cayman Islands	Vietnam	Oil and gas exploration	80

[1] SOCO Congo Limited (SOCO Congo) owns 100% of SOCO Exploration and Production Congo SA which holds the Group's working interest in its Congo (Brazzaville) asset. The Group funds 100% of SOCO Congo and is entitled to receive 100% of the distributions made by SOCO Congo until it has recovered such funding including a rate of return. The 15% minority interest is held by Quantic Limited.

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

[3] The remaining 20% minority interest is funded by the Group. The Group is entitled to receive 100% of the distributions made by SOCO Vietnam until it has recovered its funding of the minority interest including a rate of return on the minority interest's pro rata portion of those distributions.

The Company's investments in subsidiary undertakings include contributions to the SOCO Employee Benefit Trust (see Note 26) and are otherwise held in the form of share capital.

18 Financial asset
In 2005, the Group completed a transaction whereby it sold its 100% owned subsidiaries SOCO Tamtsag Mongolia, LLC (SOTAMO) and SOCO Mongolia Ltd (SOCO Mongolia) to Daqing Oilfield Limited Company (Daqing). Together SOTAMO and SOCO Mongolia held the Group's Mongolia interest. Under the terms of the transaction the Group will receive total consideration of up to $92.7 million comprising cash consideration payable of $40.0 million, less applicable settlement adjustments of $0.4 million, which was paid in two tranches, plus a subsequent payment amount. The remaining consideration is payable, once cumulative production reaches 27.8 million barrels of oil, at the rate of 20% of the average monthly posted marker price for Daqing crude multiplied by the aggregate production for that month, up to a total of $52.7 million.

The subsequent payment amount is included in non-current assets as a financial asset at fair value through profit or loss. The timescale for the production of crude oil in excess of 27.8 million barrels and the price of Daqing marker crude oil are factors that cannot accurately be predicted. However, based upon the Directors' current estimates of proven and probable reserves from the Mongolia interests and the development scenarios as discussed with the buyer, the Directors believe that the full subsequent payment amount will be payable. The fair value of the subsequent payment amount was determined using a valuation technique as there is no active market against which direct comparisons can be made. Assumptions made in calculating the fair value include the factors mentioned above, risked as appropriate, with the resultant cash flows discounted at a commercial risk free interest rate. The fair value of the financial asset at the date of completion of the sale was $31.5 million. As at 31 December 2008 the fair value was $34.4 million (2007 – $32.7 million) after accounting for the change in fair value (see Note 7).

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

	Foreign tax credits $000's	(Accelerated) decelerated tax depreciation $000's	Tax losses $000's	Other $000's	Group $000's
As at 1 January 2007	1,172	169	119	70	1,530
Credit (charge) to income	(1,172)	(1,664)	–	117	(2,719)
As at 1 January 2008	**–**	**(1,495)**	**119**	**187**	**(1,189)**
Credit (charge) to income (see Note 11)	**–**	**(6,902)**	**778**	**–**	**(6,124)**
Disposal of subsidiary	**–**	**5,532**	**–**	**(187)**	**5,345**
As at 31 December 2008	**–**	**(2,865)**	**897**	**–**	**(1,968)**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset):

	2008 $000's	2007 $000's
Deferred tax liability	**(3,219)**	(1,308)
Deferred tax asset	**1,251**	119
	(1,968)	(1,189)

The deferred tax asset principally arises in respect of fixed asset timing differences and unutilised tax losses which expire no sooner than 2018. The deferred tax asset is recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred taxation asset can be recovered in future periods based upon economic models of each operation. There is no unprovided deferred taxation at either balance sheet date except for an unprovided deferred tax asset arising in respect of foreign tax credits of the Company that are not expected to be utilised in the amount of £7.1 million, being $10.2 million (2007 – £5.9 million, being $11.7 million).

20 Inventories
Inventories comprise crude oil and condensate.

21 Other financial assets

	Group		Company	
	2008 $000's	2007 $000's	**2008 $000's**	2007 $000's
Amounts falling due within one year				
Trade receivables	**16,055**	8,590	**–**	–
Other receivables	**5,362**	2,244	**19**	29
Prepayments and accrued income	**10,396**	1,536	**279**	306
	31,813	12,370	**298**	335

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

22 Other financial liabilities

	Group		Company	
	2008 $000's	2007 $000's	**2008 $000's**	2007 $000's
Trade payables	**677**	25,623	**–**	–
Amounts due to Group undertakings	**–**	–	**–**	15,353
Other payables	**4,195**	563	**215**	308
Accruals and deferred income	**17,640**	11,965	**2,436**	887
	22,512	38,151	**2,651**	16,548

There is no material difference between the carrying value of trade payables and their fair value. Accruals and deferred income includes interest payable of $1.4 million (2007 – $1.4 million) in respect of convertible bonds (see Note 23). The above financial liabilities are held at amortised cost and are not discounted as the impact would not be material.

23 Convertible bonds

In May 2006, the Group issued bonds at a par value of $250 million which will be convertible into ordinary shares of the Company at any time from June 2006 until six days before their maturity date of 16 May 2013. At the initial conversion price of £21.847 per share there are 6,238,000 ordinary shares of the Company underlying the bonds. Bonds may be redeemed at par at the option of each bondholder on 16 May 2010. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 16 May 2013. Interest of 4.5% per annum will be paid semi-annually up to that date.

	2008 $000's	2007 $000's
Liability component at 1 January	**225,524**	221,663
Interest charged (see Note 8)	**15,401**	15,111
Interest paid	**(11,250)**	(11,250)
Total liability component as at 31 December	**229,675**	225,524
Reported in:		
Interest payable in current liabilities (see Note 22)	**1,430**	1,422
Non-current liabilities	**228,245**	224,102
Total liability component as at 31 December	**229,675**	225,524

The interest charged for the year is calculated by applying an effective interest rate of 6.55% (2007 – 6.55%) to the liability component for the period since the bonds were issued. There is no material difference between the carrying amount of the liability component of the convertible bonds, which is carried at amortised cost, and their fair value. This fair value is calculated by discounting the future cash flows at the market rate.

23 Convertible bonds continued

The Group's remaining contractual liability, based on undiscounted cash flows at the earliest date on which the Group is required to pay and assuming the bonds are not purchased and cancelled, redeemed or converted prior to 16 May 2013, is as follows:

	2008 $000's	2007 $000's
Within one year	**11,250**	11,250
Within two to five years	**39,375**	45,000
More than five years	**–**	5,625
Total as at 31 December	**50,625**	61,875

24 Long-term provisions

Decommissioning

	Group $000's
As at 1 January 2008	**7,639**
New provisions and changes in estimates	**8,139**
Disposals	**(7,639)**
Unwinding of discount (see Note 8)	**144**
As at 31 December 2008	**8,283**

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 between five and 20 years) in the removal and decommissioning of the facilities currently in place.

25 Share capital

	2008 $000's	2007 $000's
Issued and fully-paid		
74,978,215 ordinary shares of £0.20 each (2007 – 72,819,067)	**24,322**	23,549

As at 31 December 2008 authorised share capital comprised 125 million (2007 – 125 million) ordinary shares of £0.20 each with a total nominal value of £25 million (2007 – £25 million). The Company issued 2,159,148 new ordinary shares of £0.20 each during 2008 (2007 – 41,952) upon the exercise of certain share options (see Note 28) and warrants at a weighted average exercise price per share of £0.74 (2007 – £0.56). As at 31 December 2008 there were 2,703,351 (2007 – 2,784,655) warrants to subscribe for the same number of ordinary shares of £0.20 each, which are exercisable through 31 July 2010 at a weighted average subscription price per share of £0.59. Details of outstanding share options are set out in Note 28.

26 Reserves

	Group			
	Share premium account $000's	Other reserves $000's	Retained earnings $000's	Total $000's
As at 1 January 2007	68,325	54,406	149,529	272,260
New shares issued	30	–	–	30
Share-based payments	–	834	–	834
Transfer relating to share-based payments	–	(833)	833	–
Transfer relating to convertible bonds		(4,854)	4,854	–
Unrealised currency translation differences	–	(116)	96	(20)
Retained profit for the year	–	–	32,314	32,314
As at 1 January 2008	**68,355**	**49,437**	**187,626**	**305,418**
New shares issued (see Note 25)	**2,014**	**–**	**–**	**2,014**
Share-based payments (see Note 28)	**–**	**(31,769)**	**–**	**(31,769)**
Transfer relating to share-based payments (see Note 28)	**–**	**106**	**(106)**	**–**
Transfer relating to convertible bonds	**–**	**(3,302)**	**3,302**	**–**
Unrealised currency translation differences	**–**	**225**	**(884)**	**(659)**
Retained profit for the year	**–**	**–**	**411,060**	**411,060**
As at 31 December 2008	**70,369**	**14,697**	**600,998**	**686,064**

26 Reserves continued

	Share premium account $000's	Other reserves $000's	Retained earnings $000's	Company Total $000's
As at 1 January 2007	68,325	(25,839)	117,525	160,011
New shares issued	30	–	–	30
Share-based payments	–	63	–	63
Unrealised currency translation differences	–	2	3,073	3,075
Retained profit for the year	–	–	5,087	5,087
As at 1 January 2008	**68,355**	**(25,774)**	**125,685**	**168,266**
New shares issued (see Note 25)	**2,014**	**–**	**–**	**2,014**
Share-based payments (see Note 28)	**–**	**(32,681)**	**–**	**(32,681)**
Unrealised currency translation differences	**–**	**(65)**	**(174,147)**	**(174,212)**
Retained profit for the year (see Note 13)	**–**	**–**	**459,358**	**459,358**
As at 31 December 2008	**70,369**	**(58,520)**	**410,896**	**422,745**

The Group's other reserves include reserves arising in respect of merger relief, upon the purchase of the Company's own ordinary shares (Shares) held in treasury and held by the SOCO Employee Benefit Trust (Trust) and in respect of the unrealised equity component of the convertible bonds. During 2008 other reserves were reduced by share-based payments comprising the cash settlement of tax liabilities associated with the settlement of certain share options of $30.0 million offset by the expense recognised in respect of the incentive schemes of $971,000 (see Note 28).

The number of treasury Shares held by the Group and the number of Shares held by the Trust at 31 December 2008 was 27,500 (2007 – 27,500) and 1,919,680 (2007 – 2,165,780) after using 246,100 Shares for the exercise of certain long term investment plan awards, respectively. The market price of the Shares at 31 December 2008 was £10.95 (2007 – £22.00). Associated with the convertible bonds issue the Trust entered into a Global Master Securities Lending Agreement (GMSLA) with Merrill Lynch International. During 2008, the Group terminated the GMSLA, consequently at 31 December 2008 no Shares held by the Trust were lent under the GMSLA (2007 – 1,000,000). The Shares subject to the GMSLA continued to be recognised, prior to termination, as the Trust retained all the risks and rewards of ownership.

The Trust, a discretionary trust, was established to facilitate the administration of long term incentive awards for senior management of the Group, details of which are set out in Note 28 and in the Directors' Remuneration Report on pages 44 to 50. 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.

27 Reconciliation of movements in Group total equity

	2008 $000's	2007 $000's
As at 1 January	**328,967**	295,792
New shares issued (see Note 25)	**2,787**	47
Share-based payments (see Note 26)	**(31,769)**	834
Unrealised currency translation differences	**(659)**	(20)
Retained profit for the year	**411,060**	32,314
As at 31 December	**710,386**	328,967

28 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 44 to 50. The Group recognised total expenses of $971,000 (2007 – $834,000) in respect of the schemes during the year, a proportion of which was capitalised in accordance with the Group's accounting policies. An amount of $106,000 (2007 – $833,000) was transferred between other reserves and retained earnings upon the exercise or lapse of certain awards (see Note 26).

28 Incentive plans continued

Awards administered under the SOCO Employee Benefit Trust (Trust)

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

Awards would normally be equity-settled through a transfer at nil consideration of the Company's own ordinary shares (Shares) held by the Trust (see Note 26). 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:

	2008 No. of share awards	2007 No. of share awards
As at 1 January	**1,678,320**	1,700,640
Granted	**–**	85,200
Exercised	**(246,100)**	(107,520)
As at 31 December	**1,432,220**	1,678,320
Exercisable as at 31 December	**1,221,320**	1,300,420

Awards outstanding at the end of the year have a weighted average remaining contractual life of 3.9 (2007 – 5.2) years. The market price and estimated fair value of the 2007 grants (at grant date) were £21.110 and £6.092, respectively.

The fair value of awards at date of grant has been estimated using a binomial option pricing model, based on the market price at date of grant set out above and a nil exercise price. The future vesting proportion of 28.9% in 2007 was estimated by calculating the expected probability of the Company's TSR ranking relative to its comparators based on modelling each company's projected future share price growth.

Share options

The Company operated a discretionary share option scheme for key employees of the Group which expired in April 2007 without prejudice to the subsisting rights of participants. Options are exercisable at a price equal to the average quoted market price of the Company's Shares on the date of grant. The vesting period is three years, subject to performance criteria based on the Company's TSR relative to a range of comparator companies. Unexercised options expire at the end of a seven or 10 year period, in accordance with the plan rules. Options are normally forfeited if the employee leaves the Group before the options vest. Additional share options are outstanding and exercisable that were granted under a previous plan.

Options would normally be equity-settled through newly issued Shares. Options exercised during 2008 over 3,454,420 (2007 – 1,300) Shares were partially satisfied by the issue of 2,077,844 (2007 – 1,300) Shares. The remaining 1,376,576 (2007 – nil) options exercised, being the number of Shares that might otherwise be sold in the market, were satisfied by settlement of the option exercise price and cash settlement of the participants' tax liabilities of $4.6 million (2007 – $nil) and $30.0 million (2007 – $nil), respectively. The Board decided in this 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 options in cash. Details of options outstanding during the year are as follows:

	2008 No. of share options	**2008 Weighted average exercise price £**	2007 No. of share options	2007 Weighted average exercise price £
As at 1 January	**3,893,370**	**1.101**	3,894,670	1.101
Exercised	**(3,454,420)**	**0.750**	(1,300)	0.770
As at 31 December	**438,950**	**3.861**	3,893,370	1.101
Exercisable as at 31 December	**438,950**	**2.506**	3,843,370	0.928

The weighted average market price at the date of exercise during the year was £14.080 (2007 – £14.450). Options outstanding at the end of the year have a weighted average remaining contractual life of 3.6 (2007 – 0.6) years.

29 Reconciliation of operating profit to operating cash flows

	Group		Company	
	2008 $000's	2007 $000's	2008 $000's	2007 $000's
Operating profit (loss) from continuing operations	**30,172**	(7,858)	**(6,034)**	(7,780)
Operating profit from discontinued operations	**36,419**	65,645	**–**	–
	66,591	57,787	**(6,034)**	(7,780)
Share-based payments	**971**	834	**971**	834
Depletion and depreciation	**8,733**	12,500	**170**	198
Operating cash flows before movements in working capital	**76,295**	71,121	**(4,893)**	(6,748)
(Increase) decrease in inventories	**(3,900)**	77	**–**	–
(Increase) decrease in receivables	**(18,940)**	(3,638)	**(65)**	262
Increase (decrease) in payables	**5,453**	4,310	**(13,448)**	(6,011)
Cash generated by (used in) operations	**58,908**	71,870	**(18,406)**	(12,497)
Interest received	**6,692**	10,203	**50**	10
Interest paid	**(11,808)**	(11,465)	**(408)**	(19)
Income taxes paid	**(8,736)**	(21,599)	**–**	–
Net cash from (used in) operating activities	**45,056**	49,009	**(18,764)**	(12,506)

Cash generated from operating activities comprises:

Continuing operating activities	**14,099**	(9,207)	**(18,764)**	(12,506)
Discontinued operating activities	**30,957**	58,216	**–**	–
	45,056	49,009	**(18,764)**	(12,506)

Cash and cash equivalents (which are presented as a single class of asset on the balance sheet) comprise cash at bank and other short term highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

30 Financing facilities

In 2005, SOCO agreed a credit facility with the International Finance Corporation (IFC), the private sector arm of the World Bank. The $45 million reserve-based, revolving credit facility (the IFC Facility) had a seven year term. Following the issue of the convertible bonds (see Note 23) the whole IFC Facility became a standby loan. Standby fees paid are included under finance costs (see Note 8). No drawdowns were made against the IFC Facility.

In March 2008, the Company entered into an unsecured revolving term loan facility of $50 million with BNP Paribas (the BNP Facility). The BNP Facility was available for 12 months for use in the Group's Vietnam developments. Accordingly, SOCO agreed to terminate the IFC Facility. In March, the Company made a drawdown of $20.0 million against the BNP Facility which was repaid in April following the completion of the sale of the Group's Yemen asset (see Note 12). The BNP Facility was subsequently cancelled.

31 Operating lease arrangements

	2008 $000's	2007 $000's
Minimum lease payments under operating leases recognised in income for the year	**447**	468

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:

	2008 $000's	2007 $000's
Within one year	**508**	413
In two to five years	**127**	–
	635	413

Operating lease payments mainly represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of eight years with break clauses approximately every two years and rentals are fixed for an average of four years.

Notes to the Consolidated Financial Statements
continued

32 Capital commitments
At 31 December 2008 the Group had exploration licence commitments not accrued of approximately $24.5million (2007 – $14.7 million).

33 Related party transactions
During the year, the Company rendered services to the Group in the amount of $2.9 million (2007 – Group undertakings rendered services to the Company in the amount of $1.4 million). There were no balances outstanding with Group undertakings as at 31 December 2008 except as disclosed in Note 22. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Transactions with the Directors of the Company, who are considered to be its key management personnel, are disclosed in the Directors' Remuneration Report on pages 44 to 50.

Five Year Summary

	Year to 31 Dec 2008 $000's	Year to 31 Dec 2007 $000's	Year to 31 Dec 2006 $000's	Year to 31 Dec 2005 $000's	Year to 31 Dec 2004 $000's
Consolidated income statement					
Oil and gas revenues – continuing operations	**55,340**	–	–	–	–
Operating profit – continuing operations	**30,172**	(7,858)	(8,802)	(5,999)	(3,605)
Operating profit – discontinued operations[1]	**36,419**	65,645	55,113	37,263	27,076
Profit for the year	**411,060**	32,314	29,063	20,477	29,571

	2008 $000's	2007 $000's	2006 $000's	2005 $000's	2004 $000's
Consolidated balance sheet					
Non-current assets	**635,089**	517,744	340,527	225,808	180,381
Net current assets	**315,044**	44,272	181,685	43,021	70,003
Non-current liabilities	**(239,747)**	(233,049)	(226,420)	(2,590)	(3,197)
Net assets	**710,386**	328,967	295,792	266,239	247,187
Share capital	**24,322**	23,549	23,532	23,479	23,348
Share premium	**70,369**	68,355	68,325	68,221	67,877
Other reserves	**14,697**	49,437	54,406	54,259	53,502
Retained earnings	**600,998**	187,626	149,529	120,280	102,460
Total equity	**710,386**	328,967	295,792	266,239	247,187

	Year to 31 Dec 2008 $000's	Year to 31 Dec 2007 $000's	Year to 31 Dec 2006 $000's	Year to 31 Dec 2005 $000's	Year to 31 Dec 2004 $000's
Consolidated cash flow statement					
Net cash from operating activities	**45,056**	49,009	33,230	30,536	19,157
Capital expenditure	**217,613**	178,590	114,339	76,175	27,583

	Year to 31 Dec 2008	Year to 31 Dec 2007	Year to 31 Dec 2006	Year to 31 Dec 2005	Year to 31 Dec 2004
Financial and operating key performance indicators (continuing and discontinued operations)					
Realised oil price per barrel ($) [2]	**66.62**	70.69	62.73	50.28	37.18
Operating cost per barrel ($) [3]	**10.30**	6.93	5.91	4.55	6.70
DD&A per barrel ($) [4]	**4.25**	5.32	3.70	3.40	3.20
Basic earnings per share (cents)	**575.3**	45.8	41.3	29.3	42.4
Diluted earnings per share (cents)	**497.1**	40.9	36.9	25.8	37.5
Total shareholder return (%) [5]	**(50.2)**	59.2	75.8	102.6	41.3
Production (barrels of oil per day) [6]	**4,464**	6,316	6,766	5,684	5,533
Total proven and probable reserve additions (mmboe) [7,8]	**25.0**	2.6	41.8	100.6	6.0
Proven and probable reserves (mmboe) [8]	**144.1**	160.9	160.6	133.2	90.7

1 Discontinued operations includes the results of all discontinued operations throughout the five years shown.
2 The realised oil price per barrel is the average proceeds received for each barrel of oil sold in the period.
3 Operating cost per barrel is the average cost incurred to produce a barrel of oil which exclude lifting imbalances and inventory effects.
4 DD&A per barrel includes depreciation, depletion and decommissioning costs for the period calculated over barrels of oil produced.
5 The total shareholder return is the percentage annual return to the Company's shareholders.
6 Average barrels of oil produced per day net to the Group's working interest.
7 Comprises additions, revisions to previous estimates and purchase of reserves.
8 Reserves are net to the Group's working interest expressed in millions of barrels of oil equivalent (see Reserves Statistics on page 74).

Reserve Statistics

Unaudited, net working interest (mmboe)

Net proven oil and gas reserves

	Total	Vietnam [1]	Thailand	Congo [1]	Yemen
Reserves as at 31 December 2007	**78.0**	**48.6**	**5.0**	**4.8**	**19.6**
Changes in the year					
Additions	**11.6**	**11.6**	–	–	–
Revision to previous estimates	**12.0**	**12.0**	–	–	–
Purchase of reserves	–	–	–	–	–
Change of interest	**(3.0)**	–	**(3.0)**	–	–
Sale of reserves	**(18.9)**	–	–	–	**(18.9)**
Production	**(1.6)**	**(0.5)**	**(0.4)**	–	**(0.7)**
Reserves as at 31 December 2008	**78.1**	**71.7**	**1.6**	**4.8**	–

Net proven and probable oil and gas reserves

	Total	Vietnam [1]	Thailand	Congo [1]	Yemen
Reserves as at 31 December 2007	**160.9**	**100.7**	**18.4**	**11.9**	**29.9**
Changes in the year					
Additions	**7.0**	**7.0**	–	–	–
Revision to previous estimates	**18.0**	**18.0**	–	–	–
Purchase of reserves	–	–	–	–	–
Change of interest	**(11.0)**	–	**(11.0)**	–	–
Sale of reserves	**(29.2)**	–	–	–	**(29.2)**
Production	**(1.6)**	**(0.5)**	**(0.4)**	–	**(0.7)**
Reserves as at 31 December 2008	**144.1**	**125.2**	**7.0**	**11.9**	–

Net proven and probable oil and gas reserves yearly comparison

	2008	2007	2006	2005	2004
Reserves as at 1 January	**160.9**	160.6	133.2	90.7	92.5
Changes in the year					
Additions	**7.0**	–	–	68.3	–
Revision to previous estimates	**18.0**	2.6	38.8	8.5	6.0
Purchase of reserves	–	–	3.0	23.8	–
Change of interest	**(11.0)**	–	(11.9)	–	–
Sale of reserves	**(29.2)**	–	–	(56.0)	(5.8)
Production	**(1.6)**	(2.3)	(2.5)	(2.1)	(2.0)
Reserves as at 31 December	**144.1**	160.9	160.6	133.2	90.7

Note: mmboe denotes millions of barrels oil equivalent.

[1] Reserves are shown before deductions for minority 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 minority interest including a rate of return from the minority interest's pro rata portion of those cash flows.

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Financial Calendar
Group results for the year to 31 December are announced in March/April. The Annual General Meeting is held during the second quarter. Half year results to 30 June are announced in August. Additionally, the Group will issue an interim management statement between 10 weeks after the beginning and six weeks before the end of each half year period.

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Except as required by law, the Company is under no obligation to publicly update or keep current the forward-looking statements contained in this document or to publicly correct any inaccuracies which may become apparent in such forward-looking statements.

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