We are an international oil and gas exploration and production company headquartered in London and listed on the London Stock Exchange. Although the Company has designated core areas in the Far East/Southeast Asia and Middle East/North Africa regions, it 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 initial 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.

Financial highlights

£m	2003	2002	2001 (Continuing operations)
Turnover	25.5	26.0	22.8
Net cash inflow from operating activities	16.6	18.9	14.4
Net cash and deposits	32.9	51.5	58.6
Net assets	128.6	136.7	143.5

SOCO around the world

Tunisia
Location: Gulf of Gabès, east central Tunisia
Operational phase: Production/appraisal drilling
Project partner: MP Zarat
Owned by SOCO: 22%

Mongolia
Location: Tamtsag Basin, eastern Mongolia
Operational phase: Exploration drilling/pilot production
Project partners: Huabei Oilfield Services, Petrovietnam
Owned by SOCO: 85%

Libya
Operational phase: Joint venture project assessment
Project partners: Oilinvest, Gazprombank
Owned by SOCO: 34%

Yemen
Location: East Shabwa, eastern Yemen
Operational phase: Production/development drilling/exploration
Project partners: Total, Occidental, Kufpec
Owned by SOCO: 17%

Thailand
Location: Western Basin, offshore Thailand
Operational phase: Small field discovery
Owned by SOCO: 100%

Vietnam
Location: Cuu Long Basin, offshore southeast Vietnam
Operational phase: Exploration/appraisal drilling
Project partners: Petrovietnam, PTTEP Thailand
Owned by SOCO: 20% to 23%

THE FOUNDATIONS FOR LONG TERM GROWTH

"The past year was filled with accomplishment, when measured against past years or against realistic expectations."
Ed Story

Patrick Maugein, Chairman (left)
Ed Story, President and
Chief Executive

The year 2003 began on a very encouraging note with the continuation of an active drilling programme in the Cuu Long Basin offshore Vietnam and ended on a realistic yet optimistic note with the results of this drilling programme. In retrospect, perhaps the most important thing to recognise is that a delay in delivery of potential is far different than a failure to deliver. Whilst the Vietnam project has not reached the point of commercialisation, there were excellent indications both from SOCO's own drilling programme and from the drilling programmes of other companies in the Cuu Long Basin that the much anticipated potential of prospects on Blocks 9-2 and 16-1 will likely meet or exceed Company expectations.

Although much of the focus for SOCO during 2003 was naturally directed towards its high profile Vietnam exploration drilling programme, some positive developments occurred in the Company's other primary areas of operations. Basement exploratory drilling in Yemen, where production to date has been primarily sourced from a Cretaceous interval, resulted in three comparatively high rate discoveries, with initial production rates ranging from 1,700 barrels of oil per day (BOPD) to 6,000 BOPD, leading to a reserves upgrade for the East Shabwa Development Area (East Shabwa). Likewise, a successful appraisal well in Tunisia confirmed the extension of the Didon producing field in the offshore Zarat Permit, thereby increasing reserves. In Mongolia we significantly enhanced the opportunities for rationalisation of the project by obtaining a five year extension to the exploration phase of the three Blocks we hold there.

Financial and operating results

It should come as no surprise that 2003 was a year for production companies, rather than explorers, as oil prices rose to lofty levels with the Dated Brent benchmark crude oil price averaging almost US$4 per barrel more than in 2002. Even so, the Company's overall 2003 financial and operating performance was in line with expectations and not markedly different from the prior year with turnover for both years sourced primarily from producing operations in Yemen and Tunisia. Production net to the Company's working interest was down, dropping from 6,203 BOPD in 2002 to 5,409 BOPD.

Exchange rate movements magnify differences in yearly comparisons of financial results, as the US dollar, the currency of the industry and the one in which SOCO maintains 98% of its cash balances, lost substantial strength against the GB pound, the Company's reporting currency. Reported profits after taxes increased from £5.5 million in 2002 to £5.8 million in 2003. Ignoring exchange rates, a comparison of after tax profits in US dollars gives perhaps a clearer picture rising from US$8.2 million to US$9.6 million.

SOCO's financial strength allowed it to comfortably meet its funding requirements for the largest capital programme in its short history. Cash balances declined year on year dropping from £51.5 million to £32.9 million. However, cash balances as shown in the operating currency of US dollars show a lower percentage decline, dropping from US$82.9 million to US$58.9 million.

Chairman's and Chief Executive's statement continued

> "We can confidently state that the prospects of the Company have never looked better."
> Patrick Maugein

Although 2004 is projected to be less capital intensive, another extremely active drilling programme is scheduled for 2005. The Directors wish to retain flexibility in financing. Thus the Directors have elected not to pay a dividend.

Significant events

In the first half of 2003, SOCO North Africa Limited (SOCO North Africa), a 45% interest holder and a 100% owned SOCO subsidiary, and its partner Oilinvest (Netherlands) B.V. (Oilinvest), a 55% interest holder, signed a Heads of Agreement whereby they would sell the entire issued share capital of OILSOC Investment Company Limited (OILSOC) to the Joint Stock Bank of the Gas Industry Gazprombank. Under the terms of this agreement, SOCO North Africa would receive approximately US$2.5 million for its net interest in OILSOC. The assets held by OILSOC consist entirely of a 20% shareholding in ODEX Exploration Limited (ODEX), a specific purpose upstream joint venture formed by SOCO North Africa and Oilinvest to identify, develop, produce and market hydrocarbon opportunities in Libya and other countries. Following the transaction SOCO North Africa would retain a 34% shareholding in ODEX.

At the time of announcing the agreement, it was noted that the transaction was subject to formal documentation and approval by the necessary regulatory authorities amongst other things. Although requiring much more time than was anticipated at the time of announcement, the transaction was completed on 4 March 2004. We are now in a position to further progress joint venture activities.

Retrospective

Whilst we remain very confident in the potential value of our Vietnam interests, with the benefit of hindsight the Company probably erred in overemphasising the timing of realisation of its potential value. Credibility is paramount to us when representing the Company to its current and prospective shareholders. We need to be mindful that Vietnam's value to the portfolio, indeed any asset in the portfolio, is not based on any one project or prospect nor any one particular phase.

The previous paragraph notwithstanding, the past year was filled with accomplishment when measured against past years or against realistic expectations, including in Vietnam where the appraisal programme confirmed the hydrocarbon potential of the original discovery on Block 9-2. Additionally, we believe the final piece required as a precursor to success in Vietnam was completed with the staff reorganisation of both Joint Operating Companies resulting in a significant upgrade in technical experience and capability.

Largely because of the Company's experience in Vietnam, we were instrumental in initiation of the further exploration of the Basement interval in Yemen that led to a reserves upgrade. We believe that the successes there could likely herald a significant exploration opportunity in East Shabwa. We also added reserves in Didon as the result of a successful appraisal well. This marks the third year running that reserves have been upgraded in this producing field.

Prospective

The year 2004 is expected to build on the successes of 2003. In Vietnam, we will integrate the results of the wells drilled by the consortium last year into new, more predictive models derived from reprocessed seismic incorporating the results of the drilling programme to date. We will acquire new 3D seismic over both Blocks in Vietnam with the aim of upgrading former leads into prospects as the result of other companies' successes in similar settings in the Cuu Long Basin last year. Possibly by year end, but more likely in the first quarter of 2005, we will embark on our second major multi-well drilling campaign.

With three consecutive drilling successes in the Basement interval in Yemen, we hope to influence the East Shabwa joint venture to emphasise this exploration interval taking this project in a completely new direction. Significantly, the 100% success ratio achieved in Basement in Yemen was achieved without this interval being specifically targeted and without drilling horizontal or deviated wells.

Extending the production sharing contracts (PSCs) in Mongolia was vital to the rationalisation of this project. With two of the three Contract Area PSCs set to expire within a year, there would not have been sufficient time to follow-up on the Zuunbayan success we had last year in our first year of adequately exploring this interval. After acquiring an additional 3D seismic programme in a new region of Contract Area 19, we expect to conduct a multi-well exploration drilling programme in 2004.

The successful appraisal well in Tunisia drilled in January 2003 was connected to subsea production facilities late in 2003 while the floating production, storage and off-loading vessel was out of service for periodic re-certification. With Didon becoming a multi-well producing field with upgraded reserves, this project becomes more valuable to the portfolio as either a contributor to operating cash flow or a candidate for disposal.

Completion of the reorganisation of the ODEX joint venture was a prerequisite to introducing projects into the entity. With this behind us, we expect to see the joint venture go from a passive framework for entering new ventures in Libya and other countries into an active operating joint venture company.

There are several other arenas where the Company believes that large potential and new opportunities may arise during 2004. We expect that some of the past preparation for these opportunities to become available will pay off in the not too distant future.

Corporate

This year SOCO will lose two individuals who have been key contributors to the Company's success. Mr Roger W Brittain has officially notified the Board that, having found it necessary to reduce his business commitments generally, he will retire at the upcoming Annual General Meeting. Roger was instrumental in the formation and listing of SOCO in 1997 and has been a valuable contributor to the Board and its Committees as an independent Non-Executive Director since his appointment in 1998.

Mr Dan Mercier, who has been the Group's Vice President of Operations since 1998, resigned his office earlier in this year for medical reasons. Dan's decision was based on the limited amount of time he would be able to contribute to the conduct of the Company for the foreseeable future. Dan has been a key participant in managing the Group's portfolio and has stewarded many projects through some very difficult phases.

The Board would like to thank Roger and Dan for their tireless efforts on behalf of SOCO.

Outlook

Although the Company may not have progressed any projects to the stage of realising value during the year, we can confidently state that the prospects of the Company have never looked better as we continue to crystalise potential from the existing portfolio. The efforts of the past year did confirm the potential and the value of locking in the opportunities we have in hand. Perhaps as important, we have continued to evolve our relationships to access new opportunities and continued to build our own internal organisation to be able to better capitalise on these opportunities once captured in our portfolio.

Patrick Maugein
Chairman

Ed Story
President and
Chief Executive

BUILDING THE PORTFOLIO

The Group participated in the largest exploration drilling programme in its history in 2003. The majority of the wells drilled, those in Vietnam and Yemen, had primary or secondary targets in Basement intervals and the results were extremely encouraging; especially so considering the difficulties of exploring in this technically challenging horizon. The frontier drilling programme in Mongolia continued with the exploration programme stepping out from previously drilled areas and targeting for the first time the productive intervals reported in nearby regions of China. >

Review of operations: Exploration continued

Part of a drilling derrick, offshore Vietnam

Above the drilling rig floor, offshore Vietnam

Vietnam

After the successes of the initial exploratory programme in 2002, the consortium was eagerly anticipating the follow-up exploration efforts in 2003. Although this year's drilling results gave confirmation of the extent of an existing discovery, and another consortium's drilling results bode well for some remaining untested leads on both Blocks 16-1 and 9-2 in Vietnam, much technical follow-up to the original discovery wells remains to be undertaken.

SOCO Vietnam Ltd (SOCO Vietnam), the 80% owned subsidiary through which the Group holds its interests in Vietnam, and its primary partners, subsidiaries of PTT Exploration and Production Public Company Limited of Thailand (PTTEP Thailand) and Petrovietnam, the state oil company of Vietnam, manage their operations in Vietnam through Joint Operating Companies (JOCs). In recognition of the technical challenges ahead, the consortium restructured the management groups of both JOCs adding personnel with extensive experience in the region in general and specifically in Basement reservoirs.

SOCO Vietnam holds a 25% working interest in Block 9-2 and a 28.5% interest in Block 16-1 in the Cuu Long Basin offshore Vietnam. Both Blocks are contiguous to the Bach Ho field, which is producing approximately 250,000 barrels of oil per day (BOPD) and 150 million cubic feet of gas per day (MMCFD), and the Rang Dong field, which is producing approximately 45,000 BOPD and 55 MMCFD, predominantly from the Basement.

Review of 2003 results

In February, the final well in the initial exploration programme, the Ca Ong Doi-1X well on Block 9-2, was plugged and abandoned after drilling downflank from the structural crest. The conclusion of this well marked the end of the period in which the exploration costs of SOCO Vietnam were carried. The Group funded its 50% share of the costs of the three vertical wells and the one deviated sidetrack well subsequently drilled during the year.

The 2003 exploration drilling programme began with two wells being drilled on Block 16-1. The first well was a follow-up to the 2002 Voi Trang-1X discovery well, which tested at a maximum sustained rate of approximately 3,500 BOPD from a section that included both Oligocene and Basement intervals. The follow-up well was primarily designed to test the Basement interval in which a collapsed borehole appeared to lead to inconclusive test results in the original discovery. The well was plugged and abandoned after neither the Basement interval nor the Oligocene interval yielded commercial hydrocarbons.

The consortium's next Basement well was drilled on Prospect "B", a relatively small structure, with the primary objective of completing a low cost Basement test that would fulfil the work commitments on the Block. Like most other Block 16-1 wells, the well encountered good oil shows in the Basement and the overlying Oligocene section; however, the well did not encounter productive fractures in Basement and was plugged and abandoned without being tested.

The rig was then moved to Block 9-2 to drill the Ca Ngu Vang-2X (CNV-2X) well, an appraisal of the CNV-1X vertical discovery well drilled in 2002 that tested at 3,100 BOPD and 7.9 MMCFD, a combined rate of 4,500 barrels of crude equivalent per day. Although the CNV-2X well did not flow during testing, it was a success by two important measures – confirming the extent of the structure and extending the known depth of the oil column. The well penetrated an oil column of approximately 1,000 metres and it reached a measured depth of 5,068 metres without encountering water.

In a quest for the possibility of an early declaration of commerciality but without a positive profile of producing fractures in the CNV structure, the CNV-2X was plugged back to 2,500 metres where a deviated sidetrack section designated as the CNV-2XST began drilling. Oil shows were encountered throughout the Basement section over a total measured depth interval in excess of 1,400 metres extending the known area of oil in the CNV structure to approximately four kilometres from the original discovery well. But like the CNV-2X well, the CNV-2XST, the final well in the 2003 Vietnam drilling programme, did not encounter a significant producing fracture system and consequently did not flow.

> "In Vietnam this year, efforts will be focused on gearing up for the upcoming major multi-well drilling campaign."

Subsequent events and 2004 outlook

This year efforts will be focused on gearing up for the next major multi-well drilling campaign involving both Blocks, which may get under way in late 2004 but is more likely to begin in 2005. Lead time notwithstanding, provisional site surveys, rig availability surveys and identification of equipment requirements are already completed or well under way.

Ongoing studies regarding the reservoir characterisations of existing discoveries will be utilised in conjunction with reprocessing of existing seismic to better image the Basement fractures. Pre Stack Depth Migration, a technology that uses velocity information to improve the seismic image and one that has been applied very successfully in Vietnam, will be employed. The velocity information required was not available for the first phase of drilling. Post-drilling, seismic processing using the velocity data from the wells will allow better imaging of the Basement and mapping of the fracture systems, better well targeting and improved predictability. Additional 3D seismic will be acquired on both Blocks 16-1 and 9-2, as drilling successes on deeper targets within the Cuu Long Basin have significantly enhanced the prospectivity of several additional leads.

Drilling operations, offshore Vietnam

In April 2003, SOCO North Africa Limited (SOCO North Africa), a 45% interest holder and a 100% owned SOCO subsidiary, and its partner Oilinvest (Netherlands) B.V. (Oilinvest), a 55% interest holder, signed a Heads of Agreement whereby they would sell the entire issued share capital of OILSOC Investment Company Limited (OILSOC) to the Joint Stock Bank of the Gas Industry Gazprombank (Gazprombank). Under the terms of this agreement, SOCO North Africa would receive approximately US$2.5 million for its net interest in OILSOC. The assets held by OILSOC consist entirely of a 20% shareholding in ODEX Exploration Limited, a specific purpose upstream joint venture formed by SOCO North Africa and Oilinvest to identify, develop, produce and market hydrocarbon opportunities in Libya and other countries. Following the transaction, which was completed on 4 March 2004, SOCO North Africa retains a 34% shareholding in ODEX.

Gordon Graham,
Group Exploration Manager

Mongolia

Mongolia's Tamtsag Basin is a rank frontier exploration area in which the Group, primarily through its wholly owned subsidiary SOCO Tamtsag Mongolia (SOTAMO), holds an approximate 85% working interest in production sharing contracts (PSCs) over Contract Areas 19, 21 and 22. To date the Group has drilled only 27 wells (including one on Contract Area 20, prior to its relinquishment) in an area of approximately 26,000 square kilometres.

During the year, the Group drilled four exploration wells and completed a discovery drilled in 2002. The 2002 completion and 2003 discoveries were in the Zuunbayan interval, a new productive horizon in the SOTAMO Contract Areas. The Zuunbayan is also productive in the adjacent Chinese basins, notably the Hailar Basin, the continuation of the Tamtsag Basin into China where a major discovery was reported in 2003. In contrast with the Tsagaantsav interval in which SOTAMO's previous discoveries were made, the Zuunbayan reservoir is more predictable, has better quality and should have improved productivity due to a higher gas content and lower wax content.

Because of the region's isolation and harsh climate, maintaining the Group's drilling programme throughout the Basin and pilot production programme in the southeastern quadrant of Contract Area 19 is a test of personnel and material. However, the Basin has a proven petroleum system and is adjacent to what is arguably soon to be the world's largest market for crude oil. The key moving forward is proving up more reserves and achieving a level of oil production that can support a more aggressive drilling campaign.

Huabei Oilfield Services (Huabei), the Chinese company providing the drilling services, has earned the right through providing reduced contract drilling rates to take a pro rata working interest participation of 10% in the PSCs. A 5% working interest is being carried by the Group through the exploration phase for Petrovietnam, the Vietnamese national oil company.

Crude oil produced from the pilot production programme in Contract Area 19 is sold at world prices under a contract with China National United Oil Corporation. The crude sold is trucked under a turnkey contract to a pipeline terminal in Aershan Oilfield in China for further transportation to a refining centre.

Seismic acquisition programme in Mongolia

Production equipment, Mongolia

Mongolian seismic crew member

Review of 2003 results

Drilling began in July when the 19-18 well was drilled to test a new fault block offsetting the 19-16 well drilled last year. The well encountered more than 30 metres of good oil shows, penetrating both Tsagaantsav and Zuunbayan formations with log results indicating pay in both. The well was drilled to a total depth of 2,069 metres, perforated and fracture stimulated in the Lower Tsagaantsav in an interval from 1,600 to 1,670 metres. After the unexplained recovery of water from the Tsagaantsav interval, the well was suspended for the winter and will be recompleted in 2004.

Back to back rank exploration wells were then drilled to test Tsagaantsav prospects on Contract Areas 21 and 22. Neither encountered pay and both were plugged and abandoned.

The 2003 exploration programme concluded in October with the 19-19 well being drilled to a depth of 2,560 metres. This well is the first to encounter stacked Zuunbayan pay zones in the SOTAMO Contract Areas. Three Zuunbayan zones were tested without stimulation and the Tsagaantsav pay zone could not be tested. The two upper Zuunbayan intervals were swab tested and yielded a combined rate of 210 BOPD. Testing operations were curtailed due to the onset of severe winter weather. This well was put on production as part of the pilot production programme. Workovers in Contract Area 19 continued throughout most of the year and will continue in order to maximise year round production capability from the pilot production programme.

Subsequent events and 2004 outlook

In December 2003, the Mongolian Government passed legislation that allowed the extension of PSCs in the country to operators who met certain conditions – SOTAMO was one of these operators. As a result, SOTAMO applied to the Petroleum Authority of Mongolia (PAM) for the full five year extension of its three PSCs in the Tamtsag Basin. In January of 2004, PAM granted SOTAMO's extension request.

The Group plans to focus its future activity on the Zuunbayan reservoir. A 3D seismic programme is under way to acquire additional data on the productive trend established by the discoveries. A multi-well drilling programme is planned to follow once the interpretation of the acquired seismic is complete.

The Group continues to be in discussion with interested parties concerning participation in the Mongolia project. Although recent drilling successes both in China and in the Tamtsag Basin have increased interest in the Group's holdings, it is impossible to ascertain the eventual outcome of any of these discussions.

Thailand

Through its wholly owned Thailand subsidiary, the Company operates and holds a 100% interest in Block B8/38 located offshore in the Gulf of Thailand. This Block contains an undeveloped small field crude oil discovery and has remaining exploration potential.

Subsequent events and 2004 outlook

The Group is considering various options to progress work on this Block. These options include discussions with various interested parties to farm-in. Personnel in the Thailand office continue to act as facilitators with our Thailand partners in Vietnam in addition to overseeing operator obligations on Block B8/38.

Production in both major producing areas was lower as crude oil production net to the Group's working interests fell in 2003 to 5,409 BOPD from 6,203 BOPD the previous year. The Group derived 72% (3,896 BOPD) of its 2003 production from the East Shabwa Development Area (East Shabwa) in Yemen. Production from the Didon field in the offshore Tunisian Zarat Permit contributed 1,101 BOPD (20%) to production totals for the year. The pilot production programme in the Tamtsag Basin of Mongolia increased output slightly with crude production rising to 412 BOPD from 380 BOPD last year. >

George Hepler,
Group Engineering Manager

Yemen

The production statistics given on the previous page notwithstanding, with 100% exploration drilling success in the Basement interval, from wells that had initial production rates ranging from 1,700 BOPD to more than 6,000 BOPD, Block 10 is also one of the more significant exploration areas for the Group. Success to date from Basement exploration has resulted in an 87% year end upgrade to proven and probable reserves on the Block.

East Shabwa crude oil production is transported by pipeline and commingled with the approximate 270,000 BOPD produced on the neighbouring Masila Block before being transported by pipeline onward to the Ash Shihr export terminal on the Yemen coast. The Group's share of the crude produced is sold under a 12 month contract into the spot market.

SOCO holds its interests in East Shabwa through its 58.75% majority shareholding in Comeco Petroleum, Inc. (Comeco) which holds a 28.57% direct interest in Block 10. A subsidiary of Occidental Petroleum, which is also a co-venturer in East Shabwa with a 28.57% interest, holds the remaining minority interest in Comeco. Total E&P Yemen, with an interest equal to that of Comeco, is the concession operator and a subsidiary of Kufpec, the Kuwaiti foreign oil company, holds the remaining 14.29% interest.

Review of 2003 results

Production to date has been primarily from the Cretaceous clastic Biyad reservoir. Increasing water cuts are typical of producing wells from this interval in this area of Yemen. Currently East Shabwa is producing approximately three barrels of water for every barrel of crude oil produced. Thus, adding disposal wells and water-handling capability is crucial to maintaining production levels. Eight wells were drilled during the year – three Basement producers in the Kharir field, including the deepening of Kharir 101 which has not been tested, one Biyad producer at the Atuf field, three water injectors and one shallow water source well.

Although Phase III of the development programme continued throughout the year, adding additional water-handling capabilities and both producing and disposal wells, the excitement in East Shabwa arose as a result of multiple Basement discoveries in the Kharir field. All of these wells were vertical wells.

The KHA 210 Basement well was drilled in December 2002 and commenced production in July, producing at approximately 1,700 BOPD. The KHA 105 Basement well, located approximately five kilometres from the KHA 210 well, was brought on line in September at 6,000 BOPD. The subsequent KHA 106 Basement well, located over two kilometres from each of the previous discoveries, tested at approximately 2,500 BOPD. Another Basement well, the KHA 101 which was deepened from an existing Biyad discovery, is shut-in awaiting testing in 2004.

The Basement discoveries have a reasonably high gas-to-oil ratio and produce little or no water. Since this phenomenon is atypical of production in this region, facilities have not been designed to handle a large volume of associated gas. Accordingly, the Basement wells have been produced at lower rates to reduce the associated gas production.

Subsequent events and 2004 outlook

The rig was released to drill on an adjacent Block towards the end of 2003. As a consequence, drilling is not expected to begin again until the second quarter of 2004 but will continue throughout the remainder of the year. Additional appraisal wells are planned to evaluate the Basement oil in place so that an extensive reconfiguration of production facilities can be implemented within the next two years. Partners are in discussion regarding plans to accelerate the Basement appraisal and development programme.

Tunisia

The Group's Tunisia holding consists entirely of a 22.22% non-operated working interest in the Zarat Permit located 75 kilometres offshore eastern Tunisia in the Gulf of Gabès. The Zarat Permit has one commercial declaration, the Didon field, from which crude oil is produced into a floating production, storage and off-loading vessel (FPSO). Production from the field is sold into the spot market.

Review of 2003 results

As the result of a successful appraisal well drilled in the Didon producing field in January 2003, year end reserves have again been increased. The Didon 4H well tested at 3,200 BOPD from a horizontal section in the El Gueria reservoir and was suspended pending completion of future field development plans and co-ordination with scheduled production downtime. In the fourth quarter, the FPSO was taken out of service for mandatory marine maintenance and re-certification. During this period, the appraisal well was completed and a subsea tree installed.

Subsequent events and 2004 outlook

Re-certification of the FPSO was completed in February 2004. Production from the Didon field recommenced in late February. Work is in progress to tie-in the Didon 4H well to the existing production riser with production from this well expected to commence in March.

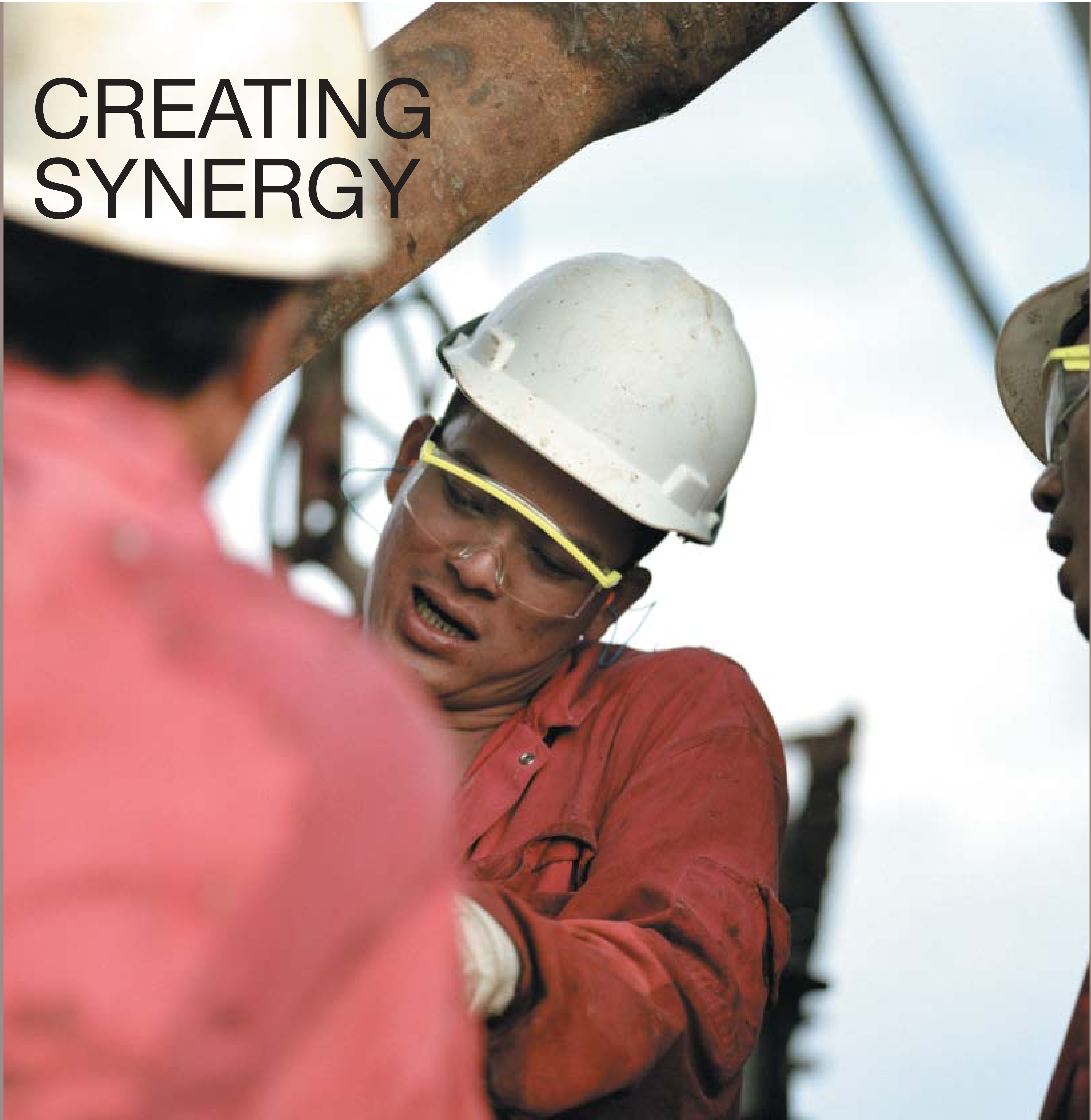
Future development plans call for the installation of a small production platform to accommodate production from the Didon field, which would be augmented by an additional producing well to be drilled on the crest of the structure. A permit wide 3D seismic acquisition programme is planned for the summer of 2004 to firm up potential locations for a commitment exploratory well required to hold the Permit.

Production equipment, Mongolia

A drilling derrick on the drilling rig, offshore Vietnam

Production and storage facilities in Mongolia

CREATING SYNERGY



Our commitment: corporate responsibility means managing our business in an economically, socially and environmentally responsible manner. SOCO's commitment to corporate responsibility helps us manage challenges that we face, and improves our capacity to assess risks and opportunities and determine strategies that consider the interests of our stakeholders. By communicating how our strategic and risk management processes incorporate corporate responsibility, we hope to demonstrate that consistent financial success is aligned with strong performance on environmental protection, safety, community participation and employee wellbeing. >

SUPPORTING A FAIR, SAFE AND HEALTHY ENVIRONMENT

Employing the regional populace

Enhancing schoolroom facilities and resources

Improving the quality of healthcare

The credibility of our corporate leadership is critical. This section on key environmental performance measures, our commitment and contribution to communities where we do business, our record on health and safety, and our commitment to a diverse, high performance work environment for employees, demonstrates our alignment between corporate intention and actions.

Scope of corporate responsibility reporting

The Corporate responsibility report has been developed in the spirit of the Global Reporting Initiative (GRI) guidelines, universally considered a leading standard for this type of disclosure since being developed in 1997, and is divided into social, environmental and economic performance areas. The Company is aware that the standards for reporting on corporate responsibility are evolving. Industry associations, governments and other key stakeholder groups are actively engaged in the assessment and refinement of corporate responsibility commitments and reporting expectations for corporations in the extractive sector. We pay heed to these recommendations and to the evolving expectations of key stakeholders.

To define and demonstrate our Company's corporate responsibility commitments in relation to individual operating jurisdictions and projects, it is necessary to consider and define our Company's "sphere of influence". Where SOCO either operates or participates as a major interest holder or co-venturer in a project, the Company can directly influence operations and decision-making by setting the corporate responsibility expectations for the project's management. Where SOCO holds a minority interest, as an investor or participant in a project, the Company's influence is less direct. But, in either situation, SOCO's expectations for corporate responsibility are clearly established, communicated and monitored.

SOCO's "sphere of influence" is also impacted by the Company's relative size in the industry sector. Whilst major oil and gas producers may be positioned to participate as stakeholders in a majority of industry study groups and advocacy campaigns, SOCO must necessarily be selective in its participation in advocacy initiatives. It is the Company's intention to strategically identify those participation vehicles that are most responsive to the Company's investment parameters, and to contribute to initiatives where we believe the Company's contribution can have the most meaningful impact.

Delivering an improved water supply

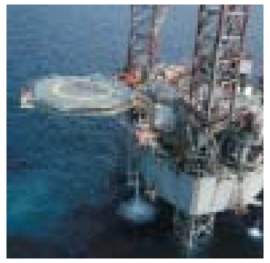
As the oil and gas sector, and its key stakeholders, move forward in clarification of corporate responsibility accountabilities for investors, the Company will continue to reinforce the need for industry standards and stakeholder expectations to be mindful of the unique attributes of investors. Industry majors may be positioned to commit significant financial and human resources in support of corporate responsibility expectations of local communities and host governments. However, corporate responses to social accountabilities are unique to individual organisations. Defining and responding to corporate responsibilities is not a generic exercise, but rather, a strategic management practice that draws upon the unique capabilities and attributes of individual organisations to respond to these priorities. Whilst smaller industry participants, including SOCO, do not have the budgets available to fund major infrastructure programmes in host countries, the Company's size and agility position it to provide capacity building support to local stakeholders in a non-threatening and effective manner.

Processes, organisation and management systems

The Company's management systems and internal governance processes are designed for the purpose of imbedding corporate responsibility practices, and creating systems of checks and balances to monitor implementation practices.

The Corporate governance report highlights the Company's enhancements to its overall corporate governance systems. Corporate governance systems link directly to other corporate management processes intended to support SOCO's corporate responsibility commitments and responses.

The Company has a formal policy and process to imbed its health, safety and environmental (HSE) practices, with a management process to support specific actions and expectations for those responsible to implement policy. The overall policy is tailored to be responsive to the unique attributes of individual projects. Accountabilities within the Company are clear: specific responsibility for HSE is assigned to an executive who is accountable to ensure that the corporate policy is understood, and to provide initial and ongoing training to ensure compliance with the HSE policy in implementation practices. The executive reports directly to an executive officer, who sits on the Board of Directors. As a further check and balance, the Senior Independent Non-Executive Director, who has substantial experience in this field, also independently audits performance of the executive.



Maximising the benefits and minimising the effects of our operations

A work environment that is open, informed and stimulating

Formal reporting to the Board of Directors is mandated for HSE incidents. Any HSE incident reports are automatically investigated to assess the cause and identify actions for prevention of future recurrence. To verify compliance with the Company's internal HSE management systems, comprehensive HSE audits of the projects in Mongolia and Vietnam were commissioned by the Company and its joint venture partners in 2003. The Vietnam HSE audit report affirmed that operations were conducted with no lost time incidents, no oil spills and no blowouts. Compliance with regulatory and corporate standards for HSE was evaluated and was affirmed. The results of the Mongolia audit will be finalised prior to the onset of the 2004 drilling programme.

Proactive and strategic management processes guide the Company in the assessment of the potential economic, environmental and social impacts of its investments. These management processes foster the identification and mitigation of risks associated with the nature of SOCO's business. Routinely, third parties are retained to review our compliance with existing systems or to update systems to reflect project evolvement.

Environmental performance

SOCO commits to not only meet legal and regulatory requirements governing environmental practices, and to employ good industry standards in our operations. It also strives to minimise the adverse effects of the by-products of our processes on the natural resources and ecosystems in which we operate.

This commitment is demonstrated in many ways, including through:

- Adoption of an HSE management system to support the achievement of HSE objectives in a structured and accountable manner
- Utilisation of environmentally-friendly materials in our operations
- Use of independent third party environmental impact assessments prior to project design and to investment, to ensure a thorough understanding of local environmental sensitivities, enabling us to plan activities responsively and establish baseline parameters for measuring the impact of operations
- Consultation and engagement with stakeholders to attempt to integrate corporate activities with stakeholders' expectations for sound environmental management and conservation practices
- Prioritisation of by-product containment and generated waste disposal practices to avoid contamination of soil, groundwater, and freshwater and marine ecosystems
- Setting standards for remediation upon site abandonment
- Establishing reasonable practices to improve energy efficiency (including use of recycling as a means to meet project energy requirements through internal sources) and to reduce emissions on a unit of production basis

Economic performance

SOCO prioritises transparency in the pursuit of its commercial objectives. The Company is committed to work synergistically with the economies in which it operates. Corporate decision-making and risk management systems have the capacity to identify, assess and be responsive to tangible and intangible risks, on an aligned and strategic basis.

This commitment is demonstrated through:

- Advocacy for allocation of benefits of investment to the communities in which we operate, including the creation of jobs, creation and expansion of local infrastructure and support of community projects
- Partnerships with indigenous partners as a means of accessing local knowledge, fostering engagement with local stakeholders, supporting training and capacity building of local entrepreneurs to provide goods and services in support of our projects
- Understanding the imperative for alignment between financial and non-financial performance and indicators
- Awareness of the evolving area of transparency within companies and host governments through participation in multi-stakeholder dialogue, and by setting and monitoring expectations with personnel and consultants
- Conducting due diligence and independent audits on major contractors to assess and monitor performance

Social performance

The Company is committed to conducting its business activities fairly, impartially, in an ethical and proper manner and in full compliance with laws and regulations. SOCO endeavours to create a safe and healthy environment in which a fairly compensated and diverse direct and indirect workforce can interact productively in business activities and in the larger community. We expect high standards of ethical business conduct from all personnel in performance of their corporate responsibilities.

The Company demonstrates this commitment through:

- Community participation
  - Strategically managing participation with community stakeholders through: the development and implementation of effective and tailored stakeholder engagement practices; strategic decision-making on community investment initiatives required to comply with commercial and legal commitments; and voluntary community contributions that support SOCO's "local licence to operate" and its decisions on corporate philanthropy.
  - Providing capacity building in support of host communities, for which SOCO has been recognised by host governments in Mongolia, Vietnam and Thailand, and by host communities in those jurisdictions of operation.
  - Demonstrating community participation, which in Yemen has focused on support to schools in local communities where the joint venture operates, and on provision of solar power energy to support local healthcare facilities. In Vietnam, strategic engagement has been maintained with local stakeholders responsible for primary education through ongoing support to the Cu Chi kindergarten, and undertakings to support the enhanced capacity of kindergarten education in Binh Chanh District in 2004.

- Safety
  - Engaging independent third parties to inspect equipment and processes to verify safety.
  - Providing HSE training on an ongoing basis for employees and contractors.
  - Conducting HSE audits to verify alignment between safety standards and performance.

- Stakeholder relations
  - Formally and informally, focusing on key relationships with host governments, partners, local stakeholders and local suppliers and contractors.
  - Sincere and effective commitment to participate in national workforce initiatives set by host governments as a means to bringing indigenous personnel into technical and management teams responsible for operations.

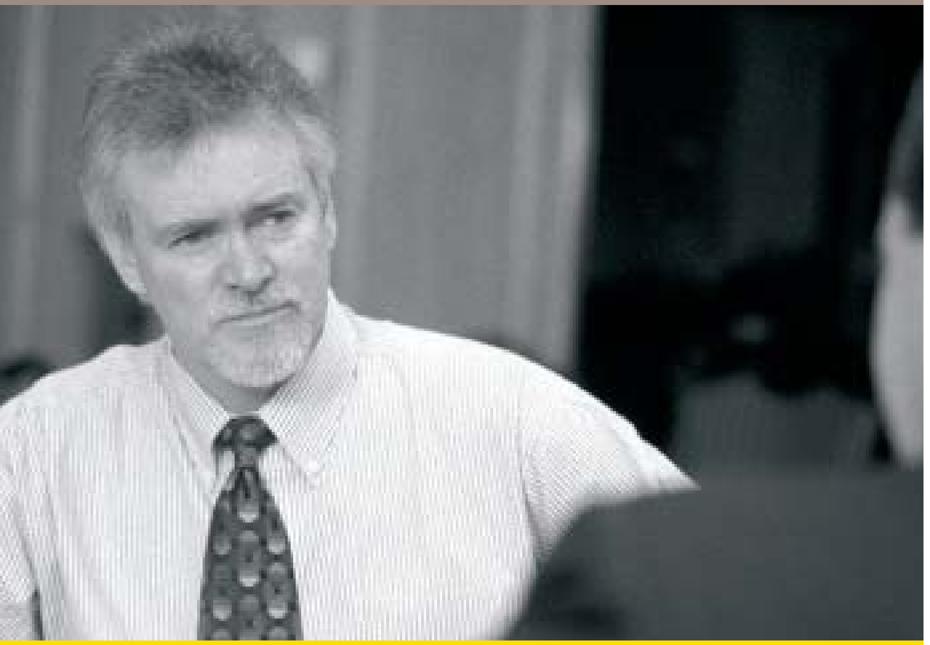
- Employee relations
  - Setting formal policies and procedures to establish SOCO as an equal opportunity employer where marital status, sex, religion, race or ethnic origins do not influence employment opportunities. This has resulted in SOCO's employment of culturally and ethnically diverse personnel in strategic positions.
  - Endeavouring to create a work environment that is open, informed and stimulating, and allows individuals to achieve career ambitions. Training, educational assistance and professional memberships are encouraged as a means to foster career development, and as a means to imbed the Company's standards and expectations.
  - Providing employees with feedback on an ongoing basis, supported by a formal annual appraisal. The size of the Company enables direct interaction among personnel, and multi-disciplinary dialogue and management strategies.
  - Applications for employment by disabled persons are fully considered on the basis of skill, knowledge and ability to perform in the job. In the event that an employee becomes disabled, every effort is made to ensure that employment within the Company continues and that appropriate training is available.

Moving forward

The Company recognises the business imperative to act responsibly. We continue to develop policies and practices that support our corporate responsibility commitments. Measurement, assessment and reporting practices will be continuously enhanced. Training programmes for personnel and contractors will likewise be enhanced to imbed the Company's commitments. Stakeholder perspectives will be incorporated into the Company's corporate responsibility strategies through ongoing engagement. Working in alignment with key stakeholders, SOCO believes that our business can be "part of the solution" wherever we operate.

Crew member in Mongolia, where SOCO's capacity building has enabled a local entrepreneur to provide seismic services

Financial review



Roger Cagle, Deputy Chief Executive and Chief Financial Officer

REVIEW OF 2003 RESULTS

Financial and operating

Net profit for the year increased to £5.8 million on turnover of £25.5 million, compared to net profit of £5.5 million the previous year on turnover of £26.0 million. Operating profit fell in 2003 to £9.2 million from £9.8 million in 2002.

The relatively flat turnover is as a result of the strong average crude oil prices which prevailed for the second consecutive year, as daily average production net to the Company's working interest decreased to 5,409 barrels of oil per day (BOPD) as compared to last year's output of 6,203 BOPD. The average price received per barrel of crude oil sold during the year by the Company increased by approximately US$3.40 to approximately US$27.40 as compared to US$24.00 reported in 2002.

Operating expenses, excluding depletion and decommissioning provisions (DD&A), rose to £9.6 million from £7.4 million in 2002. On a per barrel basis, operating expenses increased to US$6.76 from approximately US$5.15 in 2002, primarily reflecting a scheduled increase in facilities usage tariff and higher expenses associated with security costs in Yemen, and costs associated with the replacement of a damaged riser in Tunisia. Reflecting the reserve additions in Yemen and Tunisia, DD&A provisions on continuing operations dropped from £6.0 million (approximately US$4.25 per barrel) in 2002 to £4.2 million (approximately US$3.55 per barrel) in 2003.

At year end the Group was debt free with a net cash position of £32.9 million, with balances held primarily in US dollars (US$58.9 million). With substantial capital expenditures expected in the run up to, and continuing in, next year's multi-well exploration programme, the Board of Directors are not recommending the payment of a dividend.

As the Group carried its costs, and a pro rata share of the Vietnamese Government working interests' costs, during the 2003 drilling programme in Vietnam, capital expenditures associated with fixed assets for the year increased to £27.8 million from £15.9 million in 2002. Net proven and probable reserves, on an entitlement basis, increased from 58.1 million barrels at year end 2002 to 63.3 million barrels at year end 2003, reflecting the successes of the exploration programme in Yemen and the appraisal programme in Tunisia.

The Trustees of the SOCO Employee Benefit Trust (the Trust), established in 2001 to administer a Long Term Incentive Plan, acquired two tranches of SOCO ordinary shares (Shares) on the open market during 2003. In March, 85,000 Shares (0.12%) were acquired at an average purchase price of £2.79 per Share. This was followed in September by an additional purchase of 115,000 Shares (0.16%) at a purchase price of £2.95 per Share. Subsequent to these transactions, the Trust holds 2,325,000 Shares representing 3.23% of the issued share capital of the Company.

In December, following a change in company law, the Company purchased 150,000 of its own Shares at a price of £2.80 per Share to hold in treasury. As this was the initial purchase of Shares into treasury, it represents the entire number of treasury Shares currently held.

Significant events

In April the Group announced that its 100% owned subsidiary, SOCO North Africa Limited (SOCO North Africa) and Oilinvest (Netherlands) B.V. (Oilinvest) had signed a Heads of Agreement (HOA), subject to contract, with Joint Stock Bank of the Gas Industry Gazprombank (Gazprombank) for Gazprombank to acquire the entire issued share capital of OILSOC Investment Company Limited (OILSOC), a company owned at the time by Oilinvest (55%) and SOCO North Africa (45%). OILSOC assets consist entirely of its 20% shareholding in ODEX Exploration Limited (ODEX), a specific purpose upstream joint venture formed by Oilinvest and SOCO North Africa to identify, develop, produce and market hydrocarbon opportunities in Libya and other countries. Under the terms of the HOA, SOCO North Africa would receive approximately US$2.5 million for its net interest in OILSOC.

Negotiations prior to completion of the transaction have continued throughout the intervening period since announcement of the HOA. In February, the parties agreed the outstanding issues and the transaction was completed on 4 March 2004. Following completion of the transaction, the ODEX shareholders are Oilinvest (46%), SOCO North Africa (34%) and a subsidiary of Gazprombank via its OILSOC purchase (20%).

Subsequent events and 2004 outlook

The Group expects to continue its ongoing development and exploration work in Yemen. In Vietnam, 2004 will be primarily a period of progressing the science of exploration in preparation for a major drilling campaign in 2005.

The Company has always emphasised its strategy of continually upgrading its portfolio of projects. Rationalisation of the Group's asset portfolio is an element of the process and is ongoing. Although at this time, no additional transaction has reached the binding stage, the Company continues to be involved in a number of substantive discussions with various companies concerning potential transactions.

Risk management

Financial

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

The Group's primary reporting currency is in pounds sterling (GBP) while the primary operating currency in the oil and gas industry is in US dollars. As a result, there may be significant potential for financial statements to be impacted by differences arising from movements in foreign exchange rates. These differences may distort results achieved from actual operations.

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 GBP or local currencies to meet immediate operating or administrative expenses or to comply with local currency regulations. At times, short term hedging positions have been taken to protect the dollar value of the Group's cash balances held in currencies other than US dollars.

Financial review continued

The Group continues to be free of debt. However, debt financing is an option that may be employed to meet future capital requirements or to fund operations. The Company will seek to minimise balance sheet impacts of any financings by negotiating borrowings in matching currencies, primarily expected to be in US dollar denominations.

Company cash balances are invested in short term, non-equity instruments, not exceeding six months forward. Investments are generally limited to money market or fixed term deposits in major financial institutions.

> "The Group remains debt free with a year end cash balance of £32.9 million."
> Roger Cagle

Operational

The Board of Directors does not believe that it is practical or prudent to attempt to obtain third party insurance for all the potential consequences of adverse circumstances encountered as the result of its oil and gas activities. However, the Board of Directors believes that the comprehensive property, casualty, liability and other policy cover that SOCO has in place conforms to industry best practice and provides substantial protection against typical industry operational risks. The Board of Directors believes that an appropriate balance between exposure and coverage has been struck.

The Company does not maintain any long term marketing contracts with fixed prices. Production is sold on "spot" or near term contracts, with prices fixed at the time of a crude oil lifting or on the basis of a monthly average marker price. Although oil prices may fluctuate widely during any particular reporting period, it is the Company's policy not to hedge crude oil sales unless such hedging is required to mitigate financial risk associated with debt financing of its assets or to meet the Company's commitments. Accordingly, no price hedging mechanisms were in place during the year. Over time, during periods when the Company sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

Many of the Group's projects are in developing countries or countries with emerging free market systems. There is generally a greater risk of political, economic or social instability in these environments than would be found in more established, developed economies. Some of the Group's interests are in regions that have been identified as being potentially more susceptible to business interruptions due to subversive activity or the possible consequences thereof. The Company has assessed such risks before beginning operations in any particular area and has deemed them commercially acceptable. The Company does not carry political risk nor associated business interruption coverage to mitigate such risks, but periodically assesses the cost and benefit of both. Future circumstances may lead to the Company acquiring such cover.

Corporate governance

The Group has applied the Principles of Good Governance, which are set out in section 1 of the Combined Code and appended to the Listing Rules, as described below and, in connection with Directors' remuneration in the Directors' remuneration report. A revised Combined Code has been issued (the Revised Code), and the Company has taken certain steps to ensure its compliance with the Revised Code for future reporting periods.

The Board

The Board of Directors, whose names and biographical details are set out on pages 30 to 31, comprises 11 Directors of whom five have been identified in the Directors' report on page 32 as independent Non-Executive Directors as defined in the Revised Code, which will be applied in future reporting periods. Prior to adoption of the Revised Code definitions, the Company identified nine Directors whom it considered as independent in accordance with the Combined Code. The Company's Directors strictly abide 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 must submit themselves for reappointment at least every three years.

The Board has four scheduled meetings a year and holds additional meetings as necessary. The Board is responsible for determining the Company's business strategy and provides the entrepreneurial leadership required to ensure its strategic aims can be achieved. The Board operates within a 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, the authority for implementing the strategy and decisions taken by the Board are largely delegated to the Executive Directors and management.

The Board has established three Committees, as described below, each having formal terms of reference approved by the Board which comply with the Combined Code and are reviewed from time to time in the context of evolving guidance. The composition of each Committee is in accordance with guidelines established by the Revised Code. Each Director's specific committee memberships, including as chairmen, are set out on pages 30 to 31.

The Remuneration Committee

The Remuneration Committee is chaired by the Senior Independent Non-Executive Director and consists of two additional independent Non-Executive Director members. It is responsible for recommending for approval by the full Board the remuneration of the Executive Directors and senior management of the Company and Group. Details of the Committee's policies and objectives are set out in the Remuneration report on pages 35 to 40.

The Audit Committee

The Audit Committee is chaired by the Senior Independent Non-Executive Director and additionally comprises two independent Non-Executive Director members. The 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 Non-Executive 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. Its primary responsibilities are to review the effectiveness of the Company's and Group's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of that audit, to evaluate and select external auditors and to review the annual and interim financial statements before they are submitted to the Board. Additionally, the Committee is responsible for review of the Group's major financial, operational and corporate responsibility risk management processes, which it conducts at least annually.

The Audit Committee has specific 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. It is responsible for ensuring that auditor objectivity and independence is maintained, and Audit Committee approval is required to engage the external auditors in a non-audit capacity.

The Nominations Committee
The Nominations Committee comprises three independent Non-Executive Directors, the Chief Executive Officer and the Non-Executive Chairman of the Company, who chairs the Committee. The Committee is responsible for establishing an ongoing process for evaluating the Board and its members. Accordingly, the Committee is responsible for making recommendations to the Board regarding the appointment and reappointment of Directors, overall Board structure and Committee membership and succession planning.

Relations with shareholders
The Company maintains an open and active dialogue with shareholders. At a minimum, the Company provides three personal communication forums annually – the Annual General Meeting, the presentation of Annual Results and the presentation of Interim Results – whereby shareholders can directly interface with Company executive management. 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.

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 mid-term and full-year results, between fund managers and Company executive management.

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 D.2 of the Combined Code, by establishing an ongoing process, which has been in place throughout the year to the date of this report and which is in compliance with "Internal Control: Guidance for Directors on the Combined Code" published in September 1999, 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 D.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 reviewed at least annually 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. Further, the Board considers whether appropriate actions are promptly taken to correct any significant weaknesses identified and if more extensive monitoring may be required.

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 are satisfied with the process employed and the results thereof. The Audit Committee spearheads the Board in discharging its review responsibilities. 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 will outsource any internal audit needs.

Statement of compliance with Code of Best Practice
The Company has complied throughout the year with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code.

Directors' responsibilities
Accounts, including adoption of going concern basis
Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss of the Group for the period. In preparing those accounts, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

After making enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the accounts.

Other matters
The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' responsibilities
The auditors' responsibilities are set out in the Independent auditors' report on page 41.

Board of Directors

1 2 3 4 5 6 7 8 9 10 11

1 Patrick Maugein (56)
Non-Executive Chairman
- A member of the Board of SOCO International since July 1999 and Chairman of the Nominations Committee.
- Has developed a portfolio of private investments in several industries.
- Formerly, Chairman of the Alternative Finance Group.

2 Ed Story (60)
President and Chief Executive Officer
- A member of the Board of SOCO International since April 1997 and a member of the Nominations Committee.
- Formerly, 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.
- Currently, a director of Cairn Energy PLC.

3 Roger Cagle (56)
Executive Vice President
Deputy CEO and Chief Financial Officer
- A member of the Board of SOCO International since April 1997.
- 29 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.

4 Peter Kingston (61)
Non-Executive Deputy Chairman and
Senior Independent Director
- A member of the Board of SOCO International since May 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, going on to become Managing Director (Technical) and a director of Elf-Enterprise Petroleum Ltd.
- Currently, a director of Corporate Kudos Ltd, a consultancy advising senior managers on corporate social responsibility.

EXPERIENCE DRIVEN

5 Olivier Barbaroux (48)
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 Environnement.

6 Robert Cathery (59)
Non-Executive Director
- A member of the Board of SOCO International since June 2001.
- A member of the London Stock Exchange since 1967.
- Currently, Managing Director of Canaccord Capital (Europe) Limited and a non-executive director of IndigoVision plc.

7 Ettore Contini (29)
Non-Executive Director
- A member of the Board of SOCO International since December 2001.
- Formerly, an Asset Manager at Banca del Gottardo, Switzerland.
- Currently, a director of Italiana Energia e Servizi SpA.

8 Rui de Sousa (48)
Non-Executive Director
- A member of the Board of SOCO International since July 1999.
- Chief Executive Officer of the Toro Group for over a decade.
- Currently, also Chairman of Mediterranean Oil Supply and Trading Limitada, a director of Quantic Limited and a director of New Falcon Oil Limited.

9 Roger Brittain (66)
Non-Executive Director
- A member of the Board of SOCO International since March 1998 and a member of the Remuneration and Audit Committees.
- Formerly, director of Corporate Finance at Investec Henderson Crosthwaite and a civil servant in HM Foreign Service for seven years.
- Formerly, Chairman of CanArgo Energy Corporation and a director of Transmeridien Exploration, Inc. and Snyder Oil Corporation.

10 John Norton (66)
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.
- Currently, a director of the Arab-British Chamber of Commerce and a member of the Oil Industry Accounting Committee.

11 John Snyder (62)
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, an advisory director for 4D Global Energy Advisors and a director of Texas Capital Bancshares.

Cynthia Cagle, Vice President and Company Secretary

THE ANNUAL REPORT OF THE DIRECTORS

The Directors present their annual report, along with the audited accounts of the Group for the year ended 31 December 2003.

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, Mongolia, Yemen, Tunisia and Thailand. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 14 to the accounts.

A detailed review of the development of the business and its future prospects is contained in the Chairman's and Chief Executive's statement, the Review of operations and the Financial review on pages 2 to 17 and 24 to 26.

Results and dividends

The audited accounts for the year ended 31 December 2003 are set out on pages 42 to 57. The Group operating profit for the period was £9.2 million compared to £9.8 million in 2002. The Group profit after taxation for the period was £5.8 million compared to £5.5 million in 2002.

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 (2002 – £nil).

Directors

The Directors who served during the year and the dates of their current service contracts or letters of appointment are as follows:

Director	Date of contract
Patrick C J Maugein (Chairman)	12.07.99
Peter E Kingston* (Deputy Chairman and Senior Independent Director)	14.05.97
Olivier M G Barbaroux*	12.07.99
Roger W Brittain*	10.06.98
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
John C Snyder*	14.05.97
Rui C de Sousa	12.07.99
Edward T Story	14.05.97

* Denotes independent Non-Executive Director as defined under the revised Combined Code

All Directors held office throughout the year. Relevant details of the Directors, which include their Committee memberships, are set out on pages 30 and 31. Details of Directors' interests and Directors' transactions are included in Note 8 to the accounts.

In accordance with the Articles of Association, Mr Roger W Brittain, Mr Roger D Cagle and Mr John C Snyder will retire by rotation at the forthcoming Annual General Meeting (AGM). Mr Brittain, having determined it necessary to reduce his business commitments generally, will retire from the Board at the AGM. Mr Cagle and Mr Snyder, each being eligible and having been recommended for reappointment by the Nominations Committee, offer themselves for reappointment. With respect to the Non-Executive Director reappointment, the Chairman is satisfied that Mr Snyder continues to demonstrate a commitment level appropriate to his fulfilment of the role.

SOCO has provided liability insurance for its Directors and officers. Cover was placed by the same brokerage group which placed most of the Group's other insurance cover. The annual cost of the cover is not material to the Group.

Supplier payment policy

The Company'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 the terms of payment 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 charitable programmes, which are principally carried out in the countries where the Group has operations, is contained in the Corporate responsibility report on pages 18 to 23.

Employment policies

Information regarding employment policies of the Company is contained in the Corporate responsibility report on pages 18 to 23.

Share capital

Details of changes to share capital during the period are set out in Note 20 to the accounts. Details regarding the purchase in December 2003 of 150,000 of the Company's own ordinary share capital into treasury can be found in Note 21 to the accounts. The Directors believe that acquisition of the Company's shares represented good value to shareholders, and holding these shares in treasury will result in an increase in earnings per share.

A special resolution will be placed before the forthcoming 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 7,185,000 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.

Two special resolutions will be placed before the AGM to replace the Directors' existing authorities to allot securities. One resolution will seek authority under Section 80 of the Companies Act 1985 (the Act) to allot relevant securities up to a maximum aggregate nominal value of £4,790,656 representing one third of the Company's issued share capital, excluding treasury shares. If approved, an additional resolution will seek authority under Section 95 of the Act to allot equity securities for cash and to sell treasury shares for cash without first offering them to existing shareholders on a pro rata basis, either in connection with a rights issue or, for other purposes, up to a maximum aggregate nominal value of £718,598 representing 5% of the Company's issued share capital, excluding treasury shares.

Whilst there is no present plan to exercise any of these authorities, they are intended to provide flexibility and would only be exercised if considered to be in the best interests of the Company generally and, for purchases of the Company's share capital, if expected to result in an increase in earnings per share upon cancellation or while held in treasury.

Substantial shareholdings

	Issued shares		Warrants
Name of holder	**Number**	**% Held**	**Number**
Pontoil Intertrade Limited	10,540,543	14.63	487,823
Opale SA	7,100,225	9.86	–
Chemsa Ltd*	5,791,436	8.04	325,215
Fidelity International Limited	5,017,360	6.97	–
Lansdowne Partners Limited Partnership	4,353,524	6.04	–
Joint Stock Bank of the Gas Industry Gazprombank (Closed Joint Stock Company)	3,571,430	4.96	–
Quantic Limited*	3,043,254	4.22	162,607
SOCO Employee Benefit Trust	2,325,000	3.23	–
Legal & General Investment Management Limited	2,173,265	3.02	–

*Details of the Directors' interests in these holdings are included in Note 8 to the accounts.

As at 10 March 2004, the Company had been notified, in accordance with Sections 198 to 208 of the Act, 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 above.

Auditors

On 1 August 2003, Deloitte & Touche, the Company's Auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of Section 26(5) of the Companies Act 1989. A resolution to reappoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming AGM.

Deloitte & Touche LLP also provide non-audit services to the Group which are set out in Note 6 to the accounts. 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 judgment or independence of either the auditor or the remuneration advisor.

By order of the Board
Cynthia B Cagle
Secretary
10 March 2004

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 FSA are covered in the scope of the Independent auditors' report on page 41. 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 of the Code of Best Practice set out in the Listing Rules of the FSA, as disclosed in the Company's corporate governance statements, and has applied the Principles of Good Governance relating to Directors' remuneration as described below.

Remuneration Committee

The independent Non-Executive Directors who serve on the Remuneration Committee are Mr Peter E Kingston (Chairman), Mr Olivier M G Barbaroux and Mr Roger W Brittain. 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.

Mr Barbaroux replaced Mr de Sousa as a member of the Committee with effect from 4 December 2003. Mr de Sousa stepped down as a member in consideration of his substantial shareholding, which has been identified as a circumstance which could appear to affect a director's judgement under the Combined Code as revised in July 2003. The Committee considers that Mr de Sousa offers a valuable perspective as a significant shareholder in ensuring its strategy to align executive interests with those of shareholders is properly weighed against the overall quantum of remuneration and the cost to shareholders. Accordingly, the Committee intends to seek advice from Mr de Sousa in future as it considers appropriate.

The Committee is responsible for determining and agreeing with the full Board a broad remuneration policy and for setting the total remuneration packages of the Executive Directors and senior management within the context of that policy and in consideration of remuneration elsewhere in the Company. Their recommendations and decisions are to be developed in full consideration of the Code of Best Practice and with regard to institutional guidelines.

In discharging its duties during the year, the Committee consulted with the other Non-Executive Directors, and received full Board approval for its proposals. 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. Deloitte & Touche LLP was appointed by the Committee as advisors and provided advice on executive remuneration, relevant current market practice and developments in best practice guidance. The original appointment of advisors resulted from a tender process and alternate advisors are considered from time to time. Deloitte & Touche LLP also provided audit and tax services to the Group, which are set out in more detail in Note 6 to the accounts. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence.

Remuneration policy

The policies described in this report have been applied throughout 2003. Whilst these policies are envisaged to be consistently applied in the following and subsequent years, the Committee has an ongoing process for reviewing its policies against evolving market practice and relevant guidance. The Committee would only expect to implement any proposed policy change following a consultation, review and approval process deemed appropriate to the proposed change.

Executive Directors

The Directors 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 expected value and structure of the Executive Directors' packages are benchmarked to 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. The arrangements for performance-based pay are regularly reviewed against market practice and evolving best practice guidelines.

The Committee seeks to link performance-based pay to its business strategy by monitoring performance in the shorter term against targets designed to directly contribute towards recognising opportunity, capturing potential and realising value in the Company's portfolio of assets. In the longer term, performance targets are more closely linked to share price performance as an indicator of the Company's success in its strategy to build shareholder value.

It is the Committee's policy to review 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.

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. Assuming performance levels in the middle of the target range, the packages are structured to deliver 60% of the expected value of the Directors' total compensation opportunity from performance-related elements, 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. 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. Basic salary is the only element of a Director's pay which is pensionable.

Bonus

An Executive Director's discretionary annual cash bonus is targeted to provide a balance between basic salary and the performance-related element of annual cash remuneration. Consistent with the Committee's policy for linking performance to business strategy in the shorter term, the annual cash bonus will be awarded based on individual and corporate achievements during the year towards goals based on the Company's strategic plan. Bonus awards are considered in two levels, wherein expected performance will result in awards in the middle of a target range of up to 50%, with a stretch level of up to 100% for exceptional performance.

Performance for 2003 was measured based on the achievement of specific goals established for each portion of the Company's portfolio as well as corporately. Whilst the majority of these goals were business measures, aimed at directly linking the most appropriate element of the business strategy to each of the Company's assets, a smaller element of financial measures against budgeted levels was considered. Although determination of the potential of the Vietnam project has been delayed, achievements have resulted in significant reserve upgrades in both Yemen and Tunisia, a five year extension of the Mongolia exploration licences and the seating of a highly competent Vietnam staff to conduct the future work programme. Bonuses were awarded at the upper end of the target range. The stretch level for exceptional performance was not utilised in 2003.

Incentive plans

The Committee currently operates a Long Term Incentive Plan (LTIP) and a share option scheme (the Plans). The participants and the level of awards granted, which is discretionary, are set in consideration of both corporate and individual performance and take into account awards made under both Plans. Awards under the Plans 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, generally operates the Plans within the more restrictive annual limit of 200% of the executive's salary. The aggregate number of new issue shares which may be subject to award under the Plans shall not exceed 5% of the ordinary share capital of the Company. An employee benefit trust currently holds sufficient SOCO shares to satisfy all shares conditionally awarded under the LTIP, as more fully described in Note 14 to the accounts. Decisions governing acquisitions of shares into the trust are considered and approved by the full Board.

At the date of grant of an award, the Committee sets appropriate performance criteria which must be achieved before the award can be exercised or vest. Award levels will take into account the nature of performance targets to ensure that expected 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. Accordingly, performance targets for awards under the Plans since their approvals have been based on the Company's relative TSR performance over a three-year period within a range of comparator companies in the oil exploration and production sector.

Retention of shares under option has been required from time to time, but is not a current requirement under the Plans. However, the Executive Directors have consistently demonstrated an intention to build up and maintain a meaningful holding in the Company.

LTIP

Based on independent benchmarking carried out in 2000, the Committee determined that incentive opportunities available to the Company's Executives were not competitive with sector comparisons. The Directors proposed an LTIP to provide greater flexibility in maintaining the competitiveness of executives' remuneration and enabling a more significant proportion to be linked to performance. The proposed LTIP was set out in the Annual Report and Accounts 2000 and, following consultation with the Association of British Insurers (ABI) and the Company's major institutional shareholders, was approved by shareholders at the May 2001 AGM.

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. Initial awards under the Plan were deferred from December 2000 to May 2001 pending approval of the LTIP. Whilst this resulted in two awards in the same financial year, Plan limits were not exceeded.

Shares awarded under the Plan are subject to performance criteria to be measured on the third anniversary of the date of grant, and deemed fulfilled to the satisfaction of the Committee. If the TSR ranking exceeds the median, the award will become exercisable as to 40% of the shares subject to award, with proportionally greater vesting for each higher ranking position up to 100% for performance in the top 20 percentile, being a ranking of 1st or 2nd in the comparator group. The comparator group comprises Aminex, Cairn Energy, Dana Petroleum, Dragon Oil, Paladin Resources, Premier Oil, SOCO, Tullow Oil, Venture Production (having replaced Enterprise Oil) and Ramco Energy (having replaced Bula Resources). The Committee may give consideration, in the light of any exceptional circumstances during a relevant three-year period, whether the recorded TSR is consistent with the achievement of actual underlying financial and operational performance which, for the awards to date, 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.

Option scheme

The Committee currently operates one share option scheme, being the SOCO 1997 Company Share Option Plan. No options have been granted to Directors since introduction of the LTIP. All options held by Directors at the beginning of 2003 had been determined to be 100% vested and exercisable based on performance criteria set at the date of grant and measured following the third anniversary of grant. Measurement of the Company's performance criteria is carried out with reference to external data sources by the Committee's remuneration advisors to ensure its independence.

Pre-float option scheme

The Directors hold share options (Options) under the SOCO-sub Unapproved Share Option Plan which were granted prior to the listing of the Company's shares on the London Stock Exchange. No additional grants are available under the plan. Options were set to lapse in April 2004, seven years from date of grant. As the Options are fully vested and exercisable at an attractive price to the Option holder, the lapse date would impose a forced exercise and disposition of sufficient shares to fund the resulting taxation. The Directors do not believe a forced exercise was in the best interests of the Company or shareholders generally. Accordingly, the Board exercised its power to make administrative amendments to the Scheme by extending the exercise date for employees holding Options to April 2007, ten years from date of grant. The ten year period is consistent with current legislation and ABI guidelines.

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.

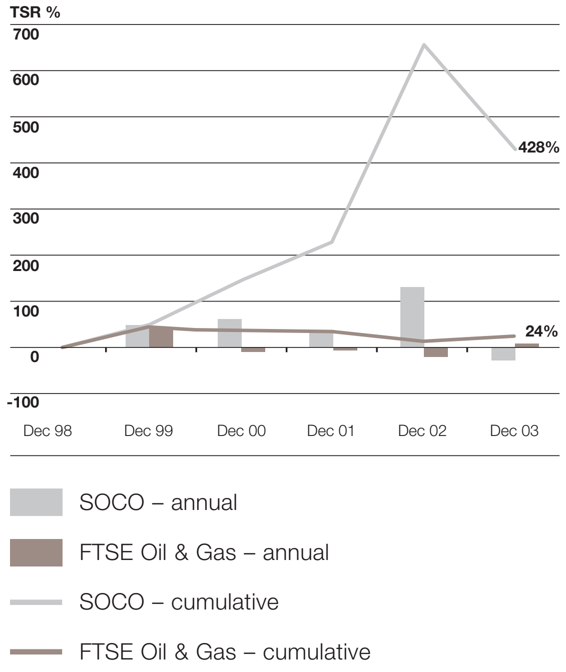
Non-Executive Directors

The remuneration of Non-Executive Directors is determined by the Board as a whole, based on outside advice and review of current practices in other companies, and 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. 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 32.

Five year TSR performance



The performance graph sets out SOCO's annual and cumulative total shareholder return (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.

Audited information

Directors' emoluments

	Fees/basic salary £000's	Benefits in kind[1] £000's	Annual bonus £000's	Total 2003 £000's	Total 2002 £000's
Executive Directors					
E Story	332	20	166	518	639
R Cagle	232	23	116	371	402
Non-Executive Directors					
P Maugein	55	–	–	55	55
P Kingston[2]	55	–	–	55	55
O Barbaroux	25	–	–	25	25
R Brittain	25	–	–	25	25
R Cathery	25	–	–	25	25
E Contini	25	–	–	25	25
J Norton	25	–	–	25	25
J Snyder	25	–	–	25	25
R de Sousa	25	–	–	25	25
Aggregate emoluments	849	43	282	1,174	1,326

[1] Benefits include a permanent health insurance scheme, medical insurance, life assurance cover, critical illness cover, travel benefits and car benefits.
[2] Emoluments receivable by Mr Peter Kingston are paid to Peter Kingston & Associates under an agreement to provide the Company with the services of Mr Kingston.

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

Directors' pension entitlements

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

	2003 £000's	2002 £000's
E Story	24	25
R Cagle	24	25
	48	50

Directors' share options

Details of Directors' option to acquire ordinary shares in the Company are as follows:

	As at 1 January 2003	Granted/ Awarded	As at 31 December 2003	Exercise price £	Date from which exercisable	Expiry date
E Story						
Pre-IPO share plan[1]	1,973,954	–	1,973,954	0.750	29.05.97	25.04.07
SOCO share plan[2]	89,286	–	89,286	3.850	03.12.00	03.12.04
	284,253	–	284,253	0.725	15.09.01	15.09.05
	695,195	–	695,195	0.590	13.07.02	13.07.06
Deferred bonus[3]	160,000	–	160,000	–	31.12.02	21.03.11
LTIP[3]	291,900	–	291,900	–	24.05.04	24.05.11
	256,400	–	256,400	–	10.12.04	09.12.11
	118,800	–	118,800	–	04.12.05	03.12.12
	–	121,000	121,000	–	19.12.06	19.12.13
R Cagle						
Pre-IPO share plan[1]	986,977	–	986,977	0.750	29.05.97	25.04.07
SOCO share plan[2]	68,410	–	68,410	3.850	03.12.00	03.12.04
	198,977	–	198,977	0.725	15.09.01	15.09.05
	448,073	–	448,073	0.590	13.07.02	13.07.06
Deferred bonus[3]	112,000	–	112,000	–	31.12.02	21.03.11
LTIP[3]	204,300	–	204,300	–	24.05.04	24.05.11
	179,500	–	179,500	–	10.12.04	09.12.11
	83,100	–	83,100	–	04.12.05	03.12.12
	–	84,800	84,800	–	19.12.06	19.12.13

[1] Options held under the SOCO-sub Unapproved Share Option Plan were granted prior to the listing of the Company's shares on the London Stock Exchange. The Board has exercised its power to make administrative amendments to the Scheme by extending the exercise date for employees holding Options to April 2007, ten years from date of grant. Further details regarding this amendment are set out within this report.

[2] Based on TSR performance, all options conditionally exercisable under the SOCO 1997 Company Share Option Plan have been determined to be fully vested and 100% exercisable. Additional details regarding the plan are set out within this report.

[3] These conditional awards are in the form of a nil price option to acquire ordinary shares in the Company. To reduce a competitive shortfall identified in 2000, a special deferred bonus was awarded and an LTIP was proposed. Additional details regarding the LTIP are set out within this report. The special deferred bonus, which was awarded at levels consistent with performance over the relevant period, was made in the form of SOCO shares in order to align the interests of the recipients with those of the shareholders, vesting in December 2002 subject to continued employment. The deferred bonus and the proposed LTIP were set out in the Annual Report and Accounts 2000 prior to seeking shareholder approval of the LTIP.

The market price of the Company's ordinary shares at 31 December 2003 was £2.745 and the range during the year to 31 December 2003 was £2.665 to £4.015.

Approval

This report was approved by the Board of Directors on 10 March 2004 and signed on its behalf by:

Peter Kingston Deputy Chairman and Senior Independent Director

Independent auditors' report

To the shareholders of SOCO International plc

We have audited the financial statements of SOCO International plc for the year ended 31 December 2003 which comprise the Profit and loss account, the Balance sheets, the Cash flow statement, the Statement of total recognised gains and losses, the Statement of accounting policies and the related Notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of 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 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

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the 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 Directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 described as having been 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 circumstances of the Company and the Group, 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 described as having been 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 described as having been audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended, and the financial statements and part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants
and Registered Auditors
London

10 March 2004

Consolidated profit and loss account

for the year to 31 December 2003

	Notes	2003 £000's	2002 £000's
Turnover	1	25,490	26,043
Cost of sales	2	(13,800)	(13,374)
Gross profit		11,690	12,669
Administrative expenses		(2,517)	(2,305)
Exceptional write off of exploration expenditure	3	–	(595)
Profit on ordinary activities before finance charges		9,173	9,769
Investment income	4	815	1,188
Interest payable and similar charges	5	(37)	(180)
Profit on ordinary activities before taxation	1, 6	9,951	10,777
Tax on profit on ordinary activities	9	(4,114)	(5,266)
Profit for the financial year	22	5,837	5,511
Earnings per share			
Basic	11	8.4p	8.0p
Diluted	11	7.4p	7.1p

All operations of the Group and the Company continued throughout both periods.

Consolidated statement of total recognised gains and losses

for the year to 31 December 2003

	Notes	2003 £000's	2002 £000's
Profit for the financial year	22	5,837	5,511
Unrealised currency translation differences	22	(14,354)	(14,238)
Total recognised losses relating to the year		(8,517)	(8,727)

The accompanying notes are an integral part of these accounts.

Balance sheets

as at 31 December 2003

	Notes	Group 2003 £000's	Group 2002 £000's	Company 2003 £000's	Company 2002 £000's
Fixed assets					
Intangible assets	12	82,311	68,314	–	–
Tangible assets	13	18,973	19,324	35	73
Investments	14	1,486	1,475	72,326	64,779
		102,770	89,113	72,361	64,852
Current assets					
Stocks	15	40	1,460	–	–
Debtors	16	4,763	5,445	721	504
Cash at bank and in hand		32,898	51,495	387	2,653
		37,701	58,400	1,108	3,157
Creditors: Amounts falling due within one year	17	(8,586)	(7,454)	(173)	(290)
Net current assets		29,115	50,946	935	2,867
Total assets less current liabilities		131,885	140,059	73,296	67,719
Provisions for liabilities and charges	18	(3,279)	(3,374)	–	–
Net assets		128,606	136,685	73,296	67,719
Capital and reserves					
Called-up equity share capital	20	14,396	14,269	14,396	14,269
Share premium account	21	41,325	40,590	41,325	40,590
Other reserves	21	34,537	34,961	(424)	–
Profit and loss account	21	38,348	46,865	17,999	12,860
Equity shareholders' funds	22	128,606	136,685	73,296	67,719

The accounts on pages 42 to 57 were approved by the Board of Directors on 10 March 2004 and signed on its behalf by:

Patrick Maugein Chairman

Roger Cagle Director

The accompanying notes are an integral part of these accounts.

Consolidated cash flow statement

for the year to 31 December 2003

	Notes	2003 £000's	2002 £000's
Net cash inflow from operating activities	23	16,610	18,913
Returns on investments and servicing of finance			
Interest received		677	836
Interest paid and similar charges		(17)	(14)
		660	822
Taxation paid		(4,169)	(5,332)
Capital expenditure and financial investment			
Purchase of intangible fixed assets		(21,651)	(8,399)
Purchase of tangible fixed assets		(6,116)	(7,499)
Purchase of own shares by employee benefit trust	14	(583)	(611)
Purchase of own shares into treasury	21	(424)	–
		(28,774)	(16,509)
Cash outflow before management of liquid resources and financing		(15,673)	(2,106)
Management of liquid resources			
Decrease in funds placed on short term deposit		–	2,690
Financing			
Issue of ordinary share capital	20	862	170
(Decrease) increase in cash in the year	24	(14,811)	754

The accompanying notes are an integral part of these accounts.

Statement of accounting policies

A summary of the principal accounting policies, which have all been applied consistently throughout the year and the prior year, is set out below.

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities". During 2003, the Group adopted Urgent Issues Task Force Abstract 37 "Purchases and Sales of Own Shares" whereby the consideration paid for own shares into treasury is deducted in arriving at shareholders' funds, which had no effect on the Group's net assets and results of previous years.

Basis of consolidation

The Group accounts consolidate the accounts of SOCO International plc and its subsidiary undertakings drawn up to the balance sheet date. 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 and liabilities acquired and the consideration given are recognised in the Group accounts at their fair values as at the date of the acquisition.

Interests in associated undertakings and joint ventures

Associated undertakings are entities in which a consolidated member of the Group has a participating interest and over whose operating and financial policies the Group exercises a significant influence. These investments are dealt with by the equity method of accounting, whereby the consolidated profit and loss account includes the appropriate share of these companies' profits less losses, and the Group's share of post-acquisition retained profits and reserves is added to the cost of investment in the consolidated balance sheet.

The Group's oil and gas activities are sometimes conducted in joint ventures with other companies which fall within the Financial Reporting Standard 9 definition of joint arrangements that are not entities. Accordingly, the Group accounts for its relevant proportion of production revenues, capital and operating expenditures, assets and liabilities, and cash flows.

Turnover

Turnover represents the sales value of the Group's share of oil and gas sold during the year. To the extent turnover arises from test production during an appraisal programme, an amount is charged from appraisal costs to cost of sales so as to reflect a zero net margin.

Tangible and intangible fixed assets

Oil and gas exploration and development expenditure

The Group uses the full cost method of accounting for exploration and development expenditure, whereby all expenditure incurred in connection with the acquisition, exploration, appraisal and development of oil and gas assets, including directly attributable overheads, and 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. Acquisition, exploration and appraisal costs incurred in a geographical area where the Group has no established cost pool are initially capitalised as intangible fixed assets – exploration expenditure. Upon conclusion of the appraisal programme and determination of whether commercial reserves exist, such costs are either transferred to establish a new cost pool within tangible fixed assets, or written off, as appropriate.

Proceeds from the disposal of oil and gas assets are credited against the relevant cost pool. Any overall surplus arising in a cost pool is credited to the profit and loss account.

Depreciation and depletion

Depletion is provided for each cost pool using the unit of production method, based on proven and probable reserves, applied to the sum of the total capitalised exploration and development costs in that pool, together with estimated future development costs at current prices. The costs and reserves of properties awaiting appraisal are excluded from the depletion calculation.

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 a geographical cost pool, management assesses the recoverability of the net book value of the Group's oil and gas interests in that pool 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 profit and loss account.

Intangible assets – exploration expenditure, which relate to costs incurred in areas where the Group has no established cost pool, are considered separately for impairment, at least annually. Where such costs are determined to be impaired, they are written off.

Other fixed assets

Other fixed 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. An associated decommissioning asset is recognised, which is amortised for each cost pool on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible fixed assets. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in interest payable.

Changes in estimates

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

Taxation

Current taxation, including UK Corporation tax and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided on a non-discounted basis and is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred taxes have not been provided on undistributed reserves of overseas subsidiary undertakings to the extent that the earnings are intended to remain indefinitely in those entities. Deferred taxation assets are 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. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. 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.

The results of overseas operations 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 overseas operations are dealt with in the statement of total recognised gains and losses. Other foreign exchange differences are taken to the profit and loss account.

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 profit and loss account. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

1 Segment information

	Asia £000's	North Africa and Middle East £000's	Unallocated £000's	Group 2003 £000's
Turnover by origin	1,723	23,767	–	25,490
Operating profit (loss)	–	11,372	(2,199)	9,173
Profit (loss) on ordinary activities before taxation	–	11,586	(1,635)	9,951
Net assets	77,131	20,719	30,756	128,606

	£000's	£000's	£000's	2002 £000's
Turnover by origin	1,528	24,515	–	26,043
Operating profit (loss)	(595)	12,357	(1,993)	9,769
Profit (loss) on ordinary activities before taxation	(595)	12,291	(919)	10,777
Net assets	64,563	22,228	49,894	136,685

Turnover is derived from one class of business, being oil and gas production. Turnover by destination does not materially differ from turnover by origin.

2 Cost of sales

	2003 £000's	2002 £000's
Operating expenses	9,578	7,399
Depletion and depreciation	4,222	5,975
	13,800	13,374

3 Exceptional write off of exploration expenditure

As at 31 December 2002 the Group had discontinued its activities in North Korea. As a result exploration expenditure capitalised pending determination and held outside depreciable pools of £595,000, incurred in North Korea, was written off during 2002.

4 Investment income

	2003 £000's	2002 £000's
Interest receivable	491	1,188
Realised exchange gain	324	–
	815	1,188

5 Interest payable and similar charges

	2003 £000's	2002 £000's
Interest payable on bank loans and similar fees	17	14
Unwinding of discount on provisions (see Note 18)	20	37
Realised exchange loss	–	129
	37	180

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2003 £000's	2002 £000's
Depletion and depreciation	4,276	6,043
Auditors' remuneration for audit services		
UK companies	46	47
Overseas companies	75	28
	121	75
Auditors' remuneration for non-audit services		
UK companies	75	47
Overseas companies	–	2
	75	49

The amounts payable to Deloitte & Touche LLP by the Group in respect of non-audit services related to taxation, remuneration advice and corporate governance. Fees related to taxation comprised compliance and advisory services in the amount of £41,800. Fees related to remuneration included advice in respect of annual benchmarking and market practice in the amount of £15,300, shareholder reporting of £10,700 and corporate governance issues of £7,200.

7 Staff costs

The average monthly number of employees (including Executive Directors but excluding contractors and local staff of overseas operations) was 15 (2002 – 15), of which 12 (2002 – 12) were administrative personnel and 3 (2002 – 3) were operating personnel. Their aggregate remuneration comprised:

	2003 £000's	2002 £000's
Wages and salaries	1,899	2,061
Social security costs	62	74
Other pension costs under money purchase schemes	122	112
	2,083	2,247

8 Directors' remuneration, interests and transactions

Directors' remuneration

Aggregate Directors' remuneration comprised:

	2003 £000's	2002 £000's
Emoluments	1,174	1,326
Money purchase pension contributions	48	50
	1,222	1,376

Details of Directors' remuneration are set out in the Directors' remuneration report on pages 35 to 40.

Directors' interests

The interests (all of which were beneficial except as noted below) of the Directors in the ordinary shares of the Company (Shares), warrants to subscribe for the same number of Shares (Warrants) and options to acquire Shares (Options) at 31 December 2003 were as follows:

	Number of Shares		Number of Options[1]		Number of Warrants	
	2003	2002	2003	2002	2003	2002
Executive Director						
E Story	994,456	994,456	3,990,788	3,869,788	–	–
R Cagle[2]	70,000	70,000	3,831,857	3,684,157	–	–
Non-Executive Director						
P Maugein[3]	5,791,435	5,791,435	–	–	325,215	325,215
P Kingston	4,000	11,500	–	–	–	–
O Barbaroux	10,000	10,000	–	–	–	–
R Brittain	86,400	106,400	–	–	–	–
R Cathery	70,000	70,000	–	–	–	–
E Contini	10,000	10,000	–	–	–	–
J Norton	115,000	90,000	–	–	–	–
J Snyder[4]	500,000	500,000	–	–	–	–
R de Sousa[5]	3,657,873	3,422,097	–	–	1,671,809	1,671,809

[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 Directors' remuneration report on pages 35 to 40.
[2] Options held as at 31 December 2003 include 1,465,720 (2002 – 1,402,820) held by Cynthia Cagle, having been granted to her in respect of her services to the Group.
[3] Mr Patrick Maugein's interest is held by Chemsa Limited, which is owned by a trust company whose potential ultimate beneficiary is the family of Mr Maugein.
[4] Mr John Snyder's interest is held by Snyder Alternative Investments, L.P., which is owned by other partnerships and trusts of which Mr Snyder and members of his family are owners and/or beneficiaries.
[5] Mr Rui de Sousa's interest comprises:
3,043,254 (2002 – 2,807,478) Shares and 162,607 (2002 – 162,607) Warrants at a price of £0.55 held by Quantic Limited of which Mr de Sousa owns 50% of the issued ordinary share capital;
614,619 (2002 – 614,619) Shares and 40,652 (2002 – 40,652) Warrants at a price of £0.55 held by New Falcon Oil Limited of which Mr de Sousa owns 100% of the issued ordinary share capital; and
528,678 (2002 – 528,678) Warrants at a price of £0.65, 925,187 (2002 – 925,187) Warrants at a price of £0.60 and 14,685 (2002 – 14,685) Warrants at a price of £0.55 held by Palamos Limited, which is owned by a trust company whose potential ultimate beneficiary is the family of Mr de Sousa.

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 14.

There have been no changes in the interests of the Directors between 31 December 2003 and the date of this report. No Director held any other interests in any Group companies.

8 Directors' remuneration, interests and transactions continued

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 US$1,000.

In January 2001, the Group entered into an agreement (the Option Agreement) with Mr Rui de Sousa wherein, in exchange for consideration in the amount of US$400,000 (£267,000), the Group has secured an option to acquire a 30% shareholding in a special-purpose entity created by Mr de Sousa to pursue a specific field development and to hold any rights as may be acquired for such development. The Option Agreement, which was negotiated on an arm's-length basis, expires on 31 December 2004 unless extended prior to that date by the Group.

9 Tax on profit on ordinary activities

Analysis of charge

	2003 £000's	2002 £000's
Current tax		
UK Corporation tax at 30% (2002 – 30%)	–	–
Overseas taxation	4,722	4,315
	4,722	4,315
Adjustments in respect of previous years:		
UK Corporation tax at 30% (2002 – 30%)	–	–
Overseas taxation	(201)	260
	4,521	4,575
Deferred taxation		
Origination and reversal of timing differences	(407)	691
	4,114	5,266

Deferred taxation includes recognition of a net deferred tax credit of £181,000 (2002 charge – £1,206,000) in respect of the Tunisia interest and a net deferred tax credit of £126,000 (2002 – £515,000) in respect of the Yemen interest. There is no unprovided deferred taxation at either balance sheet date except for an unprovided deferred tax asset arising in respect of tax losses that are not expected to be utilised.

	2003 £000's	2002 £000's
Factors affecting tax charge		
Profit on ordinary activities before tax	9,951	10,777
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2002 – 30%)	2,985	3,233
Effects of: Expenses not expected to be utilised as a tax loss	394	207
Exceptional item not deductible for tax purposes (see Note 3)	–	179
Fixed asset timing differences	252	(583)
Other timing differences	155	(80)
Utilisation of tax losses	(29)	(28)
Utilisation of tax credits	(99)	(116)
Higher tax rates on overseas earnings	1,064	1,503
Adjustments to tax charge in respect of previous periods	(201)	260
Current tax charge for period	4,521	4,575

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 Tunisia are taxed at a rate of 50% and those earned in Yemen are taxed at a rate of 35%.

10 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 £5,139,000 (2002 – £6,845,000). As provided by Section 230 of the Companies Act 1985, no profit and loss account is presented in respect of the Company.

11 Earnings per share

The calculation of the basic earnings per share is based on the profit for the financial year and on 69,337,797 (2002 – 69,200,100) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year, excluding 2,227,342 (2002 – 1,947,808) ordinary shares of the Company held by the Group (see Notes 14 and 21).

The calculation of the diluted earnings per share is based on the profit for the financial year and on 78,577,437 (2002 – 77,705,708) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year including 2,227,342 (2002 – 1,947,808) ordinary shares of the Company held by the Group (see Notes 14 and 21) and 7,012,298 outstanding share options and warrants (2002 – 6,557,799) that have a diluting effect on earnings per share.

12 Intangible fixed assets

	Group £000's
Exploration expenditure	
As at 1 January 2003	68,314
Additions	23,230
Foreign exchange	(9,233)
As at 31 December 2003	82,311

Exploration expenditure comprises the Group's exploration and appraisal projects which are pending determination and are held outside depreciable pools. This includes £40.4 million in respect of the Mongolia project and £32.8 million in respect of the Vietnam project at 31 December 2003. Significant further appraisal is planned in Mongolia and therefore, despite the existence of proved reserves and a pilot production programme, the Mongolia project is included within intangible fixed assets.

13 Tangible fixed assets

	Group			Company
	Oil and gas properties £000's	Other £000's	Total £000's	Other £000's
Cost				
As at 1 January 2003	42,932	1,398	44,330	312
Additions	5,404	416	5,820	2
Foreign exchange	(4,761)	(139)	(4,900)	–
As at 31 December 2003	43,575	1,675	45,250	314
Depreciation				
As at 1 January 2003	24,524	482	25,006	239
Charge for the year	4,128	148	4,276	40
Foreign exchange	(2,971)	(34)	(3,005)	–
As at 31 December 2003	25,681	596	26,277	279
Net book value				
As at 31 December 2003	17,894	1,079	18,973	35
As at 31 December 2002	18,408	916	19,324	73

Oil and gas properties comprise the Group's current producing properties which each fall into separate depreciable pools. Other fixed assets comprise plant and machinery, computer equipment and fixtures and fittings.

14 Fixed asset investments

	Group 2003 £000's	Group 2002 £000's	Company 2003 £000's	Company 2002 £000's
Subsidiary undertakings	–	–	72,326	64,779
Own shares held by employee benefit trust	1,486	1,475	–	–
	1,486	1,475	72,326	64,779

Own shares held by employee benefit trust

	Group £000's
Cost	
As at 1 January 2003	2,233
Additions	583
As at 31 December 2003	2,816
Amortisation	
As at 1 January 2003	758
Charge for the year	572
As at 31 December 2003	1,330
Net book value	
As at 31 December 2003	1,486
As at 31 December 2002	1,475

The Company operates a long term incentive plan for senior management of the Group (see Note 8 and the Directors' remuneration report on pages 35 to 40). Awards under the plan are based upon the Company's total relative shareholder return performance against a comparator group over a three-year period. Additionally, certain share awards have been granted conditional upon continued employment. When award conditions are met an unconditional transfer of ordinary shares in the Company (Shares) is made to the participants upon the exercise of a nil cost option. These Shares are transferred out of the SOCO Employee Benefit Trust (Trust), a discretionary trust, established to facilitate the operation of the incentive scheme.

The trustees purchase the Company's Shares in the open market. 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.

Charges of £572,000 (2002 – £554,000) have been reflected in the profit and loss account in respect of the scheme and are included within administrative expenses. The number and market price of the Shares held by the Trust at 31 December 2003 were 2,325,000 (2002 – 2,125,000) and £2.745 (2002 – £3.915) respectively. As at 31 December 2003 there were 2,297,100 Shares conditionally awarded and unvested (2002 – 2,028,300).

Principal Group investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2003 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
SOCO Tamtsag Mongolia, LLC	USA	Mongolia	Oil and gas exploration	100.0
SOCO Tunisia Pty Limited	Australia	Tunisia	Oil and gas exploration and production	100.0
SOCO Yemen Pty Limited[1]	Australia	Yemen	Investment holding	100.0
SOCO Exploration (Thailand) Co. Ltd	Thailand	Thailand	Oil and gas exploration	99.9
SOCO Vietnam Ltd[2]	Cayman Islands	Vietnam	Oil and gas exploration	80.0

[1] The Yemen interest, which is in production, is held through Comeco Petroleum, Inc., in which SOCO Yemen Pty Limited held 58.75% of the ordinary share capital at 31 December 2003 (2002 – 58.75%).
[2] The remaining 20% minority interest is carried by the Group through the exploration phase, with the carried costs plus accrued interest to be recovered from any subsequent production.

14 Fixed asset investments continued

Subsidiary undertakings

	Company £000's
Cost as at 1 January 2003	64,779
Additions	7,547
Cost as at 31 December 2003	72,326

All of the investments in the subsidiary undertakings are held in the form of share capital.

15 Stocks

	Group 2003 £000's	Group 2002 £000's
Crude oil and condensate	40	316
Materials and consumables	–	1,144
	40	1,460

Materials acquired for activities of a capital nature have been charged to fixed assets. There is no material difference between the balance sheet value of stocks and their replacement cost.

16 Debtors

	Group 2003 £000's	Group 2002 £000's	Company 2003 £000's	Company 2002 £000's
Amounts falling due within one year				
Trade debtors	1,341	1,013	–	–
Amounts owed by Group undertakings	–	–	524	254
Taxation	416	825	16	20
Deferred taxation	–	27	–	–
Other debtors	418	371	31	83
Prepayments and accrued income	959	1,649	150	147
	3,134	3,885	721	504
Amounts falling due after more than one year				
Deferred taxation	1,629	1,560	–	–
	4,763	5,445	721	504

The deferred tax asset arises in respect of fixed asset timing differences and unutilised tax losses. The deferred tax assets are 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.

17 Creditors: Amounts falling due within one year

	Group		Company	
	2003 £000's	2002 £000's	2003 £000's	2002 £000's
Trade creditors	2,147	2,523	–	–
Taxation and social security	58	211	14	21
Other creditors	980	384	32	71
Accruals and deferred income	5,401	4,336	127	198
	8,586	7,454	173	290

18 Provisions for liabilities and charges

			Group
	Decommissioning £000's	Deferred taxation £000's	Total £000's
As at 1 January 2003	1,375	1,999	3,374
New provisions and changes in estimates	375	(181)	194
Unwinding of discount (see Note 5)	20	–	20
Foreign exchange	(147)	(162)	(309)
As at 31 December 2003	1,623	1,656	3,279

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 11 and 16 years) in the removal and decommissioning of the facilities currently in place.

Deferred taxation

Deferred tax is provided as follows:

	Group	
	2003 £000's	2002 £000's
Fixed asset timing differences	1,475	1,727
Other timing differences	181	272
	1,656	1,999

19 Derivatives and financial instruments

An explanation of the role that financial instruments have had during the year in creating or changing the risks that the Group faces in its activities, including currency exposures, is included in the Financial review on pages 24 to 26.

There are no material differences between the carrying amounts of financial assets and liabilities and their fair values.

20 Called-up equity share capital

	2003 £000's	2002 £000's
Authorised		
125,000,000 ordinary shares of £0.20 each (2002 – 100,000,000)	25,000	20,000
Allotted, called-up and fully-paid		
71,979,846 ordinary shares of £0.20 each (2002 – 71,343,396)	14,396	14,269

The Company issued 636,450 new ordinary shares of £0.20 each during 2003 (2002 – 1,215,687), including 220,200 shares issued upon the exercise of certain share options to purchase shares at £2.60; 116,250 shares issued upon the exercise of certain share options to purchase shares at £0.77; 129,448 shares issued upon the exercise of certain share options to purchase shares at £0.59 and 170,552 shares issued upon the exercise of certain share options to purchase shares at £0.725.

Subsequent to 31 December 2003 the Company issued 30,000 new ordinary shares pursuant to the exercise of certain share options.

Options have been granted and are outstanding, under two share option schemes, SOCO 1997 Company Share Option Plan and SOCO-sub Unapproved Share Option Plan, to subscribe for ordinary shares of the Company as follows:

Exercise period	Number of shares under option	Subscription price per share
29.05.97 – 25.04.07	3,454,420	£0.750
29.05.97 – 25.04.04	268,288	£2.600
03.12.00 – 03.12.04	217,437	£3.850
15.09.01 – 15.09.05	637,201	£0.725
13.07.02 – 13.07.06	1,636,429	£0.590
04.05.03 – 04.05.10	33,750	£0.770
30.04.05 – 30.04.09	230,000	£2.250
30.09.06 – 30.09.10	50,000	£3.165

Warrants to subscribe for the same number of shares of £0.20 each in the capital of the Company are exercisable as follows:

Exercise period	Number of warrants	Subscription price per warrant
13.07.00 – 13.07.10	1,114,878	£0.550
13.07.00 – 13.07.10	1,088,455	£0.600
13.07.00 – 13.07.10	621,974	£0.650

No warrants were exercised during 2003.

21 Reserves

	Share premium account £000's	Other reserves £000's	Profit and loss account £000's	Group Total £000's
As at 1 January 2003	40,590	34,961	46,865	122,416
New shares issued (see Note 20)	735	–	–	735
Treasury shares purchased	–	(424)	–	(424)
Loss on foreign currency translation	–	–	(14,354)	(14,354)
Retained profit for the year	–	–	5,837	5,837
As at 31 December 2003	41,325	34,537	38,348	114,210

	Share premium account £000's	Other reserves £000's	Profit and loss account £000's	Company Total £000's
As at 1 January 2003	40,590	–	12,860	53,450
New shares issued (see Note 20)	735	–	–	735
Treasury shares purchased	–	(424)	–	(424)
Retained profit for the year (see Note 10)	–	–	5,139	5,139
As at 31 December 2003	41,325	(424)	17,999	58,900

The Group's other reserves arose in respect of merger relief and upon the purchase of the Company's own ordinary shares held in treasury. The number and market price of the treasury shares held by the Group at 31 December 2003 were 150,000 (2002 – nil) and £2.745 respectively.

22 Reconciliation of movements in Group equity shareholders' funds

	2003 £000's	2002 £000's
Opening equity shareholders' funds	136,685	143,489
Profit for the financial year	5,837	5,511
Unrealised currency translation differences	(14,354)	(14,238)
New shares issued (see Note 20)	862	1,923
Movements in other reserves (see Note 21)	(424)	–
Closing equity shareholders' funds	128,606	136,685

The Group's unrealised currency translation differences arise on retranslation of the balance sheets of overseas operations, which are denominated in US dollars, at rates ruling as of year end.

23 Reconciliation of operating profit to operating cash flows

	2003 £000's	2002 £000's
Operating profit	9,173	9,769
Depreciation, depletion and amortisation	4,848	6,662
Exceptional write off of exploration expenditure (see Note 3)	–	595
Decrease in stocks	268	57
(Increase) decrease in debtors	(508)	1,203
Increase in creditors	2,829	693
Decrease in provisions	–	(66)
Net cash inflow from operating activities	16,610	18,913

24 Analysis and reconciliation of net funds

	As at 1 Jan 2003 £000's	Cash flow £000's	Exchange movement £000's	As at 31 Dec 2003 £000's
Net funds – Cash at bank and in hand	51,495	(14,811)	(3,786)	32,898

25 Subsequent events

In March 2004 the Group's 100% owned subsidiary, SOCO North Africa Limited (SOCO North Africa), and Oilinvest (Netherlands) B.V. (Oilinvest) completed a transaction with a subsidiary of Joint Stock Bank of the Gas Industry Gazprombank (Gazprombank) whereby Gazprombank acquired the entire issued share capital of OILSOC Investment Company Limited (OILSOC), a company which was owned by Oilinvest (55%) and SOCO North Africa (45%). OILSOC assets consist entirely of its 20% shareholding in ODEX Exploration Limited (ODEX), a specific purpose upstream joint venture formed by Oilinvest and SOCO North Africa. Under the terms of the transaction SOCO North Africa received approximately US$2.5 million for its net interest in OILSOC. Following completion of the transaction, the ODEX shareholders are Oilinvest (46%), SOCO North Africa (34%) and Gazprombank via its OILSOC purchase (20%).

26 Capital commitments

At 31 December 2003 the Group had future exploration licence commitments not accrued of approximately £0.7 million (2002 – £3.0 million).

27 Related party transactions

Transactions with the Directors of the Company are disclosed in Note 8.

Five year summary

	Year to 31 Dec 2003 £000's	Year to 31 Dec 2002 £000's	Year to 31 Dec 2001 £000's	Year to 31 Dec 2000 £000's	Year to 31 Dec 1999 £000's
Consolidated profit and loss account					
Turnover – continuing operations	25,490	26,043	22,841	31,323	11,819
Turnover – discontinued operations[1]	–	–	14,476	14,529	11,983
Operating profit – continuing operations	9,173	9,769	9,471	16,364	2,862
Operating profit – discontinued operations[1]	–	–	3,854	5,685	2,754
Profit on ordinary activities after taxation	5,837	5,511	17,740	17,565	7,414

	2003 £000's	2002 £000's	2001 £000's	2000 £000's	1999 £000's
Consolidated balance sheet					
Fixed assets	102,770	89,113	86,368	94,432	70,419
Net current assets	29,115	50,946	58,172	34,447	29,098
Long term liabilities	–	–	–	(5,021)	(1,551)
Provisions for liabilities and charges	(3,279)	(3,374)	(1,051)	(1,040)	(651)
Minority interests	–	–	–	–	(175)
Net assets	128,606	136,685	143,489	122,818	97,140
Share capital	14,396	14,269	14,026	14,026	13,828
Share premium	41,325	40,590	38,910	38,910	38,367
Other reserves	34,537	34,961	34,961	34,961	34,961
Profit and loss account	38,348	46,865	55,592	34,921	9,984
Equity shareholders' funds	128,606	136,685	143,489	122,818	97,140

	Year to 31 Dec 2003 £000's	Year to 31 Dec 2002 £000's	Year to 31 Dec 2001 £000's	Year to 31 Dec 2000 £000's	Year to 31 Dec 1999 £000's
Consolidated cash flow					
Net cash inflow from operating activities	16,610	18,913	19,337	30,902	9,175
Other information					
Earnings per share	8.4p	8.0p	25.9p	25.6p	12.5p
Diluted earnings per share	7.4p	7.1p	23.8p	24.3p	12.4p

[1]Discontinued operations includes the results of all discontinued operations throughout the five years shown.

Reserve statistics

unaudited, net entitlement basis (mmbbls)

Net proven oil reserves

	Total	Mongolia	Thailand	Tunisia	Yemen
Reserves as at 31 December 2002	35.4	27.9	2.5	1.7	3.3
Changes in the year					
Revision to previous estimates	5.4	–	–	3.7	1.7
Purchase of reserves	–	–	–	–	–
Change of interest	2.5	–	2.5	–	–
Sale of reserves	–	–	–	–	–
Production	(1.2)	(0.1)	–	(0.4)	(0.7)
Reserves as at 31 December 2003	42.1	27.8	5.0	5.0	4.3

Net proven and probable oil reserves

	Total	Mongolia	Thailand	Tunisia	Yemen
Reserves as at 31 December 2002	58.1	42.1	9.2	3.0	3.8
Changes in the year					
Revision to previous estimates	6.4	–	–	3.7	2.7
Purchase of reserves	–	–	–	–	–
Change of interest	9.2	–	9.2	–	–
Sale of reserves	–	–	–	–	–
Production	(1.2)	(0.1)	–	(0.4)	(0.7)
Reserves as at 31 December 2003	72.5	42.0	18.4	6.3	5.8

Net proven and probable oil reserves yearly comparison

	2003	2002	2001	2000	1999
Reserves as at 1 January	58.1	59.3	82.2	87.1	91.6
Changes in the year					
Revision to previous estimates	6.4	0.4	33.0	(2.2)	0.4
Purchase of reserves	–	–	–	–	0.8
Change of interest	9.2	–	–	–	–
Sale of reserves	–	–	(53.5)	–	(3.3)
Production	(1.2)	(1.6)	(2.4)	(2.7)	(2.4)
Reserves as at 31 December	72.5	58.1	59.3	82.2	87.1

Note: mmbbls denotes millions of barrels.

Company information

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Fax: 020 7399 3333

Moving second quarter 2004 to:
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23 King Street
London
SW1Y 6QY

Web site: www.socointernational.co.uk
Registered No: 3300821

Company Secretary
Cynthia B Cagle

Financial calendar
Group results for the year to 31 December are announced in March. The Annual General Meeting is held in May. Half year results to 30 June are announced in August or September.

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