Annual Report and Accounts 1999

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SOCO plc INTERNATIONAL

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SOCO International plc

We are an international oil and gas exploration and production company headquartered in London and listed on the London Stock Exchange. SOCO has operations in seven countries – Mongolia, Yemen, European Russia, Thailand, Tunisia, Vietnam and North Korea. Exploration prospects are in Mongolia, Thailand, Vietnam and North Korea. Development programmes are underway in Russia, Yemen and Tunisia. The Company has current production in Russia, Mongolia, Yemen and Tunisia.

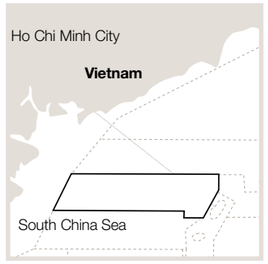
Operational highlights

Mongolia

Tamtsag Basin

19	Toson Uul	10,460 km²
20	Matad	10,700 km²
21	Tamtsag	11,130 km²
22	Buir	11,400 km²
E19	Toson Uul	3,774 km²

Vietnam (offshore)



Cuu Long Basin

16-1	Hoang Long	2,500 km²

Thailand (offshore)

Western/Kra Basin

B8/38	9,584 km²

Russia

Volga-Urals Basin

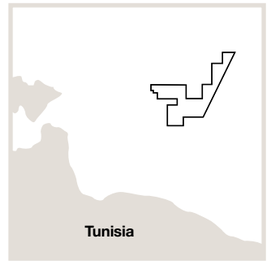
Permtex Contract Area	1,240 km²
Logovskoye	
South Raevskoye	
Ozernoye	
Magovskoye	
Borovitskoye	
Mysinskoye	

Yemen

Hadramaut Area

East Shabwa	931 km²
Wadi Taribah	
Kharir	
Atuf NW	

Tunisia (offshore)



Gulf of Gabès

Zarat	Didon	996 km²

During 1999, we have continued to balance the asset portfolio and increased initiatives to add large reserve, low-cost exploitation projects.

Russia (Production/Development)
Permtex (50% owned by SOCO) secured EBRD loan of $45m to develop oil reserves. Pipeline construction begun.

Mongolia (Exploration)
Appraisal drilling in Contract Area 19 and additional seismic programme on Contract Area 21 scheduled for 2000.

North Korea (Exploration)
Farm-in partner expected to join West Korean Bay exploration.

Tunisia (Production/Exploration)
Obligation exploration well scheduled for second half of 2000.

Yemen (Production/Development)
Phase II development drilling programme continues.

Thailand (Exploration)
Two exploration wells drilled in first quarter 2000.

Vietnam (Exploration)
Seismic programme will begin on Block 16-1 in 2000.

Chairman's statement

Dear Fellow Shareholder

It is a pleasure for me in my first Annual Report statement to be reporting record results for the Group. Earnings before tax were £8.3 million in 1999 as compared to a restated £0.6 million loss for the prior year. At year end 1999 cash and cash equivalents equalled £28.8 million, only marginally less than the balances held at the year end following the initial public offering in May of 1997. Your Company is financially strong, and the Board believes that the prudent reinvestment of profits is key, in the near term, to maintaining this strength.

There has been significant evolution in the industry since the Company's last report to shareholders, and comparable evolution in the Company independent of the industry environment. The Company has benefited as the oil price has improved, but, of greater importance, the management of your Company has focused on controllable variables which support our long term objective of building shareholder value in any environment, both through portfolio rationalisation and strengthening financial capability.

The composition of the Company's portfolio, its balance between producing assets and exploration potential, is currently a strength which offers investors immediate exposure to price improvement and longer term potential for significant asset growth. One of management's key strategies is portfolio rationalisation, a dynamic process to optimise the balance in the portfolio as conditions change.

Portfolio rationalisation

Throughout the past year while capital projects were curbed due to the low oil price environment, management has continued to prioritise the current prospect/project inventory in terms of current contribution or potential, seeking a balancing of each, but also evaluating these against external opportunities which could potentially displace some or all of the current portfolio. Concurrently, they have re-examined projects to ensure that opportunities effectively match the size and capability of the Company both from a financial and managerial perspective. A key element in rationalising the exploration portfolio was high-grading prospects while minimising capital commitments.

As a result, SOCO is in a position to tailor its discretionary capital expenditures to preserve its operating cash flow and to continue the exploratory programme with manageable commitments. From this exercise several exploratory drilling initiatives will begin in 2000, but in an environment of cost control and revenue inflow which does not place undue strain on the balance sheet.

On the development/production side of the portfolio, the Group divested itself of its entire UK producing interests and realised a net gain of approximately £1.8 million. This disposition was consistent with the dynamic evaluation process, as our UK properties failed to offer either low cost production or long term reserves as these mature fields continued in decline. Although the gas storage/power generation alternatives were viable, the time horizon to realise these alternatives became extended as the Department of Trade and Industry rejected the proposal to exclude this project from the government moratorium on new gas fired facilities.

Thus, your Company has made much progress improving the portfolio – disposing of the UK operations, signing Block 16-1 in Vietnam and increasing its interests in Yemen. We expect that these steps, combined with those to come, will not only strengthen the Company but also provide a platform for re-rating. We will continue to introduce new opportunities with the objective of substantially increasing both the reserve base and cash flow of the Company.

Financial capability

Steps were taken to strengthen the balance sheet and stabilise the Company's longer term position via the transaction to acquire Torobex. Torobex is a special purpose entity established by several investors, focused around the Toro group, to hold operating rights for various exploitation and development projects in the Middle East and north and west Africa. I formed the investor group, bringing together interests in refining, distribution, private power generation, crude and products trading and finance in some of the major producing areas stated above. Our group joined the Company as both investors and co-venturers with the objective of building a large reserve base with low average costs of production. This tactic also better insulates the Company against crude oil price risk, as profitability can be maintained and an ongoing exploration programme can be funded.

The acquisition not only added approximately £9 million to the Group's cash position, but more importantly enhanced the Company's capability to access opportunities typically beyond the scope of a company of SOCO's size. By using the Toro group's past experience in its areas of interest to establish credibility and its relationship base to make strategic introductions at the appropriate levels of decision making, the time required to enter a new market should be significantly reduced. We have undertaken an aggressive approach toward introducing SOCO into a circle of major industry players, national industry participants and national policy makers. Several initiatives are in advanced stages of discussion, although no project has come to fruition to date.

Shareholder changes

In addition to the Torobex transaction which resulted in a new 25% shareholder (since increased to 26.7% through that group's further purchase of shares on the open market), further evolution of the share register occurred in late December 1999. Cairn Energy PLC, which at the end of last year had been the third largest shareholder of the Company, disposed of its 7.44% interest (5.1 million shares). This transaction was important in that it removed a perceived overhang of shares, as Cairn had indicated no long term strategy for retaining the investment. Despite the size of the transaction, it caused no disruption in the market and has served to help stabilise the shareholder base, reducing volatility by eliminating an uncontrollable influence on share price and increasing liquidity by spreading the ownership amongst several shareholders.

Board

Furthering the Company's progress requires both capable management and a capable group of Directors. Activities described above demonstrate management's capability. The SOCO Board is also strong, multidisciplined and committed. Being nine in number, it is a small group, many representing major shareholdings, unanimous in the belief that its primary responsibility is in creating value for all shareholders. Some Director changes have occurred during the year. Peter Kingston, who very ably preceded me as Chairman of the Company, has taken over as Deputy Chairman and as Senior Independent Director, a position previously vacant. Two executive directors have stepped aside to allow two non-executives associated with the Torobex transaction (Rui de Sousa and Olivier Barbaroux) to join the Board. Dan Mercier and Tim Taylor continue as Company executives. Pierre Simandoux, from whose extensive experience and connections SOCO has benefited, has also stepped aside, but has agreed to assist the Company as a technical consultant, and is an advisor to the Board.

Outlook

Prior to joining SOCO, the Toro group spent considerable time conducting a rigorous analysis of the international upstream oil and gas independent sector. Our objective was to align the Toro group with like-minded professionals to secure opportunities in major producing areas where we have expertise and influence. We concluded that SOCO was a Company with prospects of significant potential, strong management and a sound and compatible strategy of relationship based portfolio investment and exploitation. Our analyses have been affirmed through our subsequent association. I am confident that the Company will continue to progress for the benefit of all shareholders.

Patrick Maugein Chairman

Chief executive's statement

As we reported last year end, preservation of capital and progress on core projects were priorities for 1999. This year end finds the Group with an almost 300% improvement to its cash balance ending 1999 at £28.8 million, as compared to £9.3 million at year end 1998. We indicated that cost efficiency and innovative approaches to our business were essential for niche players such as SOCO to deliver shareholder value. Throughout the year we have focused on portfolio rationalisation, seizing on the downturn in the first half to secure lower service costs critical to the economic evaluation of our high quality exploration portfolio. Concurrently, we divested ourselves of assets which did not fit the longer term promise of increasing shareholder value, either because of the time horizon to produce such a return, or because of the intrinsic imbalance of costs to returns.

Operations

Production again increased, a trend which has continued consistently with each annual reporting period. Production volumes averaged 7,205 barrels of crude oil per day (BOPD) despite the impacts associated with disposing of approximately 1,377 BOPD in September through the sale of its UK onshore properties, a management imposed delay in development in Russia pending EBRD financing and an operations imposed delay in Yemen pending rig availability. By year end, production gains resulting from the continuing Phase II development programme in Yemen had more than replaced the production divested, and had achieved targets expected to be achieved only upon completion of Phase II. Average production net to the Group's working interest was 8,830 BOPD for January and February 2000.

While in 1999 management slowed exploratory operations, we used the time in the "exploration lab", processing and re-interpreting seismic in order to high-grade the prospects of the existing portfolio to prioritise, defer or select for disposal. Through this process, we advanced Thailand to an early drilling stage, concluded that Vietnam has perhaps more risk, but also more potential, than originally determined and redesigned the Mongolian drilling profile and renegotiated critical contracts.

As was stated in the 1999 Interim Report, reinterpretation of previously acquired seismic on Block B8/38 in Thailand allowed us to map some interesting prospects which offered high potential for significant reserve additions. As a result, we applied to the Thailand Department of Mineral Resources to test two of these structures while service costs continue to be low, thus far lagging behind the recovery experienced in most of the oil and gas sector. Although both wells were plugged and abandoned in February, I believe that the risk/reward ratios associated with the Thailand drilling programme are indicative of the type of projects around which successful exploration projects are built.

The Petroleum Contract for Block 16-1 offshore Vietnam was signed with the government of Vietnam on 15 November 1999. The Vietnamese Ministry of Planning and Investment approved the award the following month and the signature bonus, including assignment of 5% interest in our Production Sharing Contracts in Mongolia, was paid in January 2000. From continued analysis of the Block, the contracting parties have identified at least three prospective structures in addition to the one identified by the successful test of the 1980's Ba Vi well.

We took advantage of the moratorium on expenditures granted by the Petroleum Authority of Mongolia for 1999 and the low service cost environment prevailing at the beginning of that year to renegotiate a drilling contract. Wells which have averaged approximately US$2.5 million to drill and complete prior to the new contract will average approximately US$0.5 million under the new eight well contract negotiated with Huabei Oilfield Services, the same company which has drilled all 12 previous wells in the Tamtsag Basin. In contract negotiations, we introduced some innovative concepts for this part of the world, negotiating directly with the operating subsidiary of a Chinese company and allowing the contractor a chance to participate in the project. Huabei has the right to earn up to a 20% working interest upon successful completion of the full drilling programme.

We are entering a watershed period for Mongolia as we begin the next eight well drilling programme in April 2000. We will test the validity of the models developed from the 3-D seismic data acquired over the area in the preceding two years. Further, we have designed a well programme to optimise the drilling techniques and well completion skills employed by the Chinese contractor. Thus, with improved data and simplified design, we should be able to enhance our ability to successfully test the potential of Contract Area 19. The first test will be on a step-out from the 19-3 well, the most successful well drilled to date in Mongolia. Future tests are designed to drill new structures in accordance with geological interpretations derived from the improved 3-D seismic technology. Further, we will expand our 3-D seismic acquisition effort to Contract Area 21 where we have demonstrated both the existence of excellent reservoir rock and source. Although we are highly optimistic regarding the effectiveness of 3-D seismic and our drilling techniques, demonstrated success is required.

With the pilot production programme employed throughout 1998 and in the first and fourth quarters of 1999, the Group demonstrated the viability of China as a market for oil sales from Mongolia. During the pilot programme all logistical and financial obstacles were overcome as crude was successfully trucked, sold at world price and receipts were paid as scheduled in US dollars. However, it is not anticipated that the Group will continue to conduct ongoing production and sales operations during 2000 until more significant volumes of crude are available and the operation becomes economically attractive.

Transactions

We advanced our relationship-based approach to assembling a solid portfolio by aligning ourselves with the Toro shareholder/co-venturer group which has experience and meaningful relationships in a number of major oil producing countries. Given the prospect of following their lead into areas with larger, lower cost reserves and having access to non-core assets of larger oil companies with which they have built past associations, it was incumbent upon us to rationalise the portfolio and further strengthen the Group's financial capability.

Through the acquisition of the investor group's special purpose investment vehicle, an entity through which it became a 25% shareholder in the Company, approximately £9 million cash was injected into the Group. The balance sheet gained further strength and flexibility when the Group sold the onshore UK operated assets for approximately £10.6 million. These UK assets provided a minor contribution while incurring high operating costs and requiring a disproportionate commitment in terms of management time and attention. Although the gas storage/power generation potential of the assets showed promise, the time horizon for realisation of any benefits was pushed further into the future when the project failed to gain exemption under the UK's moratorium on new gas fired power plants.

To further strengthen its cash flow and add financial flexibility, the Company increased its interest in Yemen, its most lucrative project from an operating contribution perspective. The additional interest, approximately 2.5%, was gained through the settlement of litigation with the minority shareholder of Comeco, the entity through which the Group holds its Yemen interest.

In Russia, the European Bank for Reconstruction and Development loan was finalised and the first drawdown occurred in December. This funding facility provides up to US$45 million of long term financing to Permtex, our 50% owned Russian company, with no requirement from the Group to commit external cash flow, as it advances the development of our promising Contract Area in European Russia.

Summary

We believe that the balanced approach to our business and the balanced portfolio of our business have been key features in attracting your interest in the Company. Exploration provides the Company with exponential growth potential, development provides sound long term financial stability and production provides the means to progress both. Continuing to appropriately weight the portfolio is the key challenge for management. We believe that the portfolio has a good balance, currently, between exploration and production and we aim to create the optimal balance by adding attractive, low cost reserve positions and greater producing diversity. Moreover, we believe that the Company has the managerial and financial capacity to capture the opportunities as they become available.

Ed Story President and Chief Executive

Much of 1999 was spent re-evaluating and validating the exploration portfolio. Seismic acquisition in Mongolia and seismic reprocessing in Thailand, which began in 1998, was transferred to mapping and geological evaluation last year. With the award of Block 16-1 offshore Vietnam, the exploration portfolio was rounded out to include prospects throughout the risk/reward spectrum, virtually completing the assimilation of the ideal exploration portfolio for the current size and capability of the Company.

Mongolia

With the consent of the Petroleum Authority of Mongolia (PAM), the Group obtained a moratorium on expenditures for all of its Production Sharing Contracts (PSCs) during the year. However, a 3-D seismic programme around the Contract Area 19 wells, which had begun in 1998, continued to completion in 1999. Interpretation of these seismic data provided valuable insight in understanding both the successes and failures in the drilling results to date on Contract Area 19.

As a part of the successful bid to acquire an interest in Block 16-1 offshore Vietnam, the Group assigned a 5% interest in all of its PSCs in Mongolia, carried through the exploration phase, to Petrovietnam, the state owned oil company of Vietnam.

Review of 1999 results

There was no drilling activity in the Tamtsag Basin area during 1999. The focus was on preparation for assembling the optimal platform for this critical phase of evaluation of the Mongolian acreage. Toward that end, results to date were re-examined and all contracts were reviewed, with many being suspended or terminated during the moratorium year.

The drilling contract was renegotiated during the year under which the Company agreed an eight well drilling programme with Huabei Oilfield Services (Huabei), a Chinese production, services and refining subsidiary of China National Petroleum Corporation. Under the new contract, Huabei will drill additional wells on Contract Area 19 at a substantially reduced cost per well. With the successful completion of the full drilling programme, Huabei can gain the right to earn up to a 20% interest in Contract Area 19. A direct relationship with Huabei was made possible by the reorganisation of the petroleum industry in China, wherein contracts can be negotiated with subsidiaries of the two national Chinese petroleum companies, thereby eliminating the middleman. Further, reduced drilling costs also reflected the severely depressed demand for drilling and services that persisted at the time due to low crude oil prices worldwide.

Although early in the year sales of crude oil to China were suspended, as was the Chinese drilling contract, by year end the 19-3 well was again producing steadily at a combined average daily rate of 250 barrels per day after an approximate nine month shut-in period. A portion of the production at year end 1999 was associated with crude oil sales to the power generation plant in Choybalsan, capital city of the Dornod province where the Tamtsag Basin is located. This sale within Mongolia was made at prevailing market prices benchmarked to Indonesia's Minas crude oil posted prices with no discount. Similar domestic sales will likely be made throughout the year 2000 on a spot basis.

Subsequent events and outlook for 2000

Further interpretation of the 2-D and 3-D seismic data gathered in 1998 and 1999, coupled with the 20-1 well drilled in 1998, indicated that there was a high probability that the extension to Contract Area 20 (20-E), which was obtained in early 1998, was not prospective. Thus, 20-E, which encompasses an area of approximately 8,600 square kilometres, was relinquished in January this year. The financial impact is immaterial.

The additional seismic data accumulated over the past year has allowed the Group to build comprehensive information packages from which interested parties can make their own technical reviews of the prospectivity of the Tamtsag Basin. Thus, the Group expect to make presentations to prospective industry participants with the intent of bringing at least one farm-in partner to join future exploration and development activity in Mongolia.

Production was initially instigated in 1998 to confirm, logistically and commercially, the viability of crude export sales to China from the Tamtsag region. The pilot production programme from this perspective was an unqualified success, as deliverability of produced crude oil and receipt of hard currency payment in US dollars were concluded as scheduled. Since confirmation of the process has been achieved with the pilot production programme's success, the Group does not intend to maintain an ongoing production and sales programme throughout 2000 because it is economically unattractive at the current volumes.

The first well of the eight well drilling contract executed with Huabei in 1999 is expected to spud in April 2000. Well sites have been selected with the initial well, the 19-9, expected to test the outer limits of the structure encountered with the 19-3, the well with the highest production profile of those drilled to date in the Tamtsag basin.

Given the dramatic results of the 135 square kilometre 3-D seismic programme acquired on Contract Area 19, the Group will acquire a 100 square kilometre programme on Contract Area 21, where previous drilling has located extremely thick sections of potentially "world class" reservoir rock and proved the existence of oil source with the 21-1 well and 21-2 well oil discoveries.

Tamtsag Basin, Mongolia

Status SOCO has drilled 12 wells, 10 of which encountered hydrocarbons. A pilot production programme has validated the logistics and rationale of crude oil sales to China.

Prospects Drilling on Contract Area 19 will begin in the second quarter of 2000. A 3-D seismic programme will be conducted on Contract Area 21.

Area 47,464 km².

Vietnam

Negotiations to conclude the award of Block 16-1, located in the Cuu Long Basin offshore Vietnam, have been underway since notification by Petrovietnam, the state owned oil company, in 1997 that the winning consortium included the Company's 70% owned subsidiary, SOCO Vietnam Limited, as co-ordinator of the consortium's interests. Since the initial award, the Group has successfully preserved its role as the majority non-governmental participant.

The competition for Block 16-1 was intense, largely due to its proximity to the prolific production from the Bach Ho field (240,000 BOPD average in the fourth quarter of 1999) and because of a previous well drilled on the Block in 1989. In that year, Vietsovpetro drilled a well on the Ba Vi structure in Block 16-1 which tested oil in a Miocene sand at a rate of 380 BOPD, but which did not have significant basement penetration. Completion practices subsequently developed by Petrovietnam have resulted in prolific wells from similar basement structures in adjacent areas of the basin, such as the Bach Ho field. Based on a review of seismic data acquired by previous operators of the block, SOCO believe there is an excellent chance of similar basement structures being located on Block 16-1.

Review of 1999 results

In May 1999, SOCO, Petrovietnam and other minority participants signed a Heads of Agreement for the exploration rights to Block 16-1. In November 1999, the Petroleum Contract was signed in Hanoi by all parties establishing the principles, terms and conditions under which the non-governmental participants (Contractor Parties) were awarded the exclusive right to explore for, develop and produce petroleum in the Contract Area and to export, sell or otherwise dispose of produced hydrocarbons. The Petroleum Contract also establishes a Joint Operating Company (JOC) to operate the Petroleum Contract, which is structured as a joint venture, and defines the structure and responsibilities of the JOC. The exploration period is divided into three phases, during the first of which the Contractor Parties are obligated to conduct seismic appraisal and to drill two exploratory wells.

In December 1999, the Company was advised by the Vietnamese Ministry of Planning and Investment that it had approved the award of Block 16-1, thus concluding the award process.

Subsequent events and outlook for 2000

In January 2000, the Group completed the signature bonus, a portion of which was paid in cash and a portion of which was in the form of an assignment to Petrovietnam of a 5% working interest in all of the Group's PSCs in Mongolia. The assigned interests in Mongolia will be carried throughout the exploration phases of the respective PSCs.

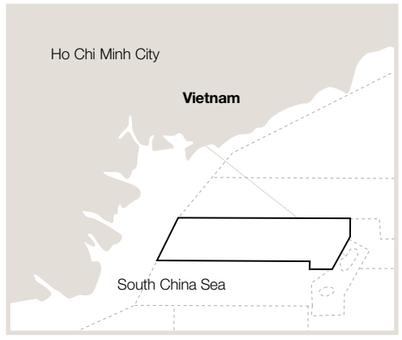
Much of the initial activity during 2000 will involve setting up and staffing the JOC. The Contractor Parties expect to reprocess and interpret existing seismic data using modern processing techniques and plan to conduct an initial 3-D seismic programme over portions of the Block. Although the area surrounding the Ba Vi well is most encouraging, at least three other leads have been identified which warrant further investigation. It is possible that a well could be drilled in the latter half of the year, but more realistically, drilling of an initial commitment well will likely be deferred at least into 2001.

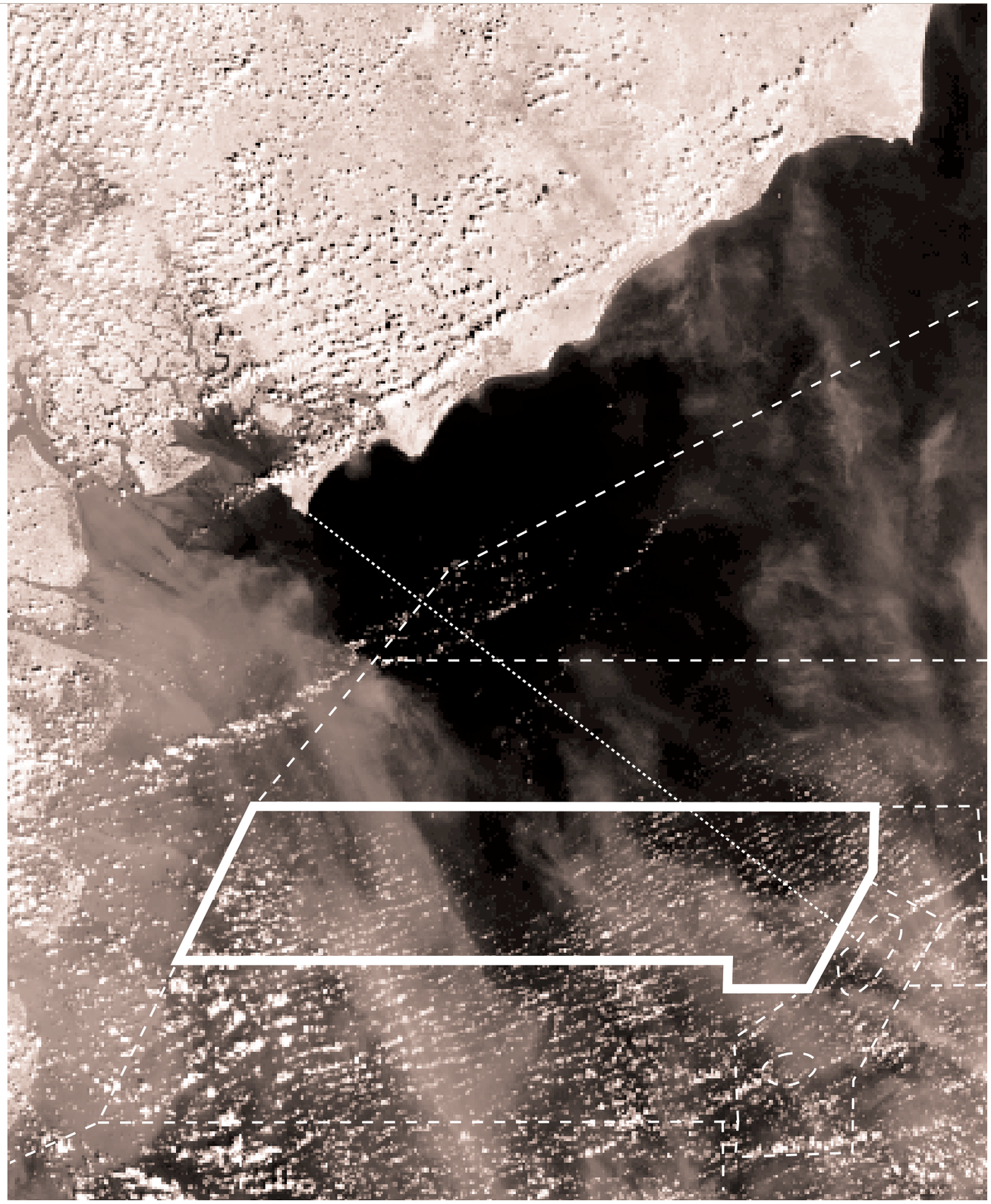
Block 16-1, Cuu Long Basin, offshore Vietnam

Status Award finalised in the fourth quarter of 1999.

Prospects Based on a review of seismic data, SOCO believes there is an excellent chance of highly prospective basement structures, similar to those at Bach Ho, being located on Block 16-1.

Area 2,500 km².





Block B8/38, Thailand

Status SOCO drilled two discoveries in 1997. Additional prospects remain after two wells drilled in February 2000 were plugged and abandoned.

Prospects Further development of remaining prospects will precede introduction of a farm-in candidate.

Area 9,584 km².

Thailand

The Group is operator of, and holds a 50% interest in, Block B8/38 located offshore in the Gulf of Thailand. This 9,600 square kilometre Block had been partially explored by a previous holder of the Block who drilled a well which tested oil at a rate of 750 BOPD with no water from a drill stem test on what is now known as the Pornsiri structure. In 1997, the Group further explored the Block, drilling three wells, a dry deeper test and two apparent Miocene discoveries on the Pornsiri structure, which the Company deferred testing, awaiting a more favourable economic environment.

Review of 1999 results

After reprocessing and interpreting approximately 2,000 kilometres of seismic data on the Block, the Company agreed its final exploration commitment well on one of the new structures identified in this process. A rig was contracted in the fourth quarter of 1999 at a cost of approximately one third the cost incurred to drill on the same Block in 1997. A well site was selected on a structure on the eastern edge of the Block approximately 20 kilometres from the wells drilled in 1997 on the Pornsiri Structure.

The reprocessed seismic data identified a number of Miocene prospects on Block B8/38 which, if proven, appear to be of sufficient size to support project development. The drilling results on the smaller Pornsiri structure have demonstrated that Block B8/38 is in an oil province. Therefore, commercial development is dependent on reserve size and development costs. Since costs of drilling and completion services have dropped substantially during the past 12 months and the rig had been contracted for the obligation well, the Group concluded that it was an optimal time to evaluate an additional prospect located in closer proximity to the Pornsiri structure. Thus a second well site was selected to be drilled.

Subsequent events and outlook for 2000

The Trident 9 jack-up drilling rig spudded the B8/38-4 well on a large structure identified as the “B” structure on the eastern flank of the Block on 13 February 2000 and drilled to a depth of 4,300 feet. The well encountered several thick sand intervals without encountering hydrocarbons. The well was plugged and abandoned on 23 February 2000 and the rig moved to a structure identified as the “D” structure, lying east of the Pornsiri Structure on which the Group drilled two successful wells in the third quarter of 1997. The B8/38-5 well was drilled and subsequently plugged and abandoned encountering only minor gas shows enroute to a target depth of 4,700 feet.

At least two other interesting prospects have been identified on Block B8/38 but further evaluation is required to determine suitability for drilling. At the end of this exploration period, October 2000, the Group would expect to relinquish approximately 50% of the Block in accordance with the terms of the PSC. Based on the work performed to date, relinquishment will not affect the remaining prospectivity of the Block.

North Korea

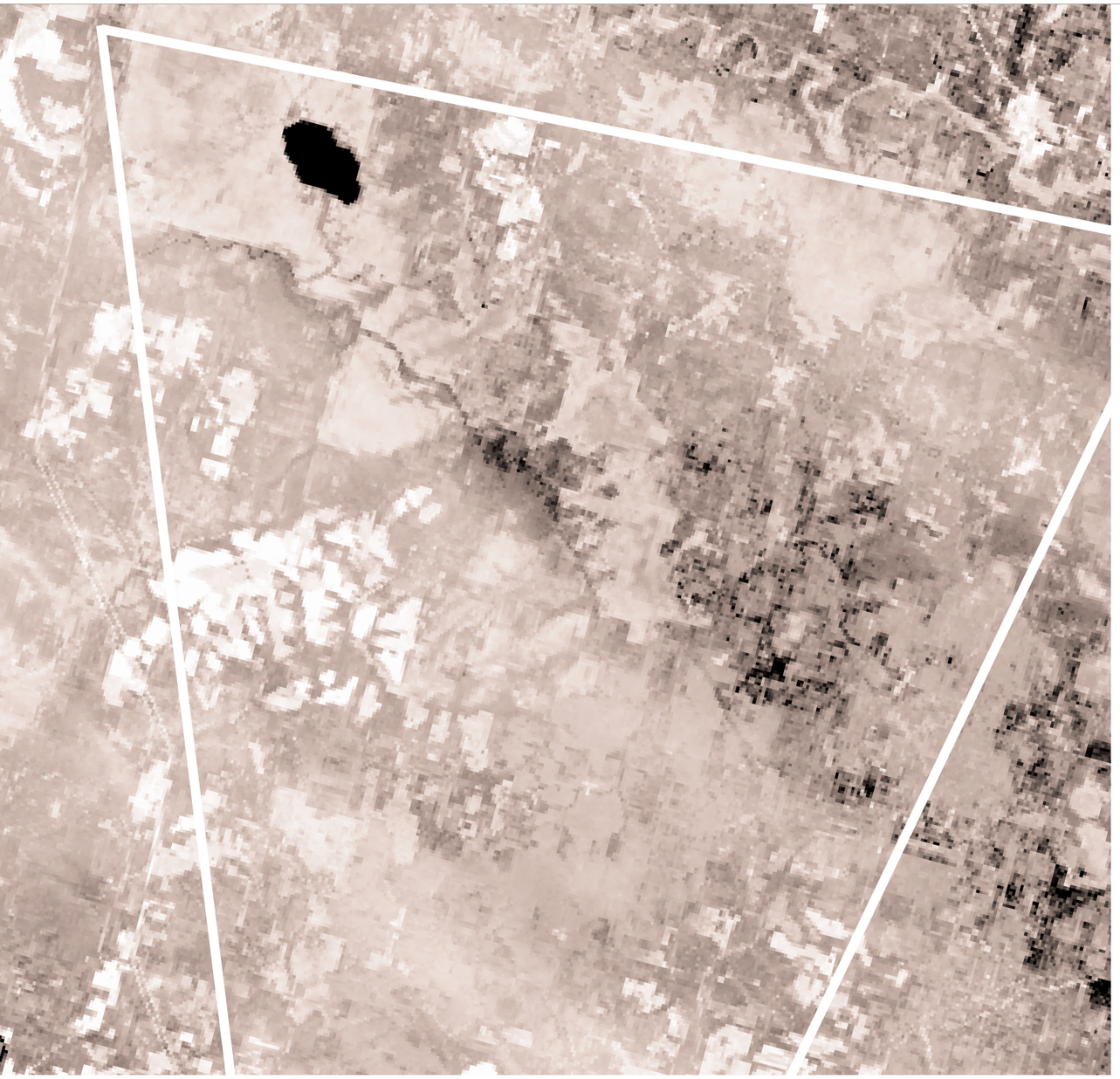
The Group’s affiliate, SOCO Koryo International Limited, signed a PSC in 1998 with a representative of the Democratic People’s Republic of Korea (North Korea) covering an area of approximately 9,600 square kilometres, 80% of which is located offshore in the West Korean Bay. The PSC was signed with the intent of having an early and relatively inexpensive opportunity to test the theory that this region is geologically similar to the highly prospective Bohai Bay basin of north-eastern China.

Review of 1999 results

Well number 401 began drilling in 1998 and drilled throughout the first seven months of 1999 reaching a total depth of 4,301 metres, approximately 500 metres below its original target depth. The well, drilled entirely by a North Korean drilling contractor, offsets a previous well which produced oil for a number of years from a Cretaceous aged sand at a depth of approximately 2,000 metres. Logged in July by a logging crew contracted to SOCO Koryo from Huabei, the results were inconclusive and the well has been suspended pending further testing. Substantial discrepancy between the drilling information as supplied by the North Korean drilling crew and information as derived from the logging operation precludes any firm conclusions based on the first well.

Subsequent events and outlook for 2000

This project continues to provide SOCO with an inexpensive opportunity to explore the area which is adjacent to the prospective areas in the Bohai Bay basin of north-eastern China. However, continuation of SOCO’s involvement rests on being able to validate the data gathered thus far and implementation of a more efficient information conduit for future operations without further dilution of management’s attention from more attractive projects. The Group will likely seek to farm-out a large portion of its interest and retain a small exposure in the area. The Company continues to discuss participation options with parties which have expressed interest in the project.



Volga-Urals Basin, European Russia

Status EBRD funding secured to accelerate development.

Prospects Waterflood programme has begun. Construction on northern pipeline is expected to be completed in 2000. Both will lead to substantial production increases.

Area 1,240 km².

Significantly, the Group's production net to its working interests rose in 1999, to 7,205 barrels of oil per day (BOPD) from 7,128 BOPD last year, although the UK production was sold during the year, the Yemen development programme was delayed several months and Russian development was deferred pending finalisation of the EBRD financing facility. Over the first two months of 2000, net production averaged 8,830 BOPD primarily due to the early impact of Phase II of the Yemen development drilling programme which continues.

Russia

Permtex, the Group's 50% owned limited liability Russian company, holds licences in a 306,000 acre area (Contract Area) in the Volga-Urals region of European Russia, through which it is entitled to develop, produce and export oil from seven fields. The remaining 50% interest is held through an affiliate of LUKOIL, one of Russia's largest vertically integrated oil companies and one of the largest publicly traded oil companies in the world in terms of proven oil reserves. To date, substantially all crude oil produced from the Contract Area by Permtex has been sold abroad with receipts being paid in US dollars as scheduled.

Review of 1999 results

The loan documents for the financing facility of up to US$45 million which was provided by the European Bank for Reconstruction and Development (EBRD) to Permtex were executed by all parties in May of 1999. Following clearance of the banking and accounts structure by the Central Bank of Russia in the autumn, all documentation was finalised in November. The first drawdown against the facility occurred in December.

Activity throughout the year, though minimised pending finalisation of the contracts precedent to EBRD funding, remained focused on the southern sector of the Contract Area. Drilling resumed in the Logovskoye field early in the third quarter of 1999. Two development wells were drilled bringing to 32 the total number of wells capable of producing in the field. A third development well was spudded in the fourth quarter of 1999 and continued drilling over year end.

Workovers were conducted throughout the year. In the first quarter of 1999, the most significant of these, the workover programme in the South Raevskoye field, was initiated with the recompletion of an existing discovery well in the field. The well flowed on a 24 hour calculated rate exceeding 1,000 BOPD, well above average flow rates in the Contract Area. No stabilised rates were derived from long term testing because well tests were suspended due to storage capacity and transportation constraints in this field which, prior to further development, is accessible only during the winter freeze. Full year production from this field will not be possible until after completion of the pipeline through the northern part of the Contract Area.

Preliminary design of the waterflood facility was completed in 1999 and facility construction and equipment installation proceeded through year end. Activity associated with developing the northern portion of the Contract Area, including construction of a 35 kilometre pipeline, commenced in December. A contractor was selected and fabrication of the pipeline was begun. The pipeline construction continued over year end.

Reflecting last year's deferral of continuing development, gross production was relatively flat in 1999 falling slightly to 1.8 million barrels from 1.9 million barrels of oil in 1998. Logovskoye continues to provide the bulk of production, 1.5 million barrels in both 1999 and 1998.

Subsequent events and outlook for 2000

System modifications precluded first injection through the waterflood facilities until the first quarter of 2000. Response to the waterflood is not expected until the third quarter. Once response has been confirmed, a portion of reserves will be reclassified from probable to proven.

Development of the northern part of the Contract Area is scheduled throughout the year, with much of the early focus being directed toward construction of the northern pipeline through the marshy areas, which must be completed before the spring thaw or delayed until the winter freeze. Completion of the pipeline, including the pumping stations and separation facilities, is not likely to occur before the third quarter of 2000. As substantial increases in production are dependent on response to the waterflood and the pipeline completion, significant production increases are not expected until next year.

Further recompletions in the South Raevskoye and Ozernoye fields through re-entries into Russian discovery wells will also be a priority. The Ozernoye field will be the focus of additional resources as design and construction of drilling pads and infrastructure gets underway as a precedent to initiating the new development drilling programme in this field.

Yemen

During 1999, the Group settled the outstanding litigation associated with ownership interests in Comeco Petroleum, Inc. (Comeco), the entity through which the Group participates in the TOTAL Yemen operated joint venture that holds the production sharing agreement in the East Shabwa Development Area in Yemen (East Shabwa). As a result of the settlement, the Group increased its shareholding in Comeco from 50% to 58.75%, reflecting an indirect working interest of 16.785%, up from 14.285% (see discussion under Transactions in the Financial Review section).

Review of 1999 results

Initiation of the planned Phase II development slipped from April until July 1999 as a result of delays in mobilising and rigging up drilling equipment. Consequently, only three of the seven wells planned (five producers, two injectors) were completed during the year, all three producers. Even with the deferred drilling programme, gross production by year end had reached 30,000 BOPD, the rate originally targeted by the operator for the end of Phase II. By year end there were 12 producing wells – 10 in the main Kharir field, one in the Atuf NW field and one in the Wadi Taribah field.

Gross production from the East Shabwa Development Area totalled 6.2 million barrels in 1999, for an average of 16,950 BOPD from these three fields. Crude oil produced from East Shabwa is shipped through the Canadian Occidental crude oil transfer facilities in the neighbouring Masila Block, to which it is connected via pipeline. From there, the oil is commingled with Masila production and transported by pipeline to the Ash Shihr export terminal on the Yemen coast and sold on the spot market.

Subsequent events and outlook for 2000

The original Phase II development approved in 1998 will continue into 2000. Two wells have been added to the programme and two contingent wells are planned pending the results of further geological and geophysical studies and results of the earlier drilled wells. The additional wells include one injector in the Kharir field and a delineation well in the Atuf NW field. This activity is planned to boost production, to increase water disposal capabilities and to develop the waterflood in the principal Upper Biyad reservoir, which was initiated with a single water injector in mid-1998.

East Shabwa Development Area, Yemen

Status Production reached 30,000 BOPD by year end 1999.

Prospects Phase II drilling programme continues during 2000 with two wells added to the original programme.

Area 931 km².

Tunisia

The Group has a non-operated working interest in the Zarat permit located 75 kilometres offshore eastern Tunisia, in the Gulf of Gabès, where it produces from a single well field (Didon) into a floating production storage and off-loading facility (FPSO). ETAP, the Tunisia state owned oil company, failed to exercise an option, which lapsed during 1999, to back-in to the Didon development, thus preserving the Group's interest at 22.22%.

Review of 1999 results

In 1999 the Didon #3 horizontal well produced an average of 948 BOPD net to the Group's interest as compared to a 464 BOPD annualised average for a partial year's production, coming online midyear in 1998. Currently, the well is producing steadily at more than 7,000 gross BOPD. There has been no pressure decline in the well since production began.

During the year there were four offloadings from the FPSO totalling 1.4 million barrels of oil (0.3 million barrels net). Production results inception to date have exceeded the Group's expectations. If production continues at its current profile, reserves would likely be restated.

Subsequent events and outlook for 2000

A commitment well is scheduled to be drilled in the third quarter of this year. With success, the well would likely not be put on production until the Didon well declined to its economic limit. At such time, the FPSO would be moved to the discovery and the well would be produced into the FPSO.

The FPSO is tethered at the Didon field which produces over 7,000 BOPD.

United Kingdom

In the fourth quarter of 1999, the Group divested itself of its entire production interests in the UK, where it operated licences on six producing oil fields and one gas field in the Weald Basin onshore in the south of England. The entity, which operated the licences, was sold with the effective date being 30 September 1999 (see discussion under Transactions in the Financial Review section).

Review of 1999 results

On an annualised basis, oil production net to the Group's working interest from its UK operations averaged 1,029 BOPD from 23 wells in seven fields. Average production net to the Group's working interest during the first nine months was 1,377 BOPD, down from a full year average of 1,590 the previous year. The production declined for the third year in a row reflecting the natural decline in these mostly mature fields. During the year, the Department of Trade and Industry had declined to grant the Group a waiver under the moratorium on construction of new gas fired power plants for a joint application which had previously been filed with Scottish Power.

Financial review

The Group recorded its best year since listing in 1997 in terms of production, turnover and net profit. Except for the nominal debt associated with an initial drawdown on the EBRD loan to its 50% owned Russian joint venture, the Group remains debt free. Operating cash flow was £9.2 million for the year, up more than 124% from £4.1 million in 1998.

Review of 1999 results

Financial and operating

Reflecting primarily the dramatic turnaround in crude oil prices from those reported in 1998 and a gain on the sale of its UK producing assets, the Group registered a record net profit of £7.4 million on turnover of £23.8 million compared to prior year results of a net loss of £0.8 million on turnover of £15.5 million. Daily average production net to the Group's working interest continued the trend of increasing year on year rising to 7,205 barrels of oil per day (BOPD) from 7,128 BOPD despite losing the production from the UK onshore assets, which were disposed of with effect from the end of the third quarter, and delays in both the Yemen Phase II development drilling programme and the Russian development programme. Per barrel average realisations net to the Group rose to US$16.70, up dramatically from US$11.45 reported in 1998. All prior period results have been restated to give effect for FRS12, which was adopted by the Group in 1999.

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.

Capital expenditures for the year, including investment in associate, fell significantly to £7.6 million from £23.4 million in 1998 and £19.7 million in 1997 reflecting management's actions to obtain the moratorium in Mongolian obligations and to impose a general slowdown in exploration worldwide as crude prices collapsed. Net proven and probable reserves were down as a result of production through the year of 2.4 million barrels, the sale of the 2.4 million barrels associated with the UK onshore asset and the assignment of 5% working interest to Petrovietnam of Mongolian reserves. These downward effects were partially offset by additions of 1.2 million barrels.

Operating costs, excluding depreciation, depletion and abandonment provisions (DD&A), fell slightly to £9.9 million from £10.1 million in 1998 despite the increase in production. On a per barrel basis, 1999 operating costs decreased to £3.76 from £3.90 in 1998 reflecting both the greater contribution from lower cost production from Yemen and a slight impact of the October sale of the high production cost onshore UK assets. After restatement for FRS12, DD&A charges rose from £5.8 million (£2.20 per barrel) in 1998 to £6.4 million (£2.44 per barrel) in 1999 primarily reflecting increased production in Tunisia and Yemen.

Transactions

Comeco

In September 1999, the Group reached an agreement with the litigating minority shareholder of Comeco Petroleum, Inc. (Comeco), the entity through which the Group participates in the East Shabwa Development Area in Yemen (East Shabwa), wherein, amongst other things, the litigation was dismissed with prejudice and the Group retained a 58.75% equity shareholding in Comeco (the Settlement). The effective date of the Settlement was 1 July 1999 with assets and liabilities incurred by Comeco subsequent to that date accruing to the stockholders proportionate to their equity interest. As a result of the Settlement, the Group's effective indirect interest in East Shabwa increased from 14.285% to 16.785%. The Group continues to record its indirect interest in Yemen in accordance with FRS 9, consolidating its net interest in the joint activity as further described in Note 13 of the Accounts.

Torobex

At an Extraordinary General Meeting held on 12 July 1999, the shareholders of SOCO overwhelmingly voted to approve the acquisition of the entire issued share capital of Torobex. As a result, SOCO issued 17,277,058 ordinary shares plus warrants to subscribe for 3,109,870 additional shares at prices from 55p to 65p to acquire Torobex. Torobex is a special purpose entity, established by an oil and gas investor group to hold operating rights, which the Group expects to acquire, for various exploitation and development projects in the Middle East and north and west Africa. The investor group comprises primarily (in excess of 75%) Chemsa Limited, Pontoil Intertrade Limited and Société Internationale d'Investissements Financiers. These entities are in turn owned or controlled by Patrick Maugein, Doctor Mario Contini and the family of Pâris Mouratoglou, respectively.

As a result of the acquisition, the investor group owned 25% of the enlarged share capital of SOCO. Subsequent to the completion of the acquisition, the investor group has purchased 1,199,000 additional shares in the market, bringing its ownership interest to 18,476,058 shares or approximately 26.7% of the 69,140,732 total shares issued. Following the transaction, the Board added three members, including the non-executive Chairman, to the Board of Directors of the Company. These Directors replace retiring Directors Pierre Simandoux, Dan Mercier and Tim Taylor, all of whom continue an association with the Company. The new members of the Board are Patrick Maugein (Chairman), Rui de Sousa and Olivier Barbaroux.

Russia

The financing facility of up to US$45 million from the European Bank for Reconstruction and Development (EBRD) for Permtex, the 50% SOCO owned Russian joint venture, was signed by all parties on 12 May 1999. In September, Permtex received Central Bank of Russia approval to establish the on-shore and off-shore collateral accounts required by EBRD precedent to first disbursement. The first drawdown on the facility was in December 1999.

Vietnam

In November, the Group signed a joint operating contract with Petrovietnam granting its 70% owned subsidiary, SOCO Vietnam Limited, 30% interest in the production and exploitation of hydrocarbons from Block 16-1 offshore in the Cuu Long Basin. The grant was finalised when the Ministry of Planning and Investment approved the award in December. The Group now enters the first three years of the exploration phase of the project and will incur its proportionate share of the cost of the project commitments plus carry a portion of the costs associated with the interests of Petrovietnam.

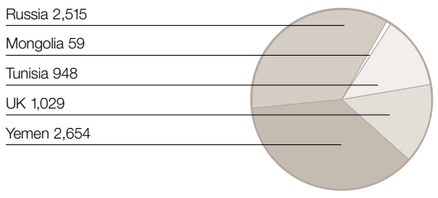
In January 2000, the signature bonus was paid to the Vietnamese government and assignment of 5% of the Group's interests in its operated PSCs in the Tamtsag Basin were made in accordance with the terms of the award. The cost obligations of these assigned interests are carried by the Group throughout the exploratory phase of the respective PSCs.

Onshore UK

SOCO sold its loss making, wholly owned subsidiary SOCO UK Onshore Ltd. (UK Onshore), through which it held its interests in various exploration and production licences in the Weald Basin in the south of England, in October 1999 making a profit of £1.8 million. Star Energy Limited acquired the whole of the share capital of UK Onshore for approximately £10.6 million. The total consideration included £7.9 million in cash, assumption of approximately £2.2 million of intergroup receivables and additional consideration of approximately £0.5 million which is expected to be received in the first half of 2000 as a result of the disposal of certain property held by UK Onshore.

Since the Company has become increasingly focused on international projects offering larger production and reserve potential, it became evident that UK Onshore was non-core to the Group. The 1999 disposal was strategically timed to capture the maximum residual value of the UK assets while crude oil production increases in other projects would more

Production by Country (BOPD)



7,205

Barrels of oil per day (BOPD)

than offset the cash flow loss associated with the disposal of these producing assets.

Subsequent events and 2000 outlook

During the latter part of 1999 and early 2000, the Company has been involved in a number of substantive discussions with various companies concerning potential transactions. Rationalisation of the Group's asset portfolio is an ongoing process and may take a variety of forms. At this time, no transaction appears imminent.

Risk management

The Chief Financial Officer is directly responsible for SOCO's risk management decisions with oversight by the Audit Committee and approval authorisation by the full Board.

Financial

Transactions in the oil and gas industry are predominantly in US dollars. The Company reports financial results in pounds sterling (GBP). 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 held in US dollars or GBP except for small balances which may be held in local currencies to meet immediate operating or administrative expenses or funds received pursuant to various transactions. During periods of unfavourable exchange rates and large balances in GBP, short term currency hedging positions have been taken to protect the dollar value of the Group's cash positions with a view toward having sufficient US dollar liquidity to fund projected operational needs for the ensuing six month period.

Although the Group has minimal debt associated with the EBRD funding of its 50% consolidated Russian joint venture, future capital requirements to fund project development will be partially satisfied through debt financing. In the future, various operational funding may be partially satisfied in this manner. The Company will seek to minimise balance sheet impacts of such financing by negotiating borrowings in matching currencies, primarily expected to be denominated in US dollars.

Investments of Company funds are limited to short term horizons, generally not exceeding six months forward. Investments are principally limited to fixed term deposits in major financial institutions.

Operational

The Group has in place a comprehensive insurance programme which includes property and casualty as well as liability coverages. Placed via a large, independent risk management brokerage group, the policies conform to industry best practice and provide substantial protection against typical industry operational risks. However, it is not practical nor cost effective to obtain coverage for 100% of the potential consequences of adverse circumstances. The Company believes that an appropriate balance has been struck between exposure and coverage.

The Company has not entered into any long term marketing contracts with fixed prices. As a consequence 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 same period average market price. Oil prices may fluctuate widely during any particular reporting period. Generally the Directors of the Company believe that investors in this sector are willing to take commodity price risk. 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. 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 upheaval in these environments than would be found in stable, developed economies. 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 business interruption coverage to mitigate such risks, but periodically assesses the cost/benefit of both. Future circumstances may lead to the Company acquiring such cover.

Environmental

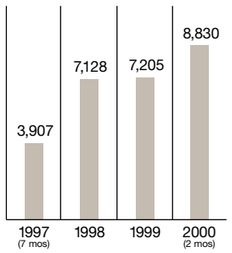
The Company has a formal Health, Safety and Environmental (HSE) policy which emphasises the corporate responsibility for identifying and minimising the potential adverse effects that Company operations may have on its employees, the public and the environment. The focus of the programme is on prevention and avoidance, in recognition that the potential impact is far greater than the cost to overcome a breakdown in compliance. At a minimum, the Company must be in compliance with applicable host country regulations, but the Company is more ambitious in that it generally seeks to improve awareness and increase standards beyond those currently required.

Year 2000

Prior to year end 1999, the Group undertook an extensive review of its exposure to potential adverse effects associated with systems failure as a result of shortcomings in year 2000 date and/or time rollover programmes (Y2K effects). Although no significant material exposures were identified through this review, the Directors believe that the time and expense associated with the review were appropriate to the potential threat identified. The costs associated with becoming Y2K compliant were not material to the Company. The Company has experienced no significant problems associated with Y2K effects.

Although the Group has to date experienced no adverse Y2K effects, it conducts business in many evolving economies around the world and is not able to definitively identify when ancillary effects may expire due to the passage of time. Accordingly, the Directors cannot provide assurances that there will be no future interruption in host country infrastructure associated with Y2K effects which may have an adverse impact on the Group's business conducted in those countries. Because of the high cost of obtaining coverage and the uncertainty of collection of claims, the Group has not undertaken to obtain insurance cover for Y2K consequences.

Average Daily Production (BOPD)



£23.8m

Turnover

Board of directors

Patrick Maugein (52)
Non-Executive Chairman
Mr Maugein joined the Board in July 1999. He has developed a portfolio of private investments in several industries and is currently Chairman of the Alternative Finance Group. He is also a member of the advisory board of Normandy Mining Limited and president of Compagnie Française et Internationale de Distribution in Paris. Mr Maugein is Chairman of the Nominations Committee.

Ed Story (56)
President and CEO
Mr Story was President of the international subsidiary of a predecessor of Santa Fe Snyder Corporation, Vice Chairman of Conquest Exploration Company, Vice President and CFO of Superior Oil Company and has held various positions, including seven years resident in the Far East with Exxon Corporation. He is currently a director of Santa Fe Snyder Corporation, Sen Hong Resources Limited and Cairn Energy PLC. Mr Story is a member of the Nominations Committee.

Peter Kingston (57)
Non-Executive Deputy Chairman and Senior Independent Director
Mr Kingston is a petroleum engineer who has worked in the oil and gas industry since 1965 in various roles and was a founding director of Enterprise Oil plc going on to become Managing Director (Technical) and a director of Elf-Enterprise Petroleum Ltd. Mr Kingston is Chairman of the Remuneration and Audit Committees and a member of the Nominations Committee.

Roger Cagle (52)
Vice President-Finance and CFO
Mr Cagle previously held the position of Chief Financial Officer with the international subsidiary of a predecessor of Santa Fe Snyder Corporation and Conquest Exploration Company. Since 1975 he has held various managerial positions in the oil and gas industry including Superior Oil Company and Exxon Corporation.

Roger Brittain (62)
Non-Executive Director
Mr Brittain was elected non-executive Director in March 1998. He is a director of Corporate Finance, at Investec Henderson Crosthwaite and is also a director of Sen Hong Resources Holdings Limited and Glenrand Simpson Limited. Mr Brittain serves on the Audit, Remuneration and Nominations Committees.

John Snyder (58)
Non-Executive Director
Mr Snyder joined the Board in April 1997. He is a director and Chairman of Santa Fe Snyder Corporation, a predecessor of which he founded in 1978. He is a member of the Nominations Committee.

Rui de Sousa (44)
Non-Executive Director
Mr de Sousa joined the Board in July 1999. Mr de Sousa has, since the 1980's, been the Chief Executive Officer of the Toro Group. He is the Chairman of Mediterranean Oil Supply and Trading Limitada, and is also a director of Quantic Limited. Mr de Sousa is a member of the Remuneration and Nominations Committees.

John Norton (62)
Non-Executive Director
Mr Norton joined the Board in April 1997. He is a Chartered Accountant and was a partner in Arthur Andersen heading its oil and gas practice in Europe, the Middle East and Africa. Mr Norton is a member of the Audit and Nominations Committees.

Olivier Barbaroux (44)
Non-Executive Director
Mr Barbaroux, who joined the Board in July 1999, is Managing Director of Générale des Eaux, a division of Vivendi. Former positions include head of the Energy Sector of the corporate finance department of Paribas, Chairman and CEO of COPAREX International and Chairman and CEO of Générale de Transport et d'Industrie. Mr Barbaroux is a member of the Audit and Nominations Committees.

Directors' report

The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 December 1999.

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 Mongolia, Russia, Yemen, Thailand, Tunisia, Vietnam and North Korea. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 13 to the accounts.

A detailed review of the development of the business and its future prospects is contained in the Chairman's statement, the Chief executive's statement, the Operations review and the Financial review on pages 4 to 21.

Results and dividends

The audited accounts for the year ended 31 December 1999 are set out on pages 30 to 46. The Group profit for the period after taxation was £7.4 million compared to a restated loss of £0.8 million in 1998.

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 (1998 – £nil).

Directors

The Directors who served during the year were as follows:

Patrick Maugein* (Chairman) (appointed 13 July 1999)

Peter E Kingston* (Deputy Chairman and Senior Independent Director) (resigned as Chairman and appointed as Deputy Chairman 13 July 1999)

Olivier M G Barbaroux* (appointed 13 July 1999)

Roger W Brittain*

Roger D Cagle

Daniel A Mercier (resigned 12 July 1999)

John C Norton*

Pierre R Simandoux* (resigned 12 July 1999)

John C Snyder*

Rui C de Sousa* (appointed 13 July 1999)

Edward T Story

Timothy D Taylor (resigned 12 July 1999)

*Denotes independent non-executive Director

All Directors held office throughout the year except as otherwise noted above.

In accordance with the Articles of Association, Edward T Story and John C Norton will retire by rotation at the forthcoming Annual General Meeting and, each being eligible, offer themselves for re-appointment.

In addition, in accordance with the Articles of Association, Patrick Maugein, Olivier M G Barbaroux and Rui C de Sousa, having been appointed by the Board since the last Annual General Meeting, also retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

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.

Share capital

Details of changes to share capital during the period can be found in Note 21 to the accounts.

Substantial shareholdings

On 24 March 2000, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the issued ordinary share capital of the Company and warrants to subscribe for ordinary shares of the Company ("Warrants").

	Issued Shares		Warrants
Name of holder	Number	% held	Number
Santa Fe Snyder Corp	7,825,457	11.32%	–
Pontoil Intertrade Ltd[1]	5,880,813	8.51%	447,171
Chemsa Limited[1]	4,356,955	6.30%	325,215
SIIF SA (Luxembourg)[1]	3,742,335	5.41%	284,563
Quantic Ltd[1]	2,357,478	3.41%	162,607
Salamander Assets Ltd[1]	1,069,239	1.55%	81,304
Alpidorica SpA[1]	534,619	0.77%	40,652
New Falcon Oil Ltd[1]	534,619	0.77%	40,652

[1]Each of these companies has notified the Company that it is a party to an agreement for the purposes of section 204 of the Companies Act 1985 and is therefore to be treated as interested in the shares and options held by all other parties to that agreement. The combined holdings of the parties comprise 18,476,058 ordinary shares, or 26.72% of issued share capital, and 1,382,164 Warrants.

Auditors

The Directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Swan House
32/33 Old Bond Street
London W1X 3AD

Cynthia B Cagle
Secretary
29 March 2000

Corporate governance

In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on corporate governance, combining the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and new requirements arising from the findings of the Hampel Committee. In September 1999 the Turnbull Committee published additional guidance on implementation of the Combined Code's internal control requirements.

The Company has applied the Principles of Good Governance set out in section 1 of the Combined Code as described below and, in connection with Directors' remuneration, in the Remuneration report and in Note 7 to the accounts.

The Board

The Board of Directors comprises nine Directors of whom seven, including the Chairman, are independent non-executive Directors. The Board has four scheduled meetings a year and holds additional meetings as necessary.

The Board has established three Committees, as described below, each having formal terms of reference approved by the Board which comply with the Cadbury Code of Best Practice. Each Director's specific committee memberships are set out on page 22.

The Remuneration Committee

The Remuneration Committee consists of three non-executive Directors and is responsible for recommending the remuneration of the executive Directors and senior management of the Company and Group for approval by the full Board. The main objective of the Committee is to ensure that individuals are remunerated on a basis which is appropriate to their position, experience and value to the Company and Group, whilst recognising that remuneration packages must be set at a level to attract, retain and motivate staff. The Committee meets at least two times annually. The Remuneration report is on page 28.

The Audit Committee

The Audit Committee comprises four non-executive Directors and meets at least twice a year. The Chief Financial Officer and a representative of the external auditors are normally invited to attend meetings. 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, and to review the annual and interim financial statements before they are submitted to the Board. The Audit Committee has specific responsibility for advising the full Board on implementation of and compliance with the Turnbull Committee guidance.

The Nominations Committee

The Nominations Committee comprises all non-executive Directors and the Chief Executive Officer. The Committee is responsible for making recommendations for the appointment of Directors for consideration and approval by the Board, and meets as required.

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 AGM, presentation of Annual Results and presentation of Interim Results – whereby shareholders can directly interface with Company executive management. Additionally, the Company provides e-mail contact information whereby shareholders can electronically interface with executive management. The Company intends to introduce an internet web site wherein important information can be posted and disseminated promptly to a wide audience.

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 are in place for key systems 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.

In accordance with Principle D.2 of the Combined Code, the Board has an ongoing process, 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 although in place, 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 reviewing reports provided by management to consider whether significant risks are identified, evaluated, managed and controlled, but also may include independent interaction with 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 periodically review the need to establish such a function.

Statement of compliance with the Code of Best Practice

With effect from 13 July 1999, Peter Kingston was designated by the Board as the senior independent non-executive director. In all other respects 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, and of the profit or loss of the Group for that 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 Auditors' report on page 29.

Remuneration report

As well as complying with the Provisions of the Code as disclosed in the Company's corporate governance statements, the Board has applied the Principles of Good Governance relating to Directors' remuneration as described below.

The following non-executive Directors were members of the Committee during the period:

Peter E Kingston (Chairman)
Rui C de Sousa (appointed 13 July 1999)
Roger W Brittain
John C Snyder (resigned 13 July 1999)
Pierre R Simandoux (resigned 12 July 1999)

The Company has complied throughout the period with section 1 of the Combined Code.

The Company's policy on executive Director remuneration is to provide rewards that are competitive with those offered in comparable businesses, bearing in mind the necessity to attract, retain and motivate the high calibre of management vital to the Company's growth and profitability. Remuneration packages are benchmarked to competitive market ranges, considering the Group's size and complexity.

It is the Committee's policy to review all aspects of remuneration on an annual basis and with respect to the previous year's performance. In addition to basic salary, all executive Directors will be eligible to receive an annual cash bonus. The bonus will be awarded at the discretion of the full Board, upon recommendation by the Committee, based on the achievement by each individual of personal goals based on the Company's strategic plan. An executive Director's discretionary annual bonus is targeted to provide a balance between basic salary and performance related remuneration but shall not exceed 100% of basic salary.

Annual reviews of remuneration are conducted in the first quarter of the following year. As a result of the 1999 review conducted earlier this year, bonus awards with respect to 1999 performance were made which are reflected in Note 7 to the accounts. The Board unanimously agreed to make no salary adjustments as a result of the review. Irrespective of performance, last year the Board unanimously agreed not to consider either bonus awards or salary increases with respect to 1998.

The Committee currently operates one share option scheme being the SOCO 1997 Company Share Option Plan. The grant of options to executive Directors and senior management is on the recommendation of the Committee. The Committee recommends, at its discretion, the participants and the number of shares over which their option will be granted. The number of shares over which the option will become exercisable is determined on the basis of the Company's total shareholder return performance within a group of comparator companies in the oil exploration and production sector, determined on or after the third anniversary of the date of grant. Grants to executive Directors under this plan are detailed in Note 7 to the accounts.

The executive Directors' contracts are terminable by either party on giving not less than one year's notice. 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 remuneration of the non-executive Directors is determined by the Board as a whole, based on outside advice and review of current practices in other companies. Following publication of the Hampel Report's comments on non-executive Directors' remuneration, the Board as a whole implemented an arrangement to pay part of non-executive Directors' fees for 1998 and subsequent years in the form of shares in the Company with effect from the quarter beginning July 1998. The plan was discontinued by unanimous vote of the Board in September 1999 due to restrictions experienced in administering the plan during close periods.

Full details of the remuneration packages of individual Directors and information on share options are set out in Note 7 to the accounts.

Auditors' report

To the Shareholders of SOCO International plc:
We have audited the accounts on pages 30 to 46 which have been prepared under the historical cost convention and the accounting policies set out on pages 33 to 34.

Respective responsibilities of directors and auditors
The Directors are responsible for preparing the Annual Report, including as described on page 27, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, 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 or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement on page 27 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, 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 Company's corporate governance procedures and its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion
We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of 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 accounts 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 accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London WC2R 2PS
29 March 2000

Consolidated profit and loss account for the year to 31 December 1999

	Notes	1999 £000's	(Restated) 1998 £000's
Turnover	1		
Continuing operations		**19,800**	10,648
Discontinued operations		**4,002**	4,871
		23,802	15,519
Cost of sales	2	**(16,310)**	(15,896)
Gross profit (loss)	2	**7,492**	(377)
Administrative expenses	2	**(1,876)**	(1,413)
Operating profit (loss)			
Continuing operations		**5,680**	(765)
Discontinued operations		**(64)**	(1,025)
		5,616	(1,790)
Profit on sale of discontinued operations	25	**1,820**	–
Profit (loss) on ordinary activities before finance charges		**7,436**	(1,790)
Investment income	3	**998**	1,570
Interest payable and similar charges	4	**(151)**	(381)
Profit (loss) on ordinary activities before taxation	5	**8,283**	(601)
Tax on profit (loss) on ordinary activities	8	**(869)**	(235)
Profit (loss) for the financial year	23	**7,414**	(836)
Earnings (loss) per share			
Basic	11	**12.5p**	(1.7)p
Diluted	11	**12.4p**	(1.7)p

Consolidated statement of total recognised gains and losses

for the year to 31 December 1999

	Notes	1999 £000's	(Restated) 1998 £000's
Profit (loss) for the financial year	23	**7,414**	(836)
Unrealised currency translation differences	23	**1,951**	(295)
Total recognised gains (losses) relating to the year		**9,365**	(1,131)
Prior year adjustment	10	**(323)**	–
Total gains (losses) recognised since last annual report and accounts		**9,042**	(1,131)

The accompanying notes are an integral part of these accounts.

Balance sheets as at 31 December 1999

		Group		Company	
	Notes	1999 £000's	(Restated) 1998 £000's	1999 £000's	1998 £000's
Fixed assets					
Tangible assets	12	**70,051**	69,944	**158**	190
Investments	13	**368**	368	**49,355**	42,683
		70,419	70,312	**49,513**	42,873
Current assets					
Stocks	14	**1,150**	489	**–**	–
Debtors	15	**4,834**	6,370	**927**	550
Investments	16	**20,639**	7,769	**9,508**	6,738
Cash at bank and in hand		**8,152**	1,563	**1,116**	287
		34,775	16,191	**11,551**	7,575
Creditors: Amounts falling due within one year	17	**(5,677)**	(4,295)	**(512)**	(1,287)
Net current assets		**29,098**	11,896	**11,039**	6,288
Total assets less current liabilities		**99,517**	82,208	**60,552**	49,161
Creditors: Amounts falling due after more than one year	18	**(1,551)**	–	**–**	–
Provisions for liabilities and charges	19	**(651)**	(2,776)	**–**	–
Minority interests	20	**(175)**	(157)	**–**	–
Net assets		**97,140**	79,275	**60,552**	49,161
Capital and reserves					
Called-up equity share capital	21	**13,828**	10,365	**13,828**	10,365
Share premium account	22	**38,367**	38,358	**38,367**	38,358
Other reserves	22	**34,961**	29,933	**–**	–
Profit and loss account	22	**9,984**	619	**8,357**	438
Shareholders' funds	23	**97,140**	79,275	**60,552**	49,161

The accounts on pages 30 to 46 were approved by the Board of Directors on 29 March 2000 and signed on its behalf by:

Patrick Maugein Chairman
Roger D Cagle Director

The accompanying notes are an integral part of these accounts.

Consolidated cash flow statement for the year to 31 December 1999

	Notes	1999 £000's	1998 £000's
Net cash inflow from operating activities	24	**9,175**	4,088
Returns on investments and servicing of finance			
Interest received		**778**	1,243
Interest paid		**(25)**	(38)
		753	1,205
Taxation paid		**(571)**	(686)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(7,589)**	(20,480)
Sale of tangible fixed assets		**8**	20
Investment in associate	13	**–**	(2,928)
		(7,581)	(23,388)
Acquisitions and disposals			
Purchase of subsidiary undertaking		**(427)**	(114)
Cash acquired with subsidiary undertaking		**8,911**	54
Sale of business	25	**7,681**	–
		16,165	(60)
Cash inflow (outflow) before management of liquid resources and financing		**17,941**	(18,841)
Management of liquid resources			
Advance to Comeco Petroleum, Inc.	13	**–**	(2,681)
(Increase) decrease in cash placed on short-term deposit	26	**(13,028)**	17,035
		(13,028)	14,354
Financing			
Issue of ordinary share capital		**7**	2
Issue of preference shares to minority interests		**12**	184
Bank loan due after more than one year	26	**1,550**	–
		1,569	186
Increase (decrease) in cash in the year	26	**6,482**	(4,301)

The accompanying notes are an integral part of these accounts.

Statement of accounting policies

A summary of the principal accounting policies which, with the exception of the change in accounting policy resulting from the adoption of Financial Reporting Standard ("FRS")12, 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.

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 FRS9 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.

Tangible 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. Costs incurred in a geographical area where the Group has no producing oil or gas interests are held outside the depreciable cost pools until either production in that geographical area commences, whereupon all such costs are transferred to the appropriate cost pool, or the Group ceases activities in that area, whereupon all such costs are charged to the profit and loss account.

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.

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.

Statement of accounting policies continued

Decommissioning

In previous years, the Company recorded a decommissioning provision on the unit of production basis, as outlined in Statement of Recommended Practice "Accounting for Abandonment Costs" published by the Oil Industry Accounting Committee (now withdrawn).

During 1999 the Group adopted FRS12. Accordingly the decommissioning provision is now 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 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.

As the adoption of FRS12 represents a change in accounting policy, a prior year restatement has been made (see Note 10).

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

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the foreseeable future without being replaced.

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 and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are dealt with through reserves.

Exchange differences arising on foreign currency loans drawn down to finance development projects are included in development costs in tangible fixed assets.

Notes to the accounts

1 Segment information

	United Kingdom £000's	Rest of Europe £000's	Rest of World £000's	Unallocated £000's	Group 1999 £000's
Turnover by origin					
Continuing operations	–	7,981	11,819	–	19,800
Discontinued operations	4,002	–	–	–	4,002
	4,002	7,981	11,819	–	23,802
Operating profit (loss)					
Continuing operations	–	2,818	4,738	(1,876)	5,680
Discontinued operations	(64)	–	–	–	(64)
	(64)	2,818	4,738	(1,876)	5,616
Profit (loss) on ordinary activities before taxation					
Continuing operations	–	2,659	4,924	721	8,304
Discontinued operations	(21)	–	–	–	(21)
	(21)	2,659	4,924	721	8,283
Net assets	–	16,403	56,097	24,640	97,140

	£000's	£000's	£000's	£000's	(Restated) 1998 £000's
Turnover by origin					
Continuing operations	–	5,289	5,359	–	10,648
Discontinued operations	4,871	–	–	–	4,871
	4,871	5,289	5,359	–	15,519
Operating profit (loss)					
Continuing operations	–	565	83	(1,413)	(765)
Discontinued operations	(1,025)	–	–	–	(1,025)
	(1,025)	565	83	(1,413)	(1,790)
Profit (loss) on ordinary activities before taxation					
Continuing operations	–	293	438	(324)	407
Discontinued operations	(1,008)	–	–	–	(1,008)
	(1,008)	293	438	(324)	(601)
Net assets					
Continuing operations	–	14,288	49,607	7,931	71,826
Discontinued operations	7,449	–	–	–	7,449
	7,449	14,288	49,607	7,931	79,275

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, gross profit and administrative expenses

	Continuing operations £000's	Discontinued operations £000's	Group 1999 £000's	Continuing operations £000's	Discontinued operations £000's	(Restated) Group 1998 £000's
Operating expenses	**7,195**	**2,689**	**9,884**	6,323	3,778	10,101
Depletion and depreciation	**5,049**	**1,377**	**6,426**	3,677	2,118	5,795
Cost of sales	**12,244**	**4,066**	**16,310**	10,000	5,896	15,896
Gross profit (loss)	**7,556**	**(64)**	**7,492**	648	(1,025)	(377)
Administrative expenses	**1,876**	**–**	**1,876**	1,413	–	1,413

3 Investment income

	1999 £000's	1998 £000's
Interest receivable	**991**	1,570
Realised exchange gain	**7**	–
	998	1,570

4 Interest payable and similar charges

	1999 £000's	(Restated) 1998 £000's
Bank loans and overdrafts	**23**	38
Unwinding of discount on provisions	**128**	142
Realised exchange loss	**–**	201
	151	381

5 Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities before taxation is stated after charging:

	1999 £000's	(Restated) 1998 £000's
Depletion and depreciation	**6,479**	5,845
Auditors' remuneration for audit services	**65**	90

The amounts payable to Arthur Andersen by the Company and its UK subsidiary undertaking in respect of non-audit services was £94,000 (1998 – £91,000), of which £63,000 was charged as a cost of the acquisition of Torobex Limited (see Note 13).

6 Staff costs

The average monthly number of employees (including executive Directors but excluding contractors and staff of the Permtex joint operations) was 38 (1998 – 46), of which 25 (1998 – 34) were operating personnel and 13 (1998 – 12) were administrative personnel. Their aggregate remuneration comprised:

	1999 £000's	1998 £000's
Wages and salaries	**2,234**	2,029
Social security costs	**127**	151
Other pension costs under money purchase schemes	**181**	204
	2,542	2,384

7 Directors' remuneration, interests and transactions

Directors' remuneration

Executive Directors	Fees/Basic salary £000's	Cash value in shares[1] £000's	Benefits in kind[2] £000's	Annual bonus £000's	Total 1999 £000's	Total 1998 £000's
E Story	**240**	**–**	**14**	**120**	**374**	219
R Cagle	**168**	**–**	**14**	**84**	**266**	170
T Taylor[3]	**72**	**–**	**10**	**–**	**82**	158
D Mercier[3]	**72**	**–**	**2**	**–**	**74**	47
Non-executive Directors						
P Maugein[4]	**27**	**–**	**–**	**–**	**27**	–
P Kingston[5]	**51**	**2**	**–**	**–**	**53**	55
O Barbaroux[4]	**12**	**–**	**–**	**–**	**12**	–
R Brittain[6]	**21**	**2**	**–**	**–**	**23**	17
J Norton	**21**	**2**	**–**	**–**	**23**	23
P Simandoux[3]	**8**	**2**	**–**	**–**	**10**	23
J Snyder[7]	**21**	**2**	**–**	**–**	**23**	23
R de Sousa[4]	**12**	**–**	**–**	**–**	**12**	–
Aggregate emoluments	**725**	**10**	**40**	**204**	**979**	735

[1] The cash value of ordinary shares issued in part payment of each non-executive Director's fee is based on market value at the date of allotment. These shares represent payment in arrears for the non-executive Directors' work on committees for the period to 30 June 1999.

[2] Benefits include a permanent health insurance scheme, medical insurance, life assurance cover, critical illness cover and car benefits.

[3] Emoluments receivable by Dr Tim Taylor, Mr Dan Mercier and Mr Pierre Simandoux are in respect of the period prior to their resignations from the Board on 12 July 1999. Emoluments receivable by Mr Mercier in 1998 are in respect of the period from his appointment to the Board on 8 September 1998.

[4] Emoluments receivable by Mr Patrick Maugein, Mr Rui de Sousa and Mr Olivier Barbaroux are in respect of the period from their appointments to the Board on 13 July 1999.

[5] 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.

[6] Emoluments receivable by Mr Roger Brittain for the period from his appointment to the Board effective 27 March 1998 include amounts paid to Guinness Mahon & Co in respect of his services through 30 June 1998.

[7] Emoluments receivable by Mr John Snyder include amounts paid to Santa Fe Snyder Corporation in respect of his services for the period to 30 June 1999.

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

Money purchase pension contributions

	1999 £000's	1998 £000's
E Story	**21**	21
R Cagle	**21**	21
T Taylor[1]	**15**	21
D Mercier[1]	**5**	5
	62	68

[1] Contributions made on behalf of Dr Tim Taylor and Mr Dan Mercier are in respect of the period prior to their resignations from the Board on 12 July 1999. Contributions made on behalf of Mr Mercier in 1998 are in respect of the period from his appointment to the Board on 8 September 1998.

7 Directors' remuneration, interests and transactions (continued)

Directors' share options

Details of options to acquire ordinary shares in the Company granted to or held by the Directors and their families are as follows:

	As at 31 December 1998	Granted	As at 31 December 1999	Exercise price £	Date from which exercisable[1]	Expiry date
E Story	**1,973,954**	**–**	**1,973,954**	0.750	29.05.97	25.04.04
	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
R Cagle[2]	**1,480,466**	**–**	**1,480,466**	0.750	29.05.97	25.04.04
	128,151	**–**	**128,151**	3.850	03.12.00	03.12.04
	352,948	**–**	**352,948**	0.725	15.09.01	15.09.05
	–	**750,392**	**750,392**	0.590	13.07.02	13.07.06
Total	**4,309,058**	**1,445,587**	**5,754,645**			

[1] Options held under the SOCO-sub Unapproved Company Share Option Plan were granted prior to the listing of the Company's shares on the London Stock Exchange and are exercisable from 29 May 1997. No additional grants are available under the Plan. All other grants have been made under the SOCO 1997 Company Share Option Plan.

[2] Options held as at 31 December 1998 and granted during the period include 707,201 and 302,319, respectively, held by Cynthia Cagle, having been granted to her in respect of her services to the Company.

The ability to exercise options granted under the SOCO 1997 Company Share Option Plan is determined on the basis of the Company's relative total shareholder return performance against a comparator group.

No options were exercised or lapsed in the year.

The market price of the ordinary shares at 31 December 1999 was £0.78 and the range during the year to 31 December 1999 was £0.29 to £0.83.

Directors' long-term incentive scheme

The Company does not operate any long-term incentive schemes.

Directors' pension entitlements

The executive Directors are members of two money purchase schemes. Basic salary is the only element of a Director's remuneration which is pensionable.

7 Directors' remuneration, interests and transactions (continued)

Directors' interests

The interests (all of which were beneficial except as noted below) of the Directors of the Company in the ordinary shares and warrants to subscribe for the same number of ordinary shares of the Company ("Warrants") at 31 December 1999 were:

	Number of Shares		Number of Warrants	
Executive Directors	**1999**	1998	**1999**	1998
E Story	**994,456**	994,456	**–**	–
R Cagle	**70,000**	70,000	**–**	–
Non-executive Directors				
P Maugein[1]	**4,276,955**	–	**325,215**	–
P Kingston	**11,500**	3,500	**–**	–
O Barbaroux	**–**	–	**–**	–
R Brittain	**54,500**	36,500	**–**	–
J Norton	**50,000**	21,500	**–**	–
J Snyder	**25,000**	25,000	**–**	–
R de Sousa[2]	**2,673,097**	–	**1,930,965**	–

[1] 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.

[2] Mr Rui de Sousa's interest comprises 2,138,478 ordinary shares and 162,607 Warrants at a price of £0.55 each held by Quantic Limited, of which Mr de Sousa owns 50% of the issued share capital; 534,619 ordinary shares and 40,652 Warrants at a price of £0.55 each held by New Falcon Oil Limited, of which Mr de Sousa owns 100% of the issued share capital; and 621,974, 1,088,455 and 17,277 Warrants at a price of £0.65, £0.60 and £0.55 respectively held by Mantegna Consultadoria E Servicos Limitada, of which Mr de Sousa owns 100% of the issued share capital.

On 14 January 2000 an additional 80,000 ordinary shares of the Company were purchased by Chemsa Limited, in which Mr Patrick Maugein has a beneficial interest. On 21 January 2000 an additional 219,000 ordinary shares of the Company were purchased by Quantic Limited, in which Mr Rui de Sousa has a beneficial interest. There has been no other change in the beneficial interests between 31 December 1999 and the date of this report.

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.

8 Tax on profit (loss) on ordinary activities

The tax charge comprises:

	1999 £000's	1998 £000's
UK Corporation tax at 30.25% (1998 – 31%)	**91**	(101)
Current overseas taxation	**784**	336
Deferred overseas taxation	**(6)**	–
	869	235

Deferred taxation is fully provided and includes recognition of a net deferred tax liability of £230,000 in respect of the Tunisian interest and a net deferred tax asset of £236,000 in respect of the Yemen interest. The overseas deferred tax credit arises on the net of tax losses carried forward and fixed asset timing differences. The overseas tax charge is expected to increase in the year 2000 following the utilisation of the remaining available tax losses carried forward during 2000.

9 Profit (loss) attributable to SOCO International plc

The profit for the financial year dealt with in the accounts of the Company was £7,919,000 (1998 – loss of £213,000). As provided by Section 230 of the Companies Act 1985, no profit and loss account is presented in respect of the Company.

10 Prior year restatement

Effective 1 January 1999, the Group adopted FRS12 "Provisions, Contingent Liabilities and Contingent Assets", which constituted a change in accounting policy for the way that the Group accounts for decommissioning costs. The comparative figures in the primary statements and notes have been restated to reflect the new policy.

The net effects of the change in policy are summarised below:

	1999 £000's	1998 £000's
Profit and loss account		
Increase in cost of sales	**(6)**	–
Increase in interest payable	**(128)**	(142)
Increase in profit on sale of discontinued operations	**279**	–
	145	(142)
Balance sheet		
Increase in tangible fixed assets	**474**	1,198
Increase in provisions for liabilities and charges	**(652)**	(1,521)
Decrease in net assets	**(178)**	(323)

11 Earnings per share

The calculation of basic earnings per share is based on the profit for the financial year and on 59,387,904 (1998 – restated loss for the year and 49,933,957) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year.

The calculation of diluted earnings per share is based on the profit for the financial year and on 59,990,023 (1998 – restated loss for the year and 50,308,677) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year including 4,769 outstanding warrants (1998 – 187,323 share options) that have a diluting effect on earnings per share and 600,000 (1998 – 187,397) ordinary shares of the Company held by the Group.

12 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 1999 (restated)	**77,468**	**1,390**	**78,858**	**246**
Increase in investment in Comeco (see Note 13)	**3,450**	**–**	**3,450**	**–**
Additions	**8,733**	**272**	**9,005**	**15**
Disposals	**(12,393)**	**(819)**	**(13,212)**	**–**
Foreign exchange	**2,239**	**13**	**2,252**	**–**
As at 31 December 1999	**79,497**	**856**	**80,353**	**261**
Depreciation				
As at 1 January 1999 (restated)	**8,622**	**292**	**8,914**	**56**
Increase in investment in Comeco (see Note 13)	**593**	**–**	**593**	**–**
Charge for the year	**6,290**	**189**	**6,479**	**47**
Disposals	**(5,797)**	**(33)**	**(5,830)**	**–**
Foreign exchange	**139**	**7**	**146**	**–**
As at 31 December 1999	**9,847**	**455**	**10,302**	**103**
Net book value				
As at 31 December 1999	**69,650**	**401**	**70,051**	**158**
As at 31 December 1998 (restated)	68,846	1,098	69,944	190

Included within oil and gas properties at 31 December 1999 are costs of £34,765,000 (1998 – restated £29,549,000) held outside depreciable pools. Other fixed assets comprise plant and machinery, computer equipment and fixtures and fittings.

13 Fixed asset investments

	Group		Company	
	1999 £000's	1998 £000's	1999 £000's	1998 £000's
Subsidiary undertakings	**–**	–	**49,355**	42,683
Own shares	**368**	368	**–**	–
	368	368	**49,355**	42,683

Own shares held at 31 December 1999 comprise 600,000 ordinary shares with a nominal value of £0.20 each.

Principal Group investments

The Company and the Group have investments in the following subsidiary undertakings 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, Inc.	USA	Mongolia	Oil and gas exploration	99.4
SOCO Perm Russia, Inc.[1]	USA	Russia	Investment holding	100.0
SOCO Tunisia Pty Limited	Australia	Tunisia	Oil and gas exploration and production	100.0
SOCO Yemen Pty Limited[2]	Australia	Yemen	Investment holding	100.0
SOCO Exploration (Thailand) Co. Ltd.	Thailand	Thailand	Oil and gas exploration	99.9
SOCO Vietnam Limited	Cayman Islands	Vietnam	Oil and gas exploration	70.0

[1] The Russian interest, which is in production, is held through Permtex, a Russian limited liability company, which is 50% owned by SOCO Perm Russia, Inc.

[2] 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 1999.

13 Fixed asset investments (continued)

Investment in Comeco Petroleum, Inc.

Comeco Petroleum, Inc. ("Comeco") holds a 28.57% interest as a joint venture partner in the East Shabwa Development Area in Yemen. In February 1998, under terms of an agreement between Comeco, the Group and Comeco's remaining shareholder (the "Agreement") the Group increased its ownership in Comeco from 41.25% to 50% reflecting its pro rata share of Comeco's rescission of a 17.5% minority shareholding. With effect from 1 July 1999, the Group further increased its ownership in Comeco to 58.75% reflecting its 100% rights to the rescinded shareholding pursuant to a September 1999 agreement (the "Settlement") resolving a dispute arising in November 1998 centred around certain interests in, and other rights and obligations of, Comeco.

Under terms of the Agreement the 17.5% shareholding was rescinded in exchange for a US$8.8 million (£5.3 million) payment by Comeco which was entirely funded by the Group. As a result of the Settlement, the amount in excess of the Group's 50% share has been reclassified as an additional investment in Comeco, having previously been included in debtors.

The Settlement includes provisions wherein Comeco's shareholders have sought to predetermine all significant matters of operating and financial policy. As a result Comeco does not constitute an entity which is carrying on a trade or business of its own and, accordingly, the Group's results consolidate the assets, liabilities and cash flows related to its interest in Yemen in accordance with FRS9. This continues the treatment adopted during the dispute period, with effect from February 1998, reflecting the fact that Comeco's Board was effectively deadlocked and it's Stockholders' Agreement was effectively functioning as a joint operating agreement, indicating that control had not passed to the Group under the Agreement. Prior to the dispute, the Directors were of the opinion that pursuant to the Agreement Comeco had become a subsidiary, having previously been accounted for as an associated undertaking.

Acquisition of Torobex Limited

On 12 July 1999 the Group acquired the entire share capital of Torobex Limited ("Torobex") for consideration of 17,277,058 new ordinary shares of the Company with a nominal value of £0.20 ("Shares") and warrants to subscribe for 3,109,870 Shares, all exercisable after 12 months in three tranches comprising 1,399,441 warrants at a subscription price of £0.55 per Share, 1,088,455 warrants at a subscription price of £0.60 per Share and 621,974 warrants at a subscription price of £0.65 per Share.

The acquisition of Torobex, which has not traded since incorporation and whose net assets solely comprised US$13.9 million (£8.9 million) cash on the date of acquisition, provides the Group with new associations through an investor group with the potential to introduce new assets and projects into the Group.

Subsidiary undertakings

	Company £000's
Cost	
As at 1 January 1999	**42,683**
Additions	**7,744**
Disposals (see Note 25)	**(1,072)**
As at 31 December 1999	**49,355**

All of the investment in subsidiary undertakings is held in the form of share capital.

14 Stocks

	Group	
	1999 £000's	1998 £000's
Crude oil and condensate	**463**	170
Materials and consumables	**687**	319
	1,150	489

There is no material difference between the balance sheet value of stocks and their replacement cost.

15 Debtors: Amounts falling due within one year

	Group		Company	
	1999 £000's	1998 £000's	**1999 £000's**	1998 £000's
Trade debtors	**2,973**	2,539	**–**	–
Amounts owed by Group undertakings	**–**	–	**12**	151
Taxation	**236**	442	**43**	312
Deferred taxation	**236**	–	**–**	–
Other debtors	**241**	2,715	**59**	14
Prepayments and accrued income	**1,148**	674	**813**	73
	4,834	6,370	**927**	550

An advance of £2,645,000 to Comeco Petroleum, Inc. was included in other debtors at 31 December 1998 (see Note 13).

16 Current asset investments

Current asset investments comprise short term deposits which mature in periods greater than 24 hours.

17 Creditors: Amounts falling due within one year

	Group		Company	
	1999 £000's	1998 £000's	**1999 £000's**	1998 £000's
Trade creditors	**1,739**	2,992	**–**	–
Amounts owed to Group undertakings	**–**	–	**249**	1,109
Taxation and social security	**200**	132	**17**	8
Deferred taxation	**230**	–	**–**	–
Other creditors	**371**	359	**16**	–
Accruals and deferred income	**3,137**	812	**230**	170
	5,677	4,295	**512**	1,287

18 Creditors: Amounts falling due after more than one year

	Group	
	1999 £000's	1998 £000's
Bank loan	**1,551**	–
	1,551	–

The bank loan comprises the Group's 50% share of a $5 million drawdown in December 1999 by Permtex, the entity through which the Company's wholly owned subsidiary SOCO Perm Russia, Inc ("SOCO Perm") holds its Russian interest, under a reserve based financing facility of up to $45 million (£28 million), approved in May 1999, with the European Bank for Reconstruction and Development. The amount is drawn under the first of three available tranches and is repayable within five years. The associated interest, which is calculated on a floating rate basis, is capitalised in accordance with the Group's accounting policy. The Group's pro rata portion of the facility is secured by its shares in SOCO Perm and by its portion of a cash collateral account ranging up to $1.75 million (£1.1 million).

19 Provisions for liabilities and charges

	Group	
	1999 £000's	(Restated) 1998 £000's
Decommissioning		
As at 1 January	**2,776**	2,563
Change in estimate	**(360)**	71
Unwinding of discount	**128**	142
Disposal of subsidiary undertaking	**(1,893)**	–
As at 31 December	**651**	2,776

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 4 and 25 years) in the removal and decommissioning of the facilities currently in place.

20 Minority interests

	1999 £000's	1998 £000's
As at 1 January	**157**	7,886
Acquisition of subsidiary undertakings	**–**	(1,585)
Issue of preference shares to minority interests	**12**	184
Cancellation of minority interest shares (see below)	**–**	(6,315)
Foreign exchange	**6**	(13)
As at 31 December	**175**	157

In August 1998, all of the share capital, including both common and preferred shares, of SOCO Tamtsag Mongolia, Inc. ("SOTAMO") held by NTI Resources Limited ("NTI") were cancelled and terminated in accordance with the provisions of the Stockholders' Agreement following a default by NTI in the payment and performance of its obligations under that agreement. NTI no longer has any material interest in SOTAMO and has effectively borne £6,315,000 of its exploration costs which were reflected in the Group accounts as a reduction in fixed assets.

21 Called-up equity share capital

	1999 £000's	1998 £000's
Authorised		
100,000,000 ordinary shares of £0.20 each (1998 – 70,000,000)	**20,000**	14,000
Allotted, called-up and fully-paid		
69,140,732 ordinary shares of £0.20 each (1998 – 51,823,674)	**13,828**	10,365

During the year the Company issued 17,277,058 ordinary shares of £0.20 each in connection with the acquisition of Torobex Limited, as described in Note 13. The Company also issued 40,000 (1998 – 7,500) ordinary shares of £0.20 each in part payment of non-executive Directors' fees as described in Note 7.

21 Called-up equity share capital (continued)

Options have been granted under the two share option schemes, SOCO 1997 Company Share Option Plan and SOCO-sub Unapproved Company 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 – 25.04.04	**4,441,397**	£0.750
29.05.97 – 25.04.04	**493,488**	£2.600
03.12.00 – 03.12.04	**317,099**	£3.850
15.09.01 – 15.09.05	**978,305**	£0.725
13.07.02 – 13.07.06	**1,842,100**	£0.590

Warrants to subscribe for the same number of shares of £0.20 each in the capital of the Company have been issued in connection with the acquisition of Torobex Limited, as described in Note 13, and are exercisable as follows:

Exercise period	**Number of warrants**	**Subscription price per warrant**
13.07.00 – 13.07.10	**1,399,441**	£0.550
13.07.00 – 13.07.10	**1,088,455**	£0.600
13.07.00 – 13.07.10	**621,974**	£0.650

22 Reserves

	Group			
	Share premium account £000's	**Other reserves £000's**	**Profit and loss account £000's**	**Total £000's**
As at 1 January 1999 as previously stated	**38,358**	**29,933**	**942**	**69,233**
Prior year adjustment (see Note 10)	**–**	**–**	**(323)**	**(323)**
As at 1 January 1999 as restated	**38,358**	**29,933**	**619**	**68,910**
Share issues	**9**	**5,028**	**–**	**5,037**
Gain on foreign currency translation	**–**	**–**	**1,951**	**1,951**
Retained profit for the year	**–**	**–**	**7,414**	**7,414**
As at 31 December 1999	**38,367**	**34,961**	**9,984**	**83,312**

	Company		
	Share premium account £000's	**Profit and loss account £000's**	**Total £000's**
As at 1 January 1999	**38,358**	**438**	**38,796**
Share issues	**9**	**–**	**9**
Retained profit for the year	**–**	**7,919**	**8,049**
As at 31 December 1999	**38,367**	**8,357**	**46,854**

The addition to the share premium account arose as a result of the issue of shares in part payment of non-executive Directors' fees. The addition to other reserves, in respect of merger relief, arose as a result of the acquisition of Torobex Limited, as described in Note 13, net of acquisition costs in the amount of £427,000.

Notes to the accounts continued

23 Reconciliation of movements in Group shareholders' funds

	1999 £000's	1998 £000's
Opening shareholders' funds as previously stated	**79,275**	79,183
Prior year adjustment	**–**	(181)
Opening shareholders' funds as restated	**79,275**	79,002
Profit (loss) for the financial year	**7,414**	(836)
Unrealised currency translation differences	**1,951**	(295)
	88,640	77,871
New shares issued	**8,500**	1,404
Closing shareholders' funds	**97,140**	79,275

24 Reconciliation of operating profit to operating cash flows

	1999 £000's	(Restated) 1998 £000's
Operating profit (loss)	**5,616**	(1,790)
Depreciation and depletion charges	**6,479**	5,845
Profit on sale of fixed assets	**–**	(6)
Movement in stocks	**(436)**	233
Movement in debtors	**(2,542)**	613
Movement in creditors	**58**	(807)
Net cash inflow from operating activities	**9,175**	4,088

Net cash inflow from operating activities comprises:

Continuing operating activities	**7,191**	1,315
Discontinued operating activities	**1,984**	2,773
	9,175	4,088

25 Disposal of interest in SOCO UK Onshore Ltd

In October 1999 the Company sold the entire share capital of its wholly owned subsidiary SOCO UK Onshore Ltd. ("UK Onshore"), through which it held its interests in various exploration and production licences in the Weald Basin in southern England. Star Energy Limited acquired the whole of the share capital for consideration of approximately £10.6 million, comprising £7.9 million in cash, assumption of approximately £2.2 million of intergroup receivables and additional consideration of approximately £0.5 million which is expected to be received in the first half of 2000 as a result of the disposal of certain property held by UK Onshore. The sale resulted in a net cash inflow in 1999 in the amount of £7.7 million, reflecting the £7.9 million cash consideration net of both transaction costs and cash held by the subsidiary at disposition, and in a profit of £1.8 million.

26 Analysis and reconciliation of net funds

	As at 31 December 1998 £000's	Cash flow £000's	Exchange Movement £000's	As at 31 December 1999 £000's
Cash at bank and in hand	**1,563**	**6,482**	**107**	**8,152**
Current asset investments	**7,769**	**13,028**	**(158)**	**20,639**
Bank loan due after more than one year	**–**	**(1,550)**	**(1)**	**(1,551)**
Net funds	**9,332**	**17,960**	**(52)**	**27,240**

Current asset investments are term deposits.

27 Related party transactions

Transactions with the Directors of the Company are disclosed in Note 7.

Three year summary

	Year to 31 Dec 1999 £000's	(Restated) Year to 31 Dec 1998 £000's	(Restated) Incorporation to 31 Dec 1997[1] £000's
Consolidated profit and loss account			
Turnover – continuing operations	**19,800**	10,648	4,421
Turnover – discontinued operations	**4,002**	4,871	4,053
Operating profit (loss) – continuing operations	**5,680**	(765)	484
Operating profit (loss) – discontinued operations	**(64)**	(1,025)	642
Profit (loss) on ordinary activities after taxation	**7,414**	(836)	2,556

	1999 £000's	(Restated) 1998 £000's	(Restated) 1997 £000's
Consolidated balance sheet			
Fixed assets	**70,419**	70,312	57,510
Net current assets	**29,098**	11,896	31,941
Long-term liabilities	**(1,551)**	–	–
Provisions for liabilities and charges	**(651)**	(2,776)	(2,563)
Minority interests	**(175)**	(157)	(7,886)
Net assets	**97,140**	79,275	79,002
Share capital	**13,828**	10,365	9,870
Share premium	**38,367**	38,358	37,449
Other reserves	**34,961**	29,933	29,933
Profit and loss account	**9,984**	619	1,750
Equity shareholders' funds	**97,140**	79,275	79,002

	Year to 31 Dec 1999 £000's	Year to 31 Dec 1998 £000's	Incorporation to 31 Dec 1997 £000's
Consolidated cashflow			
Net cash inflow from operations	**9,175**	4,088	3,062
Other information			
Earnings (loss) per share	**12.5p**	(1.7)p	5.5p
Diluted earnings (loss) per share	**12.4p**	(1.7)p	5.4p

[1] The Company was incorporated in January 1997, and the period ending 31 December 1997 reflects activity from 29 May 1997 when the Company commenced operations.

Reserve statistics unaudited, net entitlement basis (mmbbls)

Net proven oil reserves

	Total	UK[2]	Russia	Mongolia[3]	Thailand	Tunisia	Yemen[1]
Reserves as at 31 December 1998	**36.5**	**1.8**	**27.8**	**0.6**	**2.5**	**1.0**	**2.8**
Changes in the year							
Revision to previous estimates	**0.9**	**–**	**0.2**	**–**	**–**	**0.2**	**0.5**
Purchase of reserves	**0.5**	**–**	**–**	**–**	**–**	**–**	**0.5**
Sale of reserves	**(1.4)**	**(1.4)**	**–**	**–**	**–**	**–**	**–**
Production	**(2.4)**	**(0.4)**	**(0.9)**	**–**	**–**	**(0.4)**	**(0.7)**
Reserves as at 31 December 1999	**34.1**	**–**	**27.1**	**0.6**	**2.5**	**0.8**	**3.1**

Net proven and probable oil reserves

	Total	UK[2]	Russia	Mongolia[3]	Thailand	Tunisia	Yemen[1]
Reserves as at 31 December 1998	**91.6**	**2.8**	**54.3**	**17.7**	**9.2**	**2.4**	**5.2**
Changes in the year							
Revision to previous estimates	**0.4**	**–**	**0.7**	**–**	**–**	**0.1**	**(0.4)**
Purchase of reserves	**0.8**	**–**	**–**	**–**	**–**	**–**	**0.8**
Sale of reserves	**(3.3)**	**(2.4)**	**–**	**(0.9)**	**–**	**–**	**–**
Production	**(2.4)**	**(0.4)**	**(0.9)**	**–**	**–**	**(0.4)**	**(0.7)**
Reserves as at 31 December 1999	**87.1**	**–**	**54.1**	**16.8**	**9.2**	**2.1**	**4.9**

Net proven and probable oil reserves yearly comparison

	1999	1998	1997
Reserves as at 1 January	**91.6**	81.8	84.9
Changes in the year			
Revision to previous estimates	**0.4**	1.4	(1.8)
Purchase of reserves	**0.8**	10.8	–
Sale of reserves	**(3.3)**	–	–
Production	**(2.4)**	(2.4)	(1.3)
Reserves as at 31 December	**87.1**	91.6	81.8

Note: mmbbls denotes millions of barrels

[1] From 1 July 1999 the Group's interest in Yemen reserves increased from 14.285% to 16.785%.
[2] SOCO UK Onshore was sold with effect from 30 September 1999.
[3] Petrovietnam was assigned a 5% working interest in the Mongolia reserves on 15 November 1999.

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Financial calendar
Group results for the year to 31 December are announced in late March or early April. The Annual General Meeting of the Company is held in London in May or June. Half-year results to 30 June are announced in September or October.

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