



SOCOplc
INTERNATIONAL

Annual Report and Accounts 2004

REVIEW OF THE YEAR

Key landmarks in a
pivotal 12 months:

01.01.04



The start of a defining year of intensive preparation and foundation building for SOCO. Twelve months later, its drilling teams in Yemen have reported significant successes while the first well in its Vietnam drilling programme is set to spud.

We are an international oil and gas exploration and production company headquartered in London and listed on the London Stock Exchange. Although the Company has designated core areas in the Far East/Southeast Asia and Middle East/North Africa regions, it employs a strategy for building shareholder value through a portfolio of oil and gas assets by focusing on:

Recognising opportunity

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

Capturing potential

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

Realising value

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

05.03.04



SOCO completes the restructuring of its interest in the ODEX Exploration Limited joint venture. The transaction creates a stronger consortium comprising SOCO North Africa (34%), and subsidiaries of Oilinvest (Netherlands) B.V. (46%) and of Joint Stock Bank of the Gas Industry Gazprombank (20%).

13.04.04

Antony Maris joins SOCO as its Group Operations and Production Manager. He brings with him extensive industry experience reinforced by outstanding technical, operational and leadership skills.

FINANCIAL HIGHLIGHTS

£m	2004	2003	2002
Turnover	25.1	25.5	26.0
Net cash inflow from operating activities	14.4	16.6	18.9
Net cash and deposits	37.0	32.9	51.5
Net assets	134.4	127.1	135.2

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ADVANCING

SOCO ended 2004 in an extremely strong position. After 12 months of intensive foundation-laying, we are poised to deliver positive results in 2005. Much of our preparation has, by definition, taken place behind the scenes and not in the public spotlight. Nevertheless, we are confident that 2004 will be remembered as one of the most important – and pivotal – years in the development of the Company.

SOCO's interests in Vietnam and Yemen remain the Group's core assets; both providing material upside and the latter providing strong operating cash flow. During the third quarter of 2004, the Company's first Basement targeted deviated well in Yemen was spudded, signifying the start of the second major multi-well drilling campaign in the Company's history.

Our multi-well drilling programme in Vietnam commenced in January 2005. Before the drilling programme could begin in Vietnam, we needed to improve the processing of our existing seismic in order to enhance the subsurface image to better target wells on our Ca Ngu Vang discovery. New seismic was acquired in untested areas where geological studies indicated additional prospectivity. Accordingly, our primary focus was on seismic – both acquiring new data, and reprocessing and reinterpreting existing data.

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

While continuing to evolve strategic alliances with key partners in all our areas of interest, we took decisive steps to streamline our asset portfolio in others. This continuing process is vital to ensuring that we stay focused on our long term strategy for building shareholder value.

Financial and operating results

Even while significantly rebalancing our portfolio in favour of those assets promising the most upside, the Company produced solid operating results in 2004 reporting increased after tax profits of £7.1 million, excluding the gain of £8.4 million on the sale of the Tunisia assets, versus restated after tax profits of £5.7 million in 2003. With our production in Tunisia included in the Group's statistics through the completion of the sale in December, production net to the Company's working interest increased slightly, rising to 5,533 barrels of oil per day (BOPD) in 2004 from 5,409 BOPD the prior year.



“ We are confident that 2004 will be remembered as one of the most important – and pivotal – years in the development of the Company. ”

Ed Story

The Company finished the year in a stronger financial position than it began as cash and investments, which includes short term deposits, totalled £37.0 million compared to £32.9 million at year end 2003.

Significant events

In March 2004, we completed the restructuring of our interest in the ODEX Exploration Limited (ODEX) joint venture. First announced in our 2003 annual report, this transaction created a stronger consortium comprising SOCO North Africa (34%), and subsidiaries of Oilinvest (Netherlands) B.V. (46%) and of Joint Stock Bank of the Gas Industry Gazprombank (20%).

One of the consortium's early public technical challenges was to establish itself as a credible participant during Libya's first open bid round for exploration areas, which

22.06.04

SOCO's Board approves the Company's Code of Business Conduct and Ethics, underlining its commitment to the highest standards of corporate responsibility. The Code encapsulates SOCO's culture and objectives, addressing the three pillars of sustainable development: economic, environmental and social performance.

took place at the beginning of 2005. Although its bid did not result in an award of acreage, ODEX's demonstration of logistical and technical expertise during the bidding process created a strong platform for future success.

In December, we finalised the sale of our interests in the Zarat Permit in the Gulf of Gabès, offshore Tunisia, with an effective date of 1 July 2004. As a result, SOCO received a cash consideration of US\$25 million subject to applicable working capital adjustments. Details are described in the Financial Review.

LL Our capacity for innovation, coupled with strong regional ties, is the key to opening up new horizons and delivering results. rr

Patrick Maugein

Retrospective

Vietnam

Developments in Vietnam were encouraging as we prepared for the evaluation of earlier discoveries and for testing additional exploration targets. The extensive programme included the advanced reinterpretation of existing seismic data, the acquisition and interpretation of new 3D seismic data and the logistical preparation for a complex multi-well drilling campaign. Thanks to the efforts of the Joint Operating Company staffs, we were able to improve upon the schedule of the critical path, allowing us to spud the first well ahead of the original timetable.

The first well in this programme will appraise the Ca Ngu Vang (CNV) structure on Block 9-2 where the discovery well CNV-1X was drilled in 2002 and tested a maximum combined rate of approximately 4,500 barrels of crude oil equivalent per day. The high angle deviation well, CNV-3X, was spudded on 30 January 2005 and reached a measured depth of approximately 6,100 metres.

Yemen

Our experience with Basement reservoirs in Vietnam played an important part in driving progress in Yemen's East Shabwa Development Area (East Shabwa). In September 2004, we commenced a four well programme, three of which were deviated wells specifically targeting the Basement interval. These are the first deviated wells targeting Basement to be drilled at East Shabwa and obtaining partner consensus to proceed with the programme was one of the year's successes.

Three of the four wells drilled to date in this programme, which was designed primarily to test the limits of the Kharir Basement structure, have met or exceeded expectations, with the third well tested achieving flow rates greater than 6,500 BOPD and the final well testing greater than 5,500 BOPD. The first well drilled in the programme encountered low density fractures and is suspended awaiting a technical decision.

Prospective

Throughout 2005, we will be reporting results from the drill bit as we proceed with the Vietnam and Yemen drilling programmes. The CNV-3X well in Vietnam is commencing preliminary testing operations. In Yemen, we have proceeded with the rig already under contract on an extension of the drilling programme initiated in 2004, targeting both reserve additions and increased production from the Kharir field. The consortium anticipates contracting another rig later in the year to evaluate one or

more new Basement structures. We also anticipate completing a comprehensive upgrade of the East Shabwa surface facilities.

The streamlining of our asset portfolio will continue, redirecting our efforts toward projects that offer more immediate upside to the Company. In April 2005, the Company signed a sale and purchase agreement with a Chinese company which has agreed to purchase the entities owning the whole of SOCO's interests in the Tamtsag Basin in Mongolia. This transaction will add US\$30 million immediately to SOCO's cash balances if the deal is approved at an Extraordinary General Meeting of shareholders. Additional cash consideration of US\$10 million will be held in escrow and paid 18 months after closing assuming no material undisclosed liabilities have arisen against the companies sold. Consideration tied to production in excess of 27.8 million barrels produced subsequent to 1 January 2005 could add a further sum of approximately US\$53 million to the total amount received. Discussions are ongoing with possible farm-in/equity participants in Thailand.

Corporate

At the May 2004 Annual General Meeting, Mr Roger Brittain retired as an independent Non-Executive Director. Roger played an instrumental role in forming SOCO and his departure – formally announced in 2003 – followed seven years of dedicated service to the company.

Mr Martin Roberts was appointed to the Board as an independent Non-Executive Director in September 2004. During his 35-year career with the international law firm Slaughter and May, Martin was closely involved with the energy sector. He was appointed a partner in 1975 and retired from the practice in 2002. His skills and experience have proved an immediate asset to the SOCO Board.

Outlook

Our industry is undergoing a period of transformation as a growing number of national oil companies compete in the international arena, deploying formidable resources beyond their national borders. Results from recent bidding rounds, including those in Libya and Yemen, indicate that these companies are prepared to bid aggressively to establish a presence in new territories in order to protect supplies for their sovereign energy demands.

Competing head-on with such companies is not a viable option for SOCO. Instead, we believe that our future lies in reinforcing the strength and value of our strategic partnerships

with these entities and creating new relationships in the early development of other national oil companies' activities abroad. These groups control access to some of the world's most prolific and potentially productive hydrocarbon reserves.

Indeed, since our formation, we have worked hard to build relationships with national oil companies in those parts of the world where we plan to focus our portfolio. Since 1999, as SOCO's Chairman and Chief Executive, we have together focused on capitalising on these links, which were greatly expanded by the alliance forged that year between the Company and its new strategic shareholder group. During 2004 we have reinforced this alliance through revised terms of cooperation, as set out in the Financial Review, that are intended to enable the parties to intensify their efforts to deliver projects in a structure that we believe will provide the most viable alternative for creating maximum value to shareholders. As our momentum in these endeavours increases, we expect the alliance to become an increasingly important building block in realising our strategy.

SOCO strives to bring a fresh perspective to industry challenges and to apply standard tools in different ways. This capacity for innovation, coupled with strong regional ties, is the key to opening up new horizons and delivering results.

During the next chapter in SOCO's development, drill bits will write the headlines. This time next year, we are optimistic that they will tell a story of demonstrable results based on the solid foundations that have been laid. We will continue to build on these foundations by playing to our strengths while streamlining our portfolio and further focusing our resources.

As we negotiate the challenges ahead, our strategic partnerships will become increasingly important. These alliances have always been fundamental to SOCO's growth. Looking ahead, they will be one of the key drivers in delivering our strategic goals – recognising opportunity, capturing potential and realising value.



Patrick Maugein
Chairman



Ed Story
President and
Chief Executive

DELIVERING



Cuu Long Basin, offshore Vietnam

SOCO AROUND THE WORLD





30.06.04

Sound half-year figures demonstrate that SOCO's long term strategy is delivering results. With extensive 2D and 3D seismic studies well underway, teams in Vietnam build their equipment inventories as preparations for the forthcoming drilling programme gather momentum.

09.07.04



Well 19-20 spuds in Mongolia, eventually reaching a total depth of 2,410 metres. Ultimately completed as a Tsagaantsav producer, this well encounters more than 68 metres of oil shows in a gross interval of 225 metres in the Lower Cretaceous age Tsagaantsav sands.

During 2004, solid foundations were laid for the future growth of the Company in preparation for the most important exploration drilling programme in SOCO's history. This programme began with positive results in Yemen which immediately impacted production during 2004.

Overall, crude oil production net to the Group's working interest for 2004 was up slightly to 5,533 barrels of oil per day (BOPD) compared to 5,409 BOPD in 2003. This increase reflected a good rebound from the first half of 2004 as positive production results came in from the Basement drilling programme in Yemen and a second producing well was put on line in Tunisia. Despite drilling delays due to lack of rig availability in the first half of 2004, net daily production from the East Shabwa Development

Area (East Shabwa) in Yemen contributed 3,958 BOPD to the total, compared to 3,896 BOPD in 2003. In Mongolia, production was 338 BOPD, compared to 412 BOPD in 2003, as the remoteness of operations there made sourcing spare parts for production equipment failures difficult, thus causing interruptions. The discontinued operations in Tunisia, where production statistics were included through the completion date in December 2004, contributed the remainder of total production.



Cuu Long Basin, offshore Vietnam

LL In Vietnam, the year started with the focus firmly on seismic. The results of this work formed the basis of an extensive exploratory and appraisal drilling programme. **rr**



VIETNAM

SOCO holds its interests in Vietnam through an 80% holding in its subsidiary SOCO Vietnam Ltd (SOCO Vietnam). SOCO Vietnam holds a 25% working interest in Block 9-2 and a 28.5% working interest in Block 16-1 in the Cuu Long Basin, offshore Vietnam. Principal partners in Vietnam are subsidiaries of PTT Exploration and Production Public Company Ltd of Thailand (PTTEP Thailand) and Petrovietnam, Vietnam's state oil company. Together, the partners operate through Joint Operating Companies (JOCs).

Both Blocks are contiguous to the Bach Ho field, where 2004 production reportedly averaged approximately 220,000 BOPD and 220 million cubic feet of gas per day (MMCFD), and the Rang Dong field, where production reportedly averaged approximately 45,000 BOPD, mainly from the Basement.

Review of 2004 activities

In Vietnam, the year started with the focus firmly on seismic – both acquiring new data and reprocessing and reinterpreting existing data. The results of this work formed the basis of an extensive exploratory and appraisal drilling programme, which is scheduled to continue throughout much of 2005.

In total, the JOCs acquired approximately 650 square kilometres of new 3D seismic over several leads and prospects in Block 9-2 and Block 16-1. Encouragingly, these leads and prospects appear similar to recent significant discoveries in nearby blocks within the Cuu Long Basin.

During the year, existing data over and around the Ca Ngu Vang (CNV) structure was reprocessed using advanced pre-stack depth migration (PSDM) technology. This technology produces higher quality data by using segmented velocity information to enhance seismic images of sub-surface features. To date, PSDM has been successfully used by other operators elsewhere in Vietnam. The reprocessing resulted in a clearer subsurface image allowing a more accurate interpretation and well targeting. Based on the data interpretation of the new and reprocessed data, detailed well planning and procurement were undertaken to ensure a cost-effective three-firm plus three-option well drilling programme.

Subsequent events and 2005 outlook

The appraisal well on the CNV structure that spudded on 30 January 2005 reached target depth on 16 April 2005. Reaching a measured depth (MD) of 6,123 metres, the CNV-3X well has the distinction of being the longest MD

well ever drilled in Vietnam. The well reached a total vertical depth of 4,426 metres penetrating approximately 2,000 metres of granitic Basement at an average angle of 82 degrees from vertical intersecting various fault and fracture domains in the central and western parts of the structure to the west of CNV-1X, the discovery well drilled in 2002.

CNV-1X tested to a maximum combined rate of approximately 4,500 barrels of crude oil equivalent daily. This comprised approximately 3,100 BOPD and approximately 7.9 MMCFD from the Basement interval.

At the date of this report, the well is commencing preliminary testing operations. A full evaluation of the CNV-3X well will be performed and, should the well confirm the potential of the structure, the results will be incorporated into an application to the Vietnamese authorities for approval of an accelerated development schedule.

Upon completion of the CNV-3X programme, the rig will be moved to Block 16-1 to spud an exploratory well to test the Te Giac Trang (TGT) structure in the eastern part of the Block. The TGT structure is one of a series of Oligocene prospects delineated by the 3D seismic acquired over the Block in 2004. This is the same geological sequence in a similar setting in which a major discovery was recently reported in another part of the Cuu Long Basin.



Gordon Graham,
Group Exploration
Manager



Cuu Long Basin, offshore Vietnam

YEMEN

SOCO continues to derive most of its production from its interests in Yemen. During 2004, production increased compared to the previous year due to the continued appraisal and development of the Basement interval in concert with a proactive workover campaign designed to reduce individual well water cuts from the producing Cretaceous reservoir. By the end of 2004, the field was producing at around 29,000 BOPD compared to 23,000 BOPD at the end of 2003.



17.08.04

KHA-401, the first in Yemen's four well drilling programme, spuds and reaches a depth of 3,873 metres. The well's principal objective is to test the development of potential productive fractures more than 600 metres below the top of the Basement.

Production from East Shabwa is transported by pipeline and commingled with production from the neighbouring Masila block before transportation by pipeline to the coastal Ash Shihr export terminal. SOCO's crude entitlement is sold under a 12-month spot market contract.

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

Review of 2004 activities

The Group's technical experience working with granitic Basement in Vietnam, helped in the 2003 discovery of the Kharir Basement pool and the subsequent acceleration of the appraisal and development of this horizon in Yemen. Despite delays caused by the lack of rig availability, the consortium launched an extended drilling campaign in the second half of 2004. This campaign included the consortium's first ever deviated wells specifically targeting the Basement interval.

To date, most production has come from the Cretaceous clastic Biyad reservoir in the Kharir field. This interval is characterised by the high water cuts that are typical of other regional wells producing from this reservoir. To mitigate the issues associated with dealing with the disposal of high volumes of produced water, the consortium launched a major workover campaign designed to reduce water cuts from individual wells and improve well performance. The success of this campaign was demonstrated by the fact that the consortium was able to maintain the average oil production rate from the Cretaceous during 2004 at 2003 levels.

During the year, work was completed on production facilities to reduce bottlenecks and increase oil handling capacity. In addition, facilities and techniques specifically designed to handle a large volume of associated gas from the Basement have been evaluated. Extra facilities will be installed and some additional techniques will be employed over the next two or three years in order to enable the consortium to increase its capability to produce from Basement. This, together with adding water injection capability to improve pressure maintenance in the Basement reservoir, should add considerable productive capability from the interval.





East Shabwa Development Area, Yemen

Block 10 is also one of the Group's most exciting exploration areas. Reprocessing of all the existing 2D seismic data acquired over the Block was completed during 2004. Interpretation of this new data was used to identify several high potential exploration targets. The most prospective will be drilled as part of the 2005 drilling programme.

During the year, the partnership drilled two new production wells on the Cretaceous Atuf field. The first of these, ANW006B, was originally drilled as an injector well. It reached a depth of 1,829 metres, where it encountered unexpected reserves in the Upper Biyad formation. Consequently, ANW006B was completed as a producer rather than an injector well and produces approximately 1,500 BOPD.

The second well, ANW007, also encountered the target interval higher than expected. It was completed as a producer and tied into the field's production system mid-year. In line with test expectations, ANW007 crude production is currently averaging approximately 1,800 BOPD.

As a result of these successes, work began on a re-evaluation of the Atuf field to identify additional producing locations. We are optimistic that this re-evaluation will deliver substantial benefits during 2005 and beyond.

In August, work began on drilling deviated wells specifically targeting the Basement interval of the Kharir structure. The first of these, KHA-401, reached a depth of 3,873 metres. The principal objective of the well was to test the development of potential productive fractures at depth, in this case over 600 metres below the top of the Basement and well below the Basement interval penetrated by previous wells.

Initial interpretations of test results on KHA-401 indicate that it encountered reservoir, but that the fracture development appears inadequate to support economic production at this depth and location. Currently the well is suspended while options for side tracking it to a shallower interval are explored.

KHA-402 was spudded in October and reached a total depth of 3,441 metres. The well was drilled to test the potential of the eastern end of the Kharir field on the flank of the structure. The well was initially tested in December, achieving a rate of 550 BOPD before being shut-in for a long-term build-up test. The well was re-opened on 26 January 2005 and produced at more than 700 BOPD.

KHA-403, the third well in the initial programme, spudded on 6 December and reached a total depth of 3,383 metres. The well was drilled to delineate the Basement to the west and to evaluate reservoir development in the undrilled western extension of the structure. Tested in February 2005, KHA-403 produced at more than 6,500 BOPD and is now connected to Kharir's main production facilities.

Subsequent events and 2005 outlook

The fourth Basement well in the drilling programme initiated in 2004, KHA-404, was spudded on 1 February 2005 and reached a total depth of 3,539 metres. The well was drilled into the northern extension of the Basement with the objectives of appraising this area and providing information for a pilot water injection programme. The well tested at a rate greater than 5,500 BOPD in early April. KHA-405 spudded on 28 March 2005 as a continuation of the Kharir Basement evaluation programme.

This year there will be the continuation of a very active drilling programme on Block 10. Towards the end of this period, it is possible that two exploration wells will be drilled on recently identified Basement prospects. Initially, the exploitation programme will continue with plans to drill six wells. A second drilling phase of seven wells is contingent upon the success of phase one. In parallel, the need for gas handling, water re-injection equipment and facility debottlenecking will mean further upgrades to the surface production facilities.



George Hepler,
Group Technical/
Engineering Manager



Seismic drilling, Mongolia

MONGOLIA



Seismic crew, Tamtsag Basin, Mongolia

Mongolia's Tamtsag Basin is a rank frontier exploration area in which the Group, primarily through its wholly owned subsidiary SOCO Tamtsag Mongolia (SOTAMO), holds an approximate 95% working interest in production sharing contracts (PSCs) over Contract Areas 19, 21 and 22.

Huabei Oilfield Services, the Chinese company providing drilling services to SOTAMO, did not meet the specific conditions required in order for it to take a pro rata working interest of 10% in the PSCs. A 5% working interest, carried by the Group through the exploration phase, is held by Petrovietnam, the Vietnamese national oil company.

To date the Group has drilled only 31 wells (including one on Contract Area 20, before its relinquishment) in an area of approximately 26,000 square kilometres. All Mongolian crude oil production is trucked to the Aershan Oilfield in China, from where it is transported by pipe and rail to a refining complex in Hohhot and sold at the prevailing market rate.



20.08.04

Well 19-21, the second in Mongolia's four well programme, reaches a total depth of 2,625 metres. An appraisal of the 19-19 structure, this well tests the Upper Cretaceous age Zuunbayan and Tsagaantsav intervals and is completed with an initial production of 120 BOPD. It is followed on 26 August by a third well, 19-22.



During 2004, the Group drilled four exploration wells. Three were designed to appraise the Tolson Uul North field discovered in 2003, whilst the fourth was a wildcat exploration well on a structure to the north of Tolson Uul North.

Review of 2004 activities

After securing exploration licence extensions from the government of Mongolia in January 2004, the Group completed a 102 square kilometre 3D seismic programme over the Tolson Uul North area to better define the structure and select well locations. During the period from July to October, SOTAMO completed the four well drilling programme to appraise the Tolson Uul North discovery and explore a similar structure to the north. All four wells encountered hydrocarbons and two were completed as part of the pilot production programme.

The first well, 19-20, was drilled to a total depth (TD) of 2,410 metres, encountering good oil shows in the Tsagaantsav formation. Initial production steadied at approximately 70 BOPD. Well 19-21 encountered good oil shows in the Zuunbayan and the Tsagaantsav formations

while drilling to a TD of 2,625 metres. This well was completed in the Zuunbayan formation with an initial production rate of approximately 120 BOPD.

Well 19-22 was drilled to a TD of 2,600 metres. Although it encountered good oil shows in the Tsagaantsav formation, a sudden and total loss of circulation occurred in a fracture zone during drilling. The well was successfully cased and will be further evaluated during 2005.

The final well of the 2004 programme, the 19-23, was drilled on a previously untested structure to a TD of 2,253 metres. It encountered good oil shows in the Zuunbayan formation, extending the basin's productive area approximately nine kilometres to the north. The well has since been suspended for further evaluation.

Subsequent events and 2005 outlook

In April 2005, the Company entered into an agreement to sell the whole of its Mongolia interest to Daqing Oilfield Limited Company. Details are described in the Financial Review.



Antony Maris,
Group Operations and
Production Manager



Marine vessel, offshore Vietnam

LIBYA

In March 2004, the Group restructured its interest in the ODEX Exploration Limited (ODEX) joint venture. This move created a consortium in ODEX comprising SOCO North Africa Ltd. (34%), and subsidiaries of Oilinvest (Netherlands) B.V. (46%) and Joint Stock Bank of the Gas Industry Gazprombank (20%).

Review of 2004 activities

The ODEX consortium proved its usefulness as a vehicle through which to compete for significant opportunities during Libya's first open bid round at the start of 2005. Although the consortium did not win any of its bids in this auction process, it is clear that it now has the scope to compete seriously with major companies on larger opportunities and the logistical and technical expertise to capitalise on any coming opportunities.

Subsequent events and 2005 outlook

ODEX will continue to be the vehicle through which we explore various opportunities that may arise in Libya and certain parts of Africa. The consortium is well placed to take advantage of its strong regional relationships that could provide competitive advantages to some emerging hydrocarbon potential.

THAILAND

Through its wholly owned Thailand subsidiary, SOCO holds a 100% interest in Block B8/38 located offshore in the Gulf of Thailand. This Block contains a small, undeveloped crude oil field, Pornsiri. Due to the marginal economics of the field under previously prevailing price scenarios, little activity has taken place on the concession subsequent to the last drilling programme conducted there.

By the end of 2004, market economics had shifted dramatically in favour of re-evaluating this asset. Accordingly, we began work on an application to the Thailand authorities to renew the concession on Block B8/38 beyond its scheduled 2005 relinquishment date. The nature and scope of activity on the Block is very much conditional upon the Group's ability to attract additional participation on the concession. Currently, the Company is in advanced discussion with multiple parties regarding the evaluation of the Pornsiri field.

TUNISIA

On 18 November, SOCO announced that it had entered into a sale and purchase agreement for the sale of its interests in the Zarat Permit in the Gulf of Gabès, offshore Tunisia. On 3 December, the sale was completed. Further details of this transaction are included in the Financial Review.

02.09.04 Ed Story, SOCO's President and Chief Executive, unveils a strong set of interim results, announcing that the Company has just commenced an active drilling period, the importance of which is without precedent in the Company's history.



07.09.04 Mr Martin Roberts, who had previously spent 35 years with international law firm Slaughter and May, is appointed to the Board as an independent Non-Executive Director.

“SOCO believes that integrating corporate responsibility and sustainable development good practice into its management culture will lower the Company’s risk profile and promote new opportunities.”

Drill Floor,
Cuu Long Basin,
offshore Vietnam

PARTNERING

17.10.04

KHA-402 spuds in Yemen, reaching a total depth of 3,441 metres. The second well in 2004's three well appraisal and development programme, KHA-402 was initially tested between 15 and 18 December. By March 2005, production had stabilised at around 800 BOPD.

29.10.04

As winter brings operations in Mongolia to a close for another year, SOCO announces the successful completion of its four well drilling programme. All four wells encountered hydrocarbons. This success resulted in the designation of a new field, Tolson Uul North.



Vietnamese youngsters at a school supported by SOCO

SOCO's unswerving commitment to high standards of corporate responsibility (CR) is one of its core business priorities. It supports the principle set out in the UK Company Law White Paper (2002) stating that whilst a Board has a primary responsibility to its shareholders, it should also take full account of other stakeholders' interests.

SOCO believes that integrating CR and sustainable development good practice into its management culture will lower the Company's risk profile and promote new opportunities. This report focuses on our CR management and explains how this supports SOCO's overall business performance.

SOCO does not have an expansive set of policy documents and procedures – a reflection of the scale and nature of the Company's activities. SOCO is small compared to most other fully listed oil and gas companies and it has a commensurately small organisation. The Company only participates directly in the operation of exploration and appraisal activities. At present, these are either offshore (Vietnam) or remote (Mongolia). In both cases, environmental and social impacts are minor.

Nevertheless, environmental impact assessments are carried out and independent performance monitoring is standard practice. Where SOCO operates or participates as



a major interest holder or co-venturer in a project, we can directly influence operations and decision-making. However, where SOCO holds a minority interest, as an investor or participant in a project, our influence is less direct.

In both cases, however, our expectations for CR are clearly established, communicated and monitored. The Company has had a health, safety and environment (HSE) policy conforming to best practice since the first year of its existence, and has tailored HSE management systems for its Mongolia and Vietnam operations. The Company also deploys external advisers to ensure that good practice is achieved.

Recent activity

In June 2004, SOCO's Board approved the Company's new Code of Business Conduct and Ethics. This policy document was drawn up in response to rising expectations in the wider community, including many institutional shareholders, regarding social, environmental and ethical management.

The code documents and encapsulates the Company's culture and objectives, addressing the three pillars of sustainable development: economic, environmental and social performance. It is designed to be a dynamic policy that will evolve as the Company expands its activities.

Going forward, SOCO will communicate its CR activities in an even more accessible and transparent way by using its annual report and corporate website to complementary effect.

The annual report will be used to outline our broad approach to CR and explain how we manage it in practice. It will, for example, highlight:

- Specific examples of CR management drawn from the Company's operations
- An assessment of where and how risks and potential opportunities affect business performance
- Actions taken to manage issues identified by the risk/reward assessment.

Meanwhile, the website will address in much more detail those issues that are of concern to CR analysts and relevant to the Company's activities. This will make a fair assessment of SOCO's CR profile possible without resorting to detailed questionnaires.

Where relevant, CR information on the website might include, but would not be limited to, the following:

- A summary of SOCO's HSE policy and management systems
- Identification of project-specific CR issues and measures taken
- Details of any impact and risk assessments (where informative)
- HSE performance statistics and audits
- Incident reporting and measures taken
- Emissions information, including greenhouse gases and relevant policies
- Biodiversity policy (as relevant)
- Case studies (where informative)

04.11.04



During the year, SOCO supports two important educational projects in Vietnam. The first is a new kindergarten at Bong Hong, Binh Chanh province. The second is the building of Tien Loi Primary School, Binh Thuan province, which held its ground-breaking ceremony on 4 November.

2005 and construction is scheduled for completion by August 2005, in time for the new school term. The second project was the building of Tien Loi Primary School in Phan Thiet city, Binh Thuan province, completed in November 2004. Essentially, this initiative involved rebuilding on an existing site to create a new school that will eventually serve around 550 students. Last year also saw the opening of a filter water station in the Tam Binh district of Vinh Long province. This vital community asset, which we agreed to support in 2003, benefits around 1,000 families. As this report goes to press, we currently plan to channel a significant proportion of our 2005 community support funds towards the construction of a rehabilitation centre for Agent Orange victims in Vinh Phuc province.

- Policies and practice relating to employment issues
- Human rights and ethical issues
- Stakeholder and partnership performance
- Social investment initiatives.

The website will also host the Company's recently approved Code of Business Conduct and Ethics.

SOCO's approach to CR begins with the recruitment of key managers and operations personnel. It is a priority consideration that every relevant employee has a genuine belief in the importance of CR management and a good understanding of best practice. This fosters informed decision-making and an instinctive understanding of the relevant business implications associated with each operation.

There is no restriction on the use of external advisers to ensure that corporate objectives are met. This approach, of utilising external rather than dedicated internal resources, can be highly effective in a company of SOCO's size because corporate objectives are not compromised by management numbers and layers.

Another core element of SOCO's business culture, which is a source of potential benefit, is the practice of maximising local employment and contract outsourcing. This approach has significantly benefited operations and has been a major factor in SOCO gaining access to opportunities. Our CR activities, several of which we illustrate below, play a major part in cementing these local relationships.

During 2004, we supported two notable projects in Vietnam. The first is in Binh Chanh province, where we donated funds towards the construction of a new kindergarten at Bong Hong. The ground-breaking ceremony was held in March

In Mongolia, we supplied diesel fuel through the offices of local governors in Matad Soum and Sumber Soum districts; provided a motorbike to help the local police force cover the area more effectively; donated computer supplies and equipment to schoolchildren in Matad, and continued to support local cultural events.

Our operations in Mongolia have always been underpinned by a strong commitment to building skills



A house rebuilt under a flood relief scheme supported by SOCO



Mongolian medical staff with a mother and child taken to hospital by a SOCO-supplied ambulance

06.12.04

SOCO announces the completion of the sale of its Tunisia assets in the Zarat Permit in the Gulf of Gabès, yielding US\$25 million to grow the Group's core portfolio.

06.12.04

KHA-403, the third in Yemen's four well programme, spuds and eventually reaches a total depth of 3,383 metres. The well was drilled to delineate the Basement, evaluating reservoir development in its undrilled western extension. By February 2005, KHA-403 is producing over 6,500 BOPD.

31.12.04

SOCO ends a defining year in a position of strength and confidence. Net profits for 2004 rise to £15.5 million versus £5.7 million in 2003 (as restated). Total production volume rises to 5,533 BOPD from 5,409 BOPD in 2003.

among local communities. Generally led by an expatriate supervisor, virtually all the people who work for us throughout the year in the country are Mongolian nationals. Their association with SOCO gives them access to training of the highest international standard, whether they are employees or contractors.

Building people's skills in this way generates positive economic benefits, both locally and nationally. For example, it has placed our local seismic contractor in a position to undertake international assignments. On a national level, we have assisted the national government with its international licence roadshows. Meanwhile, using a Chinese drilling contractor has helped to spread the economic advantages across the region.

The benefits of our commitment to local communities in Mongolia work both ways. As well as reducing SOCO's costs and risk exposure, it attracts ongoing support from the Mongolian authorities.

This approach has significantly benefited operations and has been a major factor in SOCO winning access to opportunities (for example, as in Vietnam) on the strength of the relationships it has forged. A highly localised approach does, however, introduce additional risks.

An ever-present risk is that contractors may not, in practice, share an operating company's commitment to high CR standards. This can be critical where contractors have a large degree of control over day-to-day activities, and act as the main interface with members of government and local communities. This applies particularly to locally based contractors and subcontractors whose histories and cultures may have demanded different social and environmental standards.

SOCO manages this area of risk carefully, both in its selection of contractors and the subsequent monitoring of their performance. This will become more of an issue for any development activities, where social and environmental impact would normally be much greater than that arising from SOCO's current exploration focus.

SOCO is committed to applying widely accepted good practice in CR management. The detailed guidance set out

by the World Bank Group and incorporated into the Equator Principles agreed by many international lending banks is the basic benchmark SOCO has adopted. As well as representing good international practice, this approach has two key advantages:

- SOCO is involved in developing countries and, in conjunction with joint venture partners, would expect to raise loan finance from international aid donor agencies and Equator Principles banks.
- It should be more straightforward for SOCO to agree, with governments and other critical stakeholders, a set of standards with wide international recognition rather than standards with a proprietary component.

SOCO is committed to transparency in its activities and would expect to set up project-dedicated websites for any major operated activities. These would be designed to manage communication with stakeholders, particularly local communities, and to highlight employment and contractor opportunities arising from direct operations as well as any indirect socio-economic activities.

While World Bank guidelines will be the operating benchmark, SOCO would expect to provide information to the wider public, either in public reports or on the Company website, in line with the guidance provided by the Global Reporting Initiative.

The Chief Executive is responsible to the Board for HSE and other CR performance. He delegates day-to-day responsibility for managing such issues to the Group Operations and Production Manager, who is invited to all Board Meetings. These issues are reported to all Board Members in a monthly operations report and there is a Board agenda item which addresses all significant HSE and CR issues.

The Audit Committee is responsible for reviewing all areas of corporate risk assessment on an annual basis and HSE/CR is identified as a specific issue for assessment. The Senior Independent Director, who has experience in the relevant area, reviews HSE/CR performance in detail with senior managers annually and is kept routinely informed of any material performance issues as they arise.

Roger Cagle,
Deputy Chief Executive
and Chief Financial Officer



REVIEW OF 2004 RESULTS

Financial and operating

Net profit for the year increased to £15.5 million, compared to £5.7 million in 2003 (as restated). Excluding the £8.4 million profit on the sale of SOCO's interests in Tunisia, net profit for 2004 was £7.1 million based on a slightly lower turnover of £25.1 million, compared to £25.5 million in 2003.

The lower turnover was despite higher total production volumes of 5,533 barrels of oil per day (BOPD) in 2004, compared to 5,409 BOPD in 2003 and a higher average price received per barrel of crude oil sold by the Group of US\$37.12, against US\$27.40 in 2003. The decline in turnover arose primarily from lower liftings in Yemen associated with the rebalancing of prior period overlifts as reported in last year's report and accounts. Additionally the continuing strengthening of the GB pound against the US dollar reduced turnover when translated into the reporting currency.

Operating expenses, excluding depletion and decommissioning provisions (DD&A), were reduced to £6.8 million from £9.6 million in 2003, primarily for two reasons. First, planned downtime involving the Group's interest in Tunisia at the beginning of the year as the floating production storage and off-loading vessel was being recertified and the subsequent disposal of the entire Tunisia asset in December 2004 meant that operating costs associated with Tunisia were reduced. Second, during 2004 the rebalancing of the Group's 2003 overlift position in Yemen resulted in a reduction of operating expenses. On a per barrel basis, however, operating expenses (excluding lifting imbalances) remained steady at US\$6.70, compared to US\$6.76 in 2003.

Despite higher production, DD&A dropped from £4.2 million in 2003 to £3.4 million in 2004 due to reserve additions resulting from the successful drilling programme in Yemen as well as the disposal of the Tunisia asset. On a per barrel basis, DD&A fell from approximately US\$3.55 in 2003 to approximately US\$3.20 in 2004.

The year end cash balance including short term deposits stood at £37.0 million (US\$71.1 million), compared to £32.9 million (US\$58.9 million) in 2003, the position having been strengthened by the higher oil price and the sale of the Tunisia asset. Significantly, this means that the Group continues to retain its strong balance sheet and has sufficient headroom to comfortably finance its 2005 drilling programme. However because of the continuing need to finance current and future exploration and appraisal projects the Board of Directors are not recommending the payment of a dividend.

Cash inflow from operating activities fell from £16.6 million in 2003 to £14.4 million in 2004, primarily due to the rebalancing of the Yemen prior period overlift mitigated somewhat by higher oil prices. Total capital expenditure during the year fell to £16.1 million, from £27.8 million in 2003. Although there was a seismic programme in Vietnam during the early part of 2004 and the acquisition of equipment and supplies for the 2005 drilling programme began late in the year, there was no active drilling campaign as there was in the previous year. Similarly, a seismic programme was conducted in Tunisia during 2004; however, the majority of the costs associated with drilling the Didon 4 well, which was put into production in 2004, were incurred during 2003.

The SOCO Employee Benefit Trust (the Trust) was established in 2001 to administer a Long Term Incentive Plan. Although the Trust did not acquire any shares during the year, it transferred 51,700 shares out of the Trust upon the exercise of certain share based awards. The Trust now holds 2,273,300 Shares, representing 3.15% of the issued share capital. Following a change in accounting policy explained in the Statement of Accounting Policies and in Note 10 to the Accounts, the Shares held by the Trust are now recorded as a deduction from shareholders' funds, rather than as a fixed asset investment as in previous years.

The number of Treasury shares held by the Company remained unchanged at 150,000.

Significant events

SOCO finalised the sale of an interest in the ODEX Exploration Limited (ODEX) joint venture to a subsidiary of the Russian entity, Joint Stock Bank of the Gas Industry Gazprombank (Gazprombank). Under the terms of this transaction, the Company's subsidiary, SOCO North Africa Ltd. (SOCO North Africa), and a subsidiary of Oilinvest (Netherlands) B.V. (Oilinvest) sold the entire issued share capital of OILSOC Investment Company Limited (OILSOC), whose only asset was a 20% holding in ODEX.

As a result, Oilinvest (46%), SOCO North Africa (34%) and Gazprombank (20%) are the sole shareholders in this specific purpose upstream joint venture. Its purpose is to identify, produce, develop and market hydrocarbon opportunities in Libya and other countries. SOCO North Africa received US\$2.5 million for its 45% net interest in OILSOC.

In December, the Group completed the sale of its interests in the Zarat Permit in the Gulf of Gabès, offshore Tunisia. The interests were acquired by PA Resources AB, a publicly listed Swedish company, with an effective date of 1 July 2004. Under the terms of the Sale and Purchase Agreement consideration of US\$25.0 million (£12.9 million) was payable. After working capital adjustments and post economic date cash flow adjustments, SOCO received cash consideration of £10.7 million. The sale resulted in a profit of £8.4 million and a net cash inflow in 2004 of £9.2 million, reflecting the £10.7 million cash consideration net of transaction costs and the Group's share of cash held by SOCO Tunisia. During the financial period up to the date of the sale, the Tunisia interest contributed £5.1 million to the Group operating profit (£3.0 million in 2003). Immediately prior to the sale, the Group's share of net assets held by the Tunisia interest was £6.3 million, including £4.2 million related to post economic date cash flow adjustments.

During the year, we reassessed the nature of a fundamental building block in our business model. Recognising that progress had been made in evolving relationships with various national oil companies and dominant national interests, whilst acknowledging that extensive efforts to date had not yet reached the stage of successfully introducing a specific project into the Group, we reaffirmed that the potential opportunities to capitalise on the long established industry and governmental relationships held by the strategic shareholder group (Investor Group) that invested in the Company in 1999 remains integral to the Company's strategy. Accordingly, the parties redefined their relationship and committed to intensify the efforts of both the Company and the Investor Group to deliver projects in a structure that the Directors believe is more suited to building shareholder value.

The Investor Group, which includes Mr Patrick Maugein and Mr Rui de Sousa, has been active in various financing, oil trading and refining arrangements with oil producing countries. Under the original relationship agreement it was contemplated that the Investor Group would utilise its strong relationships throughout the Middle East and north and west Africa to negotiate and secure commercial rights in oil and gas exploration, development, production and exploitation projects for its own account. SOCO would be offered a minority participation in any such projects generated by the Investor Group not to exceed the percentage of SOCO's share capital held by the Investor Group, which was at the time 25%.

In the ensuing period the process for project generation has evolved into a unified effort. Whilst the Investor Group takes the lead in utilising its relationships to create opportunities, it no longer proceeds in this regard for its own account. Projects are jointly pursued on behalf of the parties, and the Company takes the lead role in analysing potential project availability within the Investor Group's relationship base. The Company provides direction as to the location, size and scope of projects to be pursued and is active in setting out the acceptable terms and form of participation.

In order to capture the most value for shareholders and to provide additional flexibility in risk management and financing, the Directors consider it important for the Group to capture the majority portion of any available interest in a project meeting its criteria for investment. Under the new alliance agreed between the parties, SOCO will retain the majority of the participation interest available in any projects generated. The form of participation is envisaged to be through equity shareholdings in specific purpose entities (SPEs) created to hold such projects. The shareholding terms have been modelled after the SOCO Vietnam arrangement which was

negotiated with third parties. In this arrangement, the Group would provide intercompany funding to the majority owned subsidiary throughout exploration and development. Such funding would be repaid in full and with interest before the SPEs would be allowed to dividend any proceeds from the production and sale of hydrocarbons.

Additionally, as the projects are not being pursued for the Investor Group's own account, the Company will contribute to the cost of these efforts. Accordingly, the parties have entered into an agreement under which SOCO will pay a consulting fee of US\$50,000 per month to partially offset the associated costs incurred by the Investor Group. The terms of this agreement are set out in more detail in Note 7 to the accounts.

The two members of the Investor Group who are on SOCO's Board of Directors did not participate in voting on this matter.

Subsequent events and 2005 outlook

In April 2005 the Group entered into a Sale and Purchase Agreement (Agreement) with an effective date of 1 January 2005, to dispose of its Mongolia interests through the sale of its entire shareholding in the wholly owned subsidiaries, SOCO Mongolia Ltd (SOCO Mongolia) and SOCO Tamtsag Mongolia LLC (SOTAMO) to Daqing Oilfield Limited Company (Daqing or the Buyer), a subsidiary of PetroChina. These subsidiaries hold interests in three Production Sharing Contracts (PSCs) over Contract Areas XIX, XXI and XXII in the Tamtsag Basin of Mongolia (the Contract Areas). Completion is expected to take place following satisfaction of certain conditions contained in the Agreement, including the approval of the disposal by SOCO's shareholders in an extraordinary general meeting to be held on 10 May 2005.

Pursuant to the Agreement, Daqing will acquire the whole of SOCO's Mongolia interests from SOCO International Operations LLC (SIOPS) and SOCO International (Cayman) Limited (SOCO Cayman) (together, the Sellers) for a consideration of up to approximately US\$93 million comprising a cash consideration of US\$40 million (£21.3 million at an exchange rate of US\$1/£0.532), plus a subsequent cash payment amount based on total crude oil produced from the PSCs subsequent to 1 January 2005 in excess of 27.8 million barrels. The cash consideration is payable in two tranches. The first tranche of US\$30 million is payable, subject to certain working capital adjustments, in cash on completion. The second tranche of US\$10 million will be paid into an escrow account on completion to be released to the Sellers 18 months following completion,

assuming that no material undisclosed additional liabilities are discovered in the interim from the date of completion.

The subsequent payment amount is in respect of all production of crude oil produced from the three Contract Areas in aggregate subsequent to 1 January 2005 in excess of 27.8 million barrels. This subsequent payment amount is based on an amount which the Mineral Resources and Petroleum Authority of Mongolia approves as recoverable costs and expenses incurred in respect of the Contract Areas to 31 December 2004. The Directors currently estimate that this amount will be US\$53 million. Once the 27.8 million barrels threshold is exceeded, the Buyer is obliged to pay to the Sellers a payment equal to the total aggregate production for that month multiplied by the average monthly posted marker price for Daqing crude oil multiplied by 20%. Based upon the Directors' estimates of proven and probable reserves from the Mongolia interests and the development scenarios as discussed with the Buyer, the Directors believe that the full subsequent payment amount estimated to be US\$53 million will be payable to the Sellers. The timescale for the production of crude oil in excess of 27.8 million barrels and the price of Daqing marker crude oil are factors that cannot be accurately predicted. The transaction is subject to normal interim period adjustments from 1 January 2005.

Working interest production to the Company from its Mongolia interests averaged 388 BOPD during 2004. SOCO's proved and probable reserves in Mongolia on an entitlement basis totalled approximately 42 million barrels at the end of 2004. For the year ended 31 December 2004 turnover of £1.7 million was attributable to the Mongolia interest. As this turnover arose from the pilot production programme an amount was charged from appraisal costs to cost of sales so as to reflect a zero net margin. As at 31 December 2004 the Group's share of net assets held by the Mongolia interest was £35.5 million.

Risk management

Financial

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

The Company's primary reporting currency is GB pounds, while the oil and gas industry's primary operating currency is US dollars. Accordingly, results from the Group's operations may be impacted by movements in foreign exchange rates.

Generally, it is the Company's policy to conduct and manage its business in US dollars. Cash balances in Group



subsidiaries are primarily held in US dollars, but smaller amounts may be held in GB pounds or local currencies to meet immediate operating or administrative expenses, or to comply with local currency regulations. At times, the Group has taken short term hedging positions to protect the value of any cash balances it holds in non-US dollar currencies.

SOCO remains free of debt. However, it may employ debt financing to meet future capital requirements or to fund operations. The Group will seek to minimise the impact that any financings may have on its balance sheet by negotiating borrowings in matching currencies. Primarily, these are expected to be in US dollar denominations.

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

Operational

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

The Group does not maintain any fixed price, long term marketing contracts. Production is sold on "spot" or near term contracts, with prices fixed at the time of a transfer of custody or on the basis of a monthly average market price. Although oil prices may fluctuate widely, it is the Group's policy not to hedge crude oil sales unless hedging is required to mitigate financial risks associated with debt financing of its assets or to meet its commitments.

Accordingly, no price hedging mechanisms were in place during the year. Over time, during periods when the Group sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

Many of the Group's projects are in developing countries or countries with emerging free market systems. Generally, there is a greater risk of political, economic or social instability in these countries compared to nations with more established, developed economies.

Some of the Group's interests are in regions identified as potentially more susceptible to business interruptions due to the consequences of possible subversive activity. The Group assesses such risks before beginning operations in any particular area and has deemed these risks commercially acceptable.

SOCO does not carry political risk or associated business interruption coverage to mitigate such risks. But it periodically assesses the cost and benefit of both. Future circumstances may lead the Group to acquire such cover.

International Financial Reporting Standards

For accounting periods commencing on or after 1 January 2005, all companies listed on any European Union stock exchange are required to report under International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board.

To date, SOCO has reported according to UK GAAP. The Company will publish its interim statements for the six months ended 30 June 2005 under IFRS. It will present its first annual report and accounts under the new regime for the year ended 31 December 2005. Comparative information in those reports will be restated on the same basis and a reconciliation from UK GAAP to IFRS will be made available.

SOCO has established a project team to ensure the appropriate processes and procedures are in place to achieve a seamless transition to IFRS. While the team has already made progress in addressing aspects of the implementation, including identifying changes to accounting policies, the full impact of adopting IFRS has yet to be finalised.

At this stage, however, we have identified that potential differences between our current UK GAAP and IFRS may arise in particular in relation to: accounting for business combinations, accounting for share based payments, and accounting for oil and gas costs.

In addition, the presentation and layout of our financial statements will be affected. As the transition to IFRS is finalised, we recognise that issues may arise in other areas. Meanwhile, the Company's auditors are kept up-to-date with progress made by SOCO's IFRS project team, and they have made themselves available during the transition.



1 Patrick Maugein (57)

Non-Executive Chairman

- A member of the Board of SOCO International since July 1999 and Chairman of the Nominations Committee.
- Has developed a portfolio of private investments in several industries.

2 Peter Kingston (62)

Non-Executive Deputy Chairman and Senior Independent Director

- A member of the Board of SOCO International since May 1997 and Chairman of the Remuneration and Audit Committees.
- A petroleum engineer who has worked in the oil and gas industry since 1965 in various roles.
- Formerly, a founding director of Enterprise Oil plc, going on to become Managing Director (Technical) and a director of Elf-Enterprise Petroleum Ltd.



3 Olivier Barbaroux (49)

Non-Executive Director

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

4 John Snyder (63)

Non-Executive Director

- A member of the Board of SOCO International since April 1997 and a member of the Nominations Committee.
- Formerly, Chairman of the Board of Santa Fe Snyder Corporation and founder of its predecessor company, Snyder Oil Corporation.
- Currently, an advisory director for 4D Global Energy Advisors and a director of Texas Capital Bancshares.

5 Ettore Contini (31)

Non-Executive Director

- A member of the Board of SOCO International since December 2001.
- Currently, a director of Eurowatt-Commerce and a director of Italiana Energia e Servizi SpA.



6 Robert Cathery (60)

Non-Executive Director

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

7 Ed Story (61)

President and Chief Executive Officer

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

8 Rui de Sousa (49)

Non-Executive Director

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



9 Martin Roberts (61)

Non-Executive Director

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

10 Roger Cagle (57)

Executive Vice President,
Deputy CEO and Chief Financial Officer

- A member of the Board of SOCO International since April 1997.
- 30 years of experience in the oil and gas industry including succeeding positions of responsibility with Exxon Corporation and senior management roles with Superior Oil Company.
- Formerly, Chief Financial Officer of Snyder Oil Corporation's international subsidiary and of Conquest Exploration Company.

11 John Norton (68)

Non-Executive Director

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

Cynthia Cagle,
Vice President and
Company Secretary



THE ANNUAL REPORT OF THE DIRECTORS

The Directors present their annual report, along with the audited accounts of the Group for the year ended 31 December 2004.

Principal activity and business review

The Group's principal activity is oil and gas exploration and production. The Group has its headquarters in London and has oil and gas interests in Vietnam, Mongolia, Yemen, and Thailand. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 14 to the accounts.

A detailed review of the development of the business and its future prospects is contained in the Chairman's and Chief Executive's Statement, the Review of Operations and the Financial Review on pages 2 to 14 and 20 to 23.

Results and dividends

The audited accounts for the year ended 31 December 2004 are set out on pages 42 to 57. The Group profit after taxation for the period was £15.5 million compared to a restated profit of £5.7 million in 2003.

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 (2003 – £nil).

Directors

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

Director	Date of contract
Patrick C J Maugein (Chairman)	12.07.99
Peter E Kingston *	14.05.97
(Deputy Chairman and Senior Independent Director)	
Olivier M G Barbaroux *	12.07.99
Roger W Brittain * (resigned 5 May 2004)	–
Roger D Cagle	14.05.97
Robert M Cathery	19.06.01
Ettore P M Contini	11.12.01
John C Norton *	14.05.97
Martin J D Roberts *	06.09.04
(appointed 7 September 2004)	
John C Snyder *	14.05.97
Rui C de Sousa	12.07.99
Edward T Story	14.05.97

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

All Directors held office throughout the year except as noted above. Relevant details of the Directors, which include their Committee memberships, are set out on pages 24 and 25. Details of Directors' interests and Directors' transactions are included in Note 7 to the accounts.

In accordance with the Articles of Association and the July 2003 Combined Code on Corporate Governance (the Combined Code), Mr Peter E Kingston, Mr Rui C de Sousa, Mr Olivier M G Barbaroux, Mr Robert M Cathery and Mr Ettore P M Contini will retire by rotation at the forthcoming Annual General Meeting (AGM). Mr Martin J D Roberts also retires, having been appointed by the Board since the last AGM following a formal procedure more fully described in the Nominations Committee Report on page 32. The retiring Directors, each being eligible and having been recommended for reappointment by the Nominations Committee, offer themselves for reappointment. The Chairman, having given consideration to the results of the Board's formal evaluation process and other relevant factors, is satisfied that each of the retiring Directors demonstrates a commitment level appropriate to the effective fulfilment of the responsibilities of their role.

To ensure SOCO retains the ability to set its Non-Executive Director fees at levels that remain competitive in the evolving market, a resolution will be placed before

the AGM to increase the aggregate annual amount of the Directors' fees to be paid out for their services as Directors from £350,000 to £450,000.

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 and abide by the terms of payment. As the Company is a holding company, it has no trade creditors and accordingly no disclosure can be made of the year end creditor days.

Charitable contributions

Information regarding the Company's charitable programmes, which are principally carried out in the countries where the Group has operations, is contained in the Corporate Responsibility Report on pages 15 to 19.

Share capital

Details of changes to share capital during the period are set out in Note 21 to the accounts.

A special resolution will be placed before the forthcoming AGM to renew the Directors' existing authority to make market purchases of the Company's ordinary share capital, and to limit such authority to purchases of up to 7,212,000 shares representing up to 10% of the Company's issued share capital, excluding treasury shares. Shares purchased under this authority may either be cancelled or held as treasury shares.

Two special resolutions will also be placed before the AGM to replace the Directors' existing authorities to allot securities. One resolution will seek authority under Section 80 of the Companies Act 1985 (the Act) to allot relevant securities up to a maximum aggregate nominal value of £4,808,462 representing one third of the Company's issued share capital, excluding treasury shares. If approved, an additional resolution will seek authority under Section 95 of the Act to allot equity securities for cash and to sell treasury shares for cash without first offering them to existing shareholders on a pro rata basis, either in connection with a rights issue or, for other purposes, up to a maximum aggregate nominal value of £721,269

representing 5% of the Company's issued share capital, excluding treasury shares.

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

Substantial shareholdings

As at 28 April 2005, the Company had been notified, in accordance with Sections 198 to 208 of the Act, of the interests in the issued share capital of the Company and warrants to subscribe for ordinary shares of the Company (Warrants) as set out in the table below.

Auditors

A resolution to reappoint Deloitte & Touche LLP as the Company's auditors will be proposed by the Directors at the forthcoming AGM.

Deloitte & Touche LLP also provide non-audit services to the Group which are set out in Note 5 to the accounts. The Directors are currently satisfied, and will continue to ensure, that this range of services is delivered in compliance with the relevant ethical guidance of the ncy profession and does not impair the judgment or independence of the auditor.

By order of the Board

Cynthia B Cagle

Secretary

28 April 2005

Name of holder	Issued shares		Warrants
	Number	% Held	Number
Pontoil Intertrade Limited	14,855,543	20.55	487,823
Chemsa Ltd *	5,791,435	8.01	325,215
Fidelity International Limited	4,843,297	6.70	–
Lansdowne Partners Limited Partnership	4,353,524	6.02	–
Opale SA	4,100,225	5.67	–
Joint Stock Bank of the Gas Industry Gazprombank (Closed Joint Stock Company)	3,571,430	4.94	–
SOCO Employee Benefit Trust	2,273,300	3.15	–
Legal & General Investment Management Limited	2,173,265	3.01	–

* Details of Directors' interests in this holding are included in Note 7 to the accounts.

In July 2003, the Financial Reporting Council issued the Combined Code on Corporate Governance (the Combined Code or the Code). As reported last year, the Company put in place a process to ensure its compliance with this revised Code in future reporting periods. Accordingly, the Group has applied the Principles set out in Section 1 of the Combined Code, as described below and, in connection with Directors' remuneration in the Directors' Remuneration Report.

Board composition, structure and process

The Board of Directors, whose names and biographical details are set out on pages 24 to 25, comprises ten Directors in addition to the Chairman. Five of these ten, including the Senior Independent Director, have been identified in the Directors' Report on page 27 as independent Non-Executive Directors, giving consideration to those circumstances set out in the Combined Code which could appear to affect a Director's judgment. Notwithstanding this, each of the Company's Directors strictly abide by their legal and ethical duties owed to the Company to act objectively and in the best interests of the Company and its shareholders as a whole.

The Board has four scheduled meetings a year and holds additional meetings as necessary. The Board determines the Company's business strategy and provides the entrepreneurial leadership required to ensure its strategic aims can be achieved. The Board operates within a formal framework of decision making designed to reserve matters of establishing the strategy, business plan and nature or scope of the Company's business to the Board. Under this framework, the authority for implementing the strategy and decisions taken by the Board are largely delegated to the Executive Directors and management within a system of internal controls designed to enable the risks of the Group to be managed effectively. Additionally, the Board has established clear expectations for the Company's economic, social and environmental conduct to promote the highest level of integrity and honesty in meeting its obligations to its stakeholders.

SOCO's Board membership comprises a broad range of skills, knowledge and experience, which is critical to the success of the Company. The Board functions as a unitary body, within which Directors assume certain roles to ensure the Board as a whole fulfils its responsibilities. These roles, including Committee memberships, are designed to maximise the effective contribution of each of the Non-Executive Directors to the Board, its Committees and to the Executive Directors, while ensuring an appropriate balance is

maintained. The composition of the Board and its Committees is in accordance with Code guidelines. No Director serves on more than two Committees. At least annually, the Non-Executive Directors meet without Executives present and, led by the Senior Independent, meet without the Chairman present. Such meetings are conducted in the spirit of good governance and process, and are intended to ensure a forum for open dialogue without disruption of Board unity. Directors are subject to reappointment at least every three years, giving consideration to their continued effectiveness as well as the balance of the Board's composition.

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

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

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

The Company Secretary, who is appointed by the Board, is responsible for facilitating the communications and

processes of the Board, both within the Board and its Committees and with management, in compliance with Board procedures and governance guidelines. The Secretary provides advice and service as may be required in the discharge of the Directors' duties, including ensuring the Company provides the necessary resources for access to independent advice and professional development.

Committees

The Board has established three Committees, as described below, each having formal terms of reference (TOR) approved by the Board which set out its delegated role and authority.

The TORs, which are available for inspection, are set in consideration of the provisions of the Combined Code and are reviewed from time to time in the context of evolving guidance. Each Director's specific Committee memberships, including as Chairmen, are set out on pages 24 to 25. Whilst only Committee members are entitled to attend meetings, other Directors are invited to attend from time to time to ensure the Committees' responsibilities are undertaken with access to the Board's full breadth of knowledge and experience. The Company Secretary ensures that the Company additionally provides such resources as the Committees require in the discharge of their duties.

Member attendance at Board and Committee meetings during 2004 was as follows:

	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nominations Committee Meetings
<p>● Meetings held and attended</p> <p>● Meetings held and not attended</p>				
Director				
Patrick C J Maugein (Chairman of the Board and Nominations Committee)	● ●			● ●
Peter E Kingston (Chairman of the Audit and Remuneration Committees)	● ●	● ●	● ●	
Olivier M G Barbaroux	● ●		● ●	● ●
Roger W Brittain (resigned 5 May 2004)	●	●	●	
Roger D Cagle	● ●			
Robert M Cathery	● ●			
Ettore P M Contini	● ●			
John C Norton	● ●	● ●		● ●
Martin J D Roberts (appointed 7 September 2004)	●	●	●	
John C Snyder	● ●			● ●
Rui C de Sousa	● ●			
Edward T Story	● ●			● ●

The Remuneration Committee

The Remuneration Committee is chaired by Mr Peter Kingston, the Senior Independent Non-Executive Director, and consists of two additional independent Non-Executive Directors. The names and qualifications of each of the members are set out on pages 24 to 25. Additionally, Mr Roger Brittain was a member of the Committee until his retirement as an independent Non-Executive Director at the 2004 Annual General Meeting (AGM). The Committee is responsible for recommending for approval by the full Board the remuneration of the Chairman, the Executive Directors and senior management of the Company and Group. During 2004, the Committee conducted a review of its TOR in consideration of Combined Code provisions. Additionally, the Committee conducted a review of the effectiveness of its own performance. Details of the Committee's policies and objectives are set out in the Remuneration Report on pages 35 to 36.

The Audit Committee Report

The Audit Committee is chaired by Mr Peter Kingston, the Senior Independent Non-Executive Director, and additionally comprises Mr John Norton and Mr Martin Roberts, both of whom are independent Non-Executive Directors. The names and qualifications of each of the members are set out on pages 24 to 25. Additionally, Mr Roger Brittain was a member of the Committee until his retirement as an independent Non-Executive Director at the 2004 AGM. The Board is satisfied that the collective experience of the members includes relevant and recent financial experience and provides the complement of skills required for the Committee to discharge its functions effectively. The Committee meets at least three times a year. The Chief Financial Officer and a representative of the external auditors are normally invited to attend meetings. Other Directors are invited to attend as determined appropriate or beneficial. At least once a year the Committee meets with the external auditors without executive Board members present.

The Committee's primary responsibilities include reviewing the effectiveness of the Company's and Group's systems of internal control, overseeing the selection of and relationship with external auditors and the review and monitoring of the integrity of financial statements. The Committee is responsible for review of the Group's major financial, operational and corporate responsibility risk management processes, which it conducts at least annually. It has been delegated the responsibility for advising the full Board on compliance with the Combined Code, including its internal control requirements, as well as compliance with evolving guidance on corporate governance issues generally.

The Committee held three meetings in 2004 and has conducted one meeting to date in 2005, all of which were attended by executive management and external auditors. Other Non-Executive Directors were in attendance at a portion of these meetings by invitation. A private session, without executives present, was held during three of these meetings. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members, external auditors and the Company's executives and employees.

The Committee conducted a review of its TOR in consideration of the provisions of the Combined Code and the related Guidance on Audit Committees. Additionally, the Committee conducted a review of the effectiveness of its own performance.

The Committee reviewed and approved the terms and scope of the audit engagement, the audit plan and the results of the audit with the external auditors. An assessment of the effectiveness of the audit process was made, giving consideration to reports from the auditors on their internal quality procedures. Additionally, auditor independence and objectivity was assessed, giving consideration to the auditors' confirmation that their independence is not impaired. The Committee approved the non-audit services provided by the external auditor, having concluded such services were compatible with auditor independence and were consistent with relevant ethical guidance.

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

On behalf of the Board, the Committee has reviewed the effectiveness of the Company's internal controls and risk management systems, including consideration of an internal audit function, which is more fully described in the Internal Control section of the Corporate Governance Report. The Committee has reviewed and approved the related compliance statements set out therein. The Committee has additionally reviewed and approved the statements regarding compliance with the Combined Code.

The Committee reviewed and discussed with management and the auditors the Company's relevant financial information prior to recommendation for Board approval, including in particular the financial statements and other material information presented in the annual and interim reports. The Committee considered the significant financial reporting

issues, accounting policies and judgments impacting the financial statements, and the clarity of disclosures.

The Board concurred with the Committee's recommendation for the reappointment of Deloitte & Touche LLP as the Company's auditors for 2005.

The Nominations Committee Report

The Nominations Committee is chaired by Mr Patrick Maugein, the Non-Executive Chairman of the Company, other than when convened to consider a successor as Chairman. It additionally comprises Mr Ed Story, the Chief Executive Officer, and Messrs. Olivier Barbaroux, John Norton and John Snyder, who are independent Non-Executive Directors. The Committee meets at least once a year. In 2003, changes were approved to the Committee's TOR to expand its role in view of guidance set out in the revised Combined Code. Its primary responsibilities include making recommendations to the Board regarding the appointment and reappointment of Directors and Committee memberships. It is responsible for review and recommendations regarding overall Board structure and composition, succession planning and establishing an ongoing process for evaluating the Board and its members.

The Committee held four meetings in 2004 and has conducted one meeting to date in 2005. The Senior Independent Director was in attendance at two of these meetings by invitation. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members and the Company's executives and employees.

During the year the Committee reviewed and developed its procedures in accordance with its revised TOR. The Committee reviewed Board structure, size and composition, including a profile of the skills, knowledge and experience represented on the Board, and utilised this in developing a succession planning policy and in its recommendations for appointment and reappointment of Directors.

The Committee was responsible for identifying and nominating a candidate to fill the vacancy created upon the retirement of Mr Roger Brittain at the 2004 AGM. The Committee developed a description of the role, estimated time commitment and the capabilities which would complement the composition of the Board and its Committees. An independent external advisor was utilised to facilitate the search. A diversified list of potential candidates was compiled and interviews were conducted. The Board approved the Committee's recommendation that

Mr Martin Roberts be appointed as an independent Non-Executive Director and as a member of the Remuneration and Audit Committees. Upon appointment, the Company Secretary facilitated Mr Roberts' induction.

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

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

Relations with shareholders

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

SOCO maintains an open and active dialogue with shareholders. The Company maintains an internet website wherein important information can be posted and disseminated promptly to a wide audience and through which shareholders can electronically interface with executive management. At a minimum, the Company provides three personal communication forums annually – the AGM, the presentation of Annual Results and the presentation of Interim Results – whereby shareholders can directly interface with Company executive management. Notice of the AGM is circulated to all shareholders at least 20 working days prior to the meeting, and resolutions are proposed for each substantially separate issue. The result of proxy voting is announced after votes are taken on a show of hands. Directors are available to answer shareholder questions and, in particular, the Chairmen of

LL SOCO maintains an open and active dialogue with shareholders. At a minimum, the Company provides three personal communication forums annually. **rr**

the Audit, Remuneration and Nomination Committees are in attendance to respond to any specific queries.

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

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

Internal control

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

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

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

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

The Board has applied Principle C.2 of the Combined Code, by establishing an ongoing process, which has been in place throughout the year to the date of this report and which is in compliance with "Internal Control: Guidance for Directors on the Combined Code" published in September 1999, for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which is constantly evolving to meet the demands of a dynamic environment.

In compliance with Provision C.2.1 of the Combined Code, the effectiveness of the Group's system of internal control, including financial, operational and compliance controls and risk management, is reviewed at least annually by the Directors. The review is based principally on discussions with management and on reviewing reports provided by management to consider whether significant risks are identified, evaluated, managed and controlled, but also may include independent interaction with employees or third parties. Further, the Board considers whether appropriate actions are taken promptly to correct any significant weaknesses identified, and if more extensive monitoring may be required.

LL SOCO's Board membership comprises a broad range of skills, knowledge and experience, which is critical to the success of the Company. **rr**

The Board has performed a specific assessment for the purpose of this Annual Report and Accounts, which considers all significant aspects of internal control arising during the period, and is satisfied with the process employed and the results thereof. The Audit Committee spearheads the Board in discharging its review responsibilities. Although the Company does not currently have an internal audit function, the Directors review at least annually the need to establish such a function. The Company's current staff size limits the ability to form an effective internal audit function and, accordingly, the Company expects to outsource any internal audit needs.

Statement of compliance with Code of Best Practice

The Company has complied throughout the year with the provisions of the 23 July 2003 Combined Code on Corporate Governance except for the period from the resignation of Mr Roger Brittain at the 2004 AGM held in May until the appointment of Mr Martin Roberts in September 2004. During that period the Audit and Remuneration Committees each comprised only two members rather than three, and the number of Directors identified as independent under the Combined Code fell below the recommended level of 50% excluding the Chairman.

Directors' responsibilities

Accounts, including adoption of going concern basis
Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the

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

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

Other matters

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

Auditors' responsibilities

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

The Directors' Remuneration Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and the relevant requirements of the Financial Services Authority (FSA). The disclosures contained in this report that are specified for audit by the FSA are covered in the scope of the Independent Auditors' Report on page 41. A resolution to approve the report will be proposed at the forthcoming Annual General Meeting (AGM).

The Company has complied throughout the period with the provisions set out in the July 2003 Financial Reporting Council Combined Code (the Code), other than as disclosed in the Company's corporate governance statements, and has applied the principles set out in Code provisions and in Schedule A to the Code relating to Directors' remuneration as described below.

Remuneration Committee

The independent Non-Executive Directors who serve on the Remuneration Committee are Mr Peter Kingston (Chairman), Mr Olivier Barbaroux and Mr Martin Roberts. All members are independent of management and free from any conflicts of interest arising from cross-directorships or day-to-day involvement in running the Company's business. No member has any personal financial interest, other than as shareholders, in the matters delegated to the Committee. No Director plays a role in deciding his own remuneration. Additional information regarding the Committee is contained in the Corporate Governance Report on pages 29 to 34.

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

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

Secretary. Deloitte & Touche LLP was appointed by the Committee as advisors and provided advice on executive remuneration in terms of relevant current market practice and developments in best practice guidance. The original appointment of advisors resulted from a tender process and alternate advisors are considered from time to time. Deloitte & Touche LLP also provided audit and tax services to the Group, which are set out in more detail in Note 5 to the accounts. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence.

Remuneration policy

The Committee has an ongoing process for reviewing its policies against evolving market practice and relevant guidance. The review in 2004 indicated a need to catch-up with changing practice in certain areas, including in particular with respect to pension contributions and the performance criteria attached to awards under the Company's Long Term Incentive Plan (LTIP). Following a process of consultation and review, certain actions have been approved by the Board and implemented as set out in the relevant sections below. The policies described in this report have otherwise been applied throughout 2004. Whilst these policies are envisaged to be consistently applied in the following and subsequent years, the Committee will continue to monitor its policies and would only expect to implement any proposed policy change following a consultation, review and approval process deemed appropriate to the proposed change.

The Committee reviews all aspects of remuneration on an annual basis and with respect to individual and corporate performance during the year. These reviews are normally conducted in December. Remuneration for the Group's internationally based workforce is administered by management, who seek to ensure it is both internally equitable and externally competitive in the relevant market. The Committee monitors practices and trends throughout the Group, including in particular for senior staff who contribute most significantly to achieving the Company's strategic aims, and in comparison to those applied to the Executive Directors.

The Committee seeks to ensure performance based pay is linked to its business strategy. To achieve this, shorter term performance is monitored against targets based on the Company's strategic plan. In the longer term, performance targets are more closely linked to share price performance as an indicator of the Company's success in its strategy to build shareholder value.

As set out in the Financial Review on pages 20 to 23, SOCO will transition to reporting under International

Financial Reporting Standards commencing in 2005. Where the Remuneration Committee oversees arrangements which are measured in financial terms that may be impacted by this transition, the Audit Committee will be consulted in determining the most appropriate measurement.

Executive Directors

The Directors believe that a uniquely qualified and motivated executive management is vital to the effective management of the Company's international portfolio and the successful execution of the Company's stated strategy of building shareholder value. It is the Committee's objective to attract and retain high calibre executives through remuneration which is competitive with that offered in comparable businesses and is appropriate to those individuals' positions, experience and value to the Company. The Committee aims to design remuneration packages with a significant short and long term performance-related element linking appropriate but significantly greater rewards for greater achievements.

The expected value and structure of the Executive Directors' packages are benchmarked to competitive market ranges, taking into consideration the Group's size and complexity, and positioned within those ranges considering the Executive Directors' critical value to the Company and demonstrated performance over time. Year on year results of benchmarking are monitored for indications of potential unwarranted upward ratcheting. The arrangements for performance-based pay are regularly reviewed against market practice and evolving best practice guidelines.

Package components

Executive remuneration comprises a fixed basic salary and eligibility to receive an annual performance based cash bonus and annual awards under incentive plans approved by shareholders and designed to provide appropriate longer term incentive opportunities. Assuming performance levels in the middle of the target range, the packages are structured to deliver 60% of the expected value of the Directors' total compensation opportunity from performance related elements, increasing to 80% at exceptional performance levels.

Executive Directors are eligible for additional benefits, including money purchase pension scheme contributions, a permanent health insurance scheme, medical insurance, life assurance cover, critical illness cover, travel benefits and car benefits.

Basic salary

Basic salary is fixed at appointment or in relation to changes in responsibility, and is reviewed annually. Particular care is given in fixing the appropriate salary level considering that

cash bonus and incentive plan awards are generally set as a fraction or multiple of basic salary. Annual reviews take into consideration advice from remuneration consultants regarding relevant current market practice for salary levels and salary increases, as well as demonstrated performance. Following the annual review conducted in December 2004, the basic salary of each Executive Director will be increased by 5% with effect from January 2005. Basic salary is the only element of a Director's pay which is pensionable.

Bonus

An Executive Director's discretionary annual cash bonus is targeted to provide a balance between basic salary and the performance related element of annual cash remuneration. Bonus awards are considered in two levels, wherein expected performance will result in awards in a target range of up to 50% of salary, with a stretch level providing a maximum annual cash bonus opportunity of up to 100% of salary for exceptional performance.

The annual cash bonus is awarded based on individual and corporate achievements during the year towards goals based on the Company's strategic plan. Specific goals are set annually for each portion of the Company's portfolio aimed at linking the most appropriate element of the business strategy to each of the Company's assets. Dependent on the status of a particular asset, the monitored measures include the meeting of specific timetables for seismic and drilling operations, drilling success ratios, discovery targets, reserve levels and production targets. Portfolio targets are set regarding progress towards potential non-core asset divestitures and new ventures. Corporate goals, safety and environmental measures and financial measures against budgeted levels are additionally established as deemed appropriate. The specific targets set against these measures are considered to be commercially sensitive and are therefore not set out herein. The actual achievement of each goal is ranked against a scale of expectations. The Committee retains discretion over the amount of bonus paid out to ensure that appropriate consideration is given to the relative importance of the achievements in the year and the actual contribution of these towards furthering the Company's strategic plan.

Performance for 2004 was measured based on the achievement of the specific goals set for the year in accordance with the above policy. These achievements include the implementation of a Basement targeted drilling programme in Yemen, leading to a significant increase in that project's production capability as well as a significant reserve upgrade. A series of strategic timetables set for the Vietnam project have been met or accelerated, enabling this drilling programme to commence in January 2005. The Didon 4H

well in Tunisia was successfully tied-in to facilities, enabling production to commence and contributing to the successful completion of a sale of this interest and realising a sizeable gain. Additionally, achievements were made against certain portfolio targets that are considered a significant contribution towards furthering the Company's strategic plan. Bonuses were awarded to Mr Story and Mr Cagle at 50% of salary. The maximum bonus level of up to 100% was not utilised in 2004.

Incentive plans

The Committee currently operates an LTIP and a share option scheme (the Plans). The participants and the level of awards granted, which is discretionary, are set in consideration of both corporate and individual performance and take into account awards made under both Plans. Awards under the Plans are subject to limits on individual participation whereby the market value, as measured at the date of grant, of shares subject to awards made in any financial year will not exceed 200% of the executive's total earnings in that year, except in exceptional circumstances on appointment. The Committee, however, has a policy of operating the Plans within the more restrictive annual limit of 200% of the executive's salary.

The aggregate number of new issue shares which may be subject to award under the Plans shall not exceed 5% of the ordinary share capital of the Company. Accordingly, at 31 December 2004, 3.1 million new issue shares (2003 – 3.2 million) may be subject to award under the Plans, of which there is available capacity remaining of 0.5 million shares (2003 – 0.4 million). An employee benefit trust currently holds sufficient SOCO shares to satisfy all shares conditionally awarded under the LTIP, as more fully described in Note 22 to the accounts. Decisions governing acquisitions of shares into the trust are considered and approved by the full Board. Charges which have been reflected in the Group's profit and loss in respect of the Plans are set out in Note 22 to the accounts.

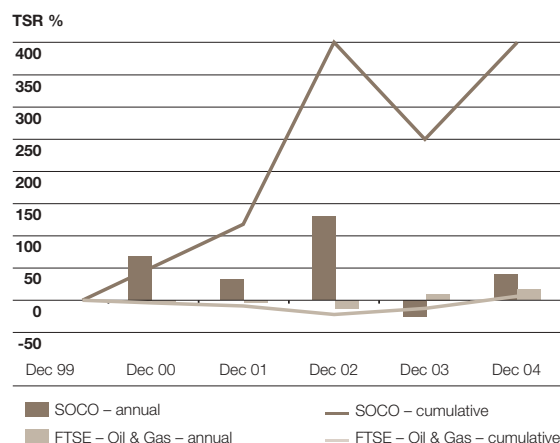
At the date of grant of an award, the Committee sets appropriate performance criteria which must be achieved before the award can be exercised or vest. Award levels will take into account the nature of performance targets to ensure that expected total compensation opportunity at assumed levels of share price growth is appropriate in the prevailing market. Measurement of the Company's performance criteria is carried out with reference to external data sources by the Committee's remuneration advisors to ensure its independence.

The Remuneration Committee considers that the Company's relative total shareholder return (TSR) provides the primary basis for determining the value generated for shareholders over the longer term, and is also the primary

indicator of the Company's overall corporate performance. Accordingly, performance targets for awards under the Plans since their approvals have been set with reference to the Company's relative TSR performance over a three year period within a range of comparator companies in the oil exploration and production sector. Once performance criteria have been met, there may additionally be a requirement that awards be held for a specified retention period prior to exercise or receipt.

Five year TSR performance

The performance graph below sets out SOCO's annual and cumulative total shareholder return (TSR) performance over the past five years. The FTSE Oil & Gas Index performance is similarly set out, being a broad market index which is sector specific.



LTIP

The LTIP was set out in the Annual Report and Accounts 2000 and approved by shareholders at the May 2001 AGM. LTIP awards are considered in the course of the annual review in December, which is intended to put in place an opportunity for regular annual vesting based on performance targets achieved over successive three year periods.

Shares awarded under the Plan are subject to performance criteria to be measured on the third anniversary of the date of grant, and deemed fulfilled to the satisfaction of the Committee. In 2004, the Committee identified a potential diversion from evolving best practice and undertook a review of its policy. Certain changes were made in setting the performance criteria attached to awards made in December 2004 so that conditions remain in line with current best practice guidelines and are sufficiently

stretching to ensure that incentives and corporate performance are closely linked.

Accordingly, for awards made in December 2004, the size of the comparator group has been increased to 12 companies, adding Burren Energy and Regal Petroleum to the comparator group used for previous awards, which comprises Aminex, Cairn Energy, Dana Petroleum, Dragon Oil, Paladin Resources, Premier Oil, Ramco Energy, SOCO, Tullow Oil, and Venture Production. If the TSR ranking exceeds the median, the award will become capable of vesting as to 30% of the shares subject to award. A vesting schedule sets the next higher ranking position at 40% vesting, with proportionally greater vesting for each higher ranking position up to 100% for performance in the top 17 percentile. The actual vesting percentage will be calculated on a pro rata basis between ranking positions to more closely reflect SOCO's actual TSR performance relative to the next highest and lowest comparators. For previous awards, if the TSR ranking exceeds the median, the award will become capable of vesting as to 40% of the shares subject to award, with proportionally greater vesting for each higher ranking position up to 100% for performance in the top 20 percentile. Additionally, the Committee may give consideration, in light of any exceptional circumstances during a relevant three year period, whether the recorded TSR is consistent with the achievement of actual underlying financial and operational performance which, for awards to date, shall primarily be assessed, on the basis of appropriate external advice, in terms of the additions to and the management and quality of the Group's oil and gas reserves in view of goals set by the Board.

Following measurement in 2004 of performance against criteria attached to awards granted in 2001, 60% of those options have been declared vested. The Committee is satisfied that the performance criteria measurement has resulted in a vesting level appropriate to the underlying performance of the Company. In accordance with Plan rules, those options not declared vested have lapsed.

Option scheme

The Committee currently operates one share option scheme, being the SOCO 1997 Company Share Option Plan. No options have been granted to the Directors since 1999, prior to introduction of the LTIP. All options held by Directors, having been measured against the relevant three year performance criteria set at the date of grant, are 100% vested and exercisable. Any future grants to Directors will be subject to performance criteria set with reference to best practice guidelines and fully disclosed to shareholders.

Pre-float option scheme

The Directors hold share options (Options) under the SOCO-sub Unapproved Share Option Plan which were granted prior to the listing of the Company's shares on the London Stock Exchange. No additional grants are available under the plan. Options were set to lapse in April 2004, seven years from date of grant. As the Options are fully vested and exercisable at an attractive price to the Option holder, the lapse date would have imposed a forced exercise and disposition of sufficient shares to fund the resulting taxation. The Directors do not believe a forced exercise was in the best interests of the Company or shareholders generally. Accordingly, the Board exercised its power to make administrative amendments to the scheme by extending the exercise date for employees holding Options to April 2007, 10 years from date of grant. The 10 year period is consistent with current legislation and ABI guidelines.

Pension contributions

Contributions are paid into two money purchase pension schemes in respect of the Executive Directors. Based on independent benchmarking carried out in 2004, the Committee determined that SOCO's pension arrangements for Executive Directors were below the lower quartile of market practice. The Committee has revised its previous practice, whereby specific contribution amounts were set annually, and has set an annual contribution level of 15% of the executive's salary. Under this practice, 2004 contributions were made to pension schemes in respect of Mr Story and Mr Cagle in the amounts of approximately £53,000 (2003 – £24,000) and £37,000 (2003 – £24,000), respectively.

The Company will be monitoring its pension commitments, including Executive Directors' arrangements, in light of changes in pensions legislation and taxation in the relevant jurisdictions. No changes, other than to the contribution level as described above, are however currently contemplated.

Other policies

With prior approval of the Board, Executive Directors are allowed to accept non-executive appointments to other boards and to retain the associated directors' fees. Under this policy Mr Story has been released to serve as a Non-Executive Director and retains the associated annual fees in the amount of £45,000.

Non-Executive Directors

The remuneration of the Non-Executive Chairman is set by the Committee and approved by the Board. The remuneration for other Non-Executive Directors is determined by the Board as

a whole, within the aggregate limits set out in the Company's Articles of Association and approved by shareholders. Remuneration levels are set based on outside advice and the review of current practices in other companies, giving consideration to the time commitment and responsibilities of the role. Based on these factors, the annual fees for services as Directors payable to the Chairman, the Deputy Chairman and the remaining Non-Executive Directors has been increased with effect from 1 April 2005 to £75,000, £60,000 and £30,000, respectively. Non-Executive Directors are not eligible for participation in the Company's incentive schemes or pension schemes.

Directors' contracts

Executive Directors' contracts are for an indefinite period and are terminable by either party on giving one

year's notice which may be satisfied with a payment in lieu of notice. The Committee has a duty to prevent the requirement to make payments that are not strictly merited, and endorses the principle of mitigation of damages on early termination of a service contract. Any payment on early termination will be assessed on the basis of the particular circumstances, but in any event will not be in respect of any period beyond the one year specified by contract. The Non-Executive Directors' appointments are terminable at the will of the parties but are envisaged to establish an initial term of three years after which they will be reviewed annually. The dates of the Directors' service contracts or letters of appointment, which may not coincide with their initial date of appointment, are set out in the Directors' Report on page 27.

Audited information

Directors' emoluments

	Fees/basic salary £000's	Benefits in kind ¹ £000's	Annual bonus £000's	Total 2004 £000's	Total 2003 £000's
Executive Directors					
E Story	355	19	177	551	518
R Cagle	248	22	124	394	371
Non-Executive Directors					
P Maugein	55	–	–	55	55
P Kingston ²	55	–	–	55	55
O Barbaroux	25	–	–	25	25
R Brittain	9	–	–	9	25
R Cathery	25	–	–	25	25
E Contini	25	–	–	25	25
J Norton	25	–	–	25	25
M Roberts	8	–	–	8	–
J Snyder	25	–	–	25	25
R de Sousa	25	–	–	25	25
Aggregate emoluments	880	41	301	1,222	1,174

¹ Benefits include a permanent health insurance scheme, medical insurance, life assurance cover, critical illness cover, travel benefits and car benefits.

² Emoluments receivable by Mr Peter Kingston are paid to Peter Kingston & Associates under an agreement to provide the Company with the services of Mr Kingston.

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

Directors' pension entitlements

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

	2004 £000's	2003 £000's
E Story	53	24
R Cagle	37	24
	90	48

Directors' share options

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

	As at 1 January 2004	Granted/ Awarded	Lapsed	As at 31 December 2004	Exercise price £	Date from which option may become exercisable ⁴	Expiry date
E Story							
Pre-IPO share plan ¹	1,973,954	–	–	1,973,954	0.750	29.05.97	25.04.07
SOCO share plan ²	89,286	–	89,286	–	3.850	03.12.00	03.12.04
	284,253	–	–	284,253	0.725	15.09.01	15.09.05
	695,195	–	–	695,195	0.590	13.07.02	13.07.06
Deferred bonus ³	160,000	–	–	160,000	–	01.01.03	21.03.11
LTIP ³	291,900	–	116,730	175,170	–	24.05.04	24.05.11
	256,400	–	102,560	153,840	–	10.12.04	09.12.11
	118,800	–	–	118,800	–	04.12.05	03.12.12
	121,000	–	–	121,000	–	19.12.06	19.12.13
	–	111,400	–	111,400	–	09.12.07	19.12.13
R Cagle							
Pre-IPO share plan ¹	986,977	–	–	986,977	0.750	29.05.97	25.04.07
SOCO share plan ²	68,410	–	68,410	–	3.850	03.12.00	03.12.04
	198,977	–	–	198,977	0.725	15.09.01	15.09.05
	448,073	–	–	448,073	0.590	13.07.02	13.07.06
Deferred bonus ³	112,000	–	–	112,000	–	01.01.03	21.03.11
LTIP ³	204,300	–	81,720	122,580	–	24.05.04	24.05.11
	179,500	–	71,800	107,700	–	10.12.04	09.12.11
	83,100	–	–	83,100	–	04.12.05	03.12.12
	84,800	–	–	84,800	–	19.12.06	19.12.13
	–	77,900	–	77,900	–	09.12.07	09.12.14

¹ Options held under the SOCO-sub Unapproved Company Share Plan were granted prior to the listing of the Company's shares on the London Stock Exchange.

² Based on TSR performance against a comparator group, all options conditionally exercisable under the 1997 Company Share Plan have been tested against the relevant performance schedules attached to the awards and have been determined to be fully vested. Additional details regarding the plan are set out within this report.

³ These conditional awards are in the form of a nil price option to acquire ordinary shares in the Company. To reduce a competitive shortfall identified in 2000, a special deferred bonus was awarded and an LTIP was introduced. Initial awards under the LTIP were deferred from December 2000 to May 2001 pending approval of the LTIP. Those awards which are set out as exercisable from on or before 31 December 2004 have been tested against the relevant performance schedules attached to the awards and the balance held as at 31 December 2004 have been determined to be fully vested. Those awards which are set out as exercisable from a date subsequent to 31 December 2004 remain conditional upon performance criteria. The deferred bonus and the proposed LTIP were set out in the Annual Report and Accounts 2000 prior to seeking shareholder approval of the LTIP. Additional details regarding the LTIP are set out within this report.

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

No options were exercised by either Executive Director during the period. The market price of the ordinary shares at 31 December 2004 was £3.880 and the range during the year to 31 December 2004 was £2.745 to £3.920.

Approval

This report was approved by the Board of Directors on 28 April 2005 and signed on its behalf by:

Peter Kingston Deputy Chairman and Senior Independent Director

To the shareholders of SOCO International plc

We have audited the financial statements of SOCO International plc for the year ended 31 December 2004 which comprise the Profit and Loss Account, the Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Statement of Accounting Policies and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and

controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

28 April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year to 31 December 2004

	Notes	2004 £000's	(Restated) 2003 £000's
Turnover	1		
Continuing operations		17,707	19,039
Discontinued operations		7,394	6,451
		25,101	25,490
Cost of sales	2	(10,251)	(13,800)
Gross profit	2	14,850	11,690
Administrative expenses	2	(2,412)	(2,667)
Operating profit	1		
Continuing operations		7,319	6,066
Discontinued operations		5,119	2,957
		12,438	9,023
Profit on sale of discontinued operations	26	8,391	–
Profit on ordinary activities before finance charges		20,829	9,023
Investment income	3	366	815
Interest payable and similar charges	4	(136)	(37)
Profit on ordinary activities before taxation	1, 5	21,059	9,801
Tax on profit on ordinary activities	8	(5,560)	(4,114)
Profit for the financial year	23	15,499	5,687
Earnings per share			
Basic	11	22.2p	8.2p
Diluted	11	19.7p	7.2p

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year to 31 December 2004

	Notes	2004 £000's	(Restated) 2003 £000's
Profit for the financial year	23	15,499	5,687
Unrealised currency translation differences	23	(9,001)	(14,354)
Total recognised gains (losses) relating to the year		6,498	(8,667)
Prior year adjustment	10	(315)	–
Total gains (losses) recognised since last annual report and accounts		6,183	(8,667)

The accompanying notes are an integral part of these accounts.

BALANCE SHEETS

as at 31 December 2004

		Group		Company	
	Notes	2004 £000's	(Restated) 2003 £000's	2004 £000's	(Restated) 2003 £000's
Fixed assets					
Intangible assets	12	85,161	82,311	–	–
Tangible assets	13	13,296	18,973	428	35
Investments	14	–	–	96,290	72,326
		98,457	101,284	96,718	72,361
Current assets					
Stocks	15	106	40	–	–
Debtors	16	5,959	4,763	445	406
Investments	17	6,569	–	–	–
Cash at bank and in hand		30,477	32,898	59	387
		43,111	37,701	504	793
Creditors: Amounts falling due within one year	18	(5,547)	(8,586)	(417)	(173)
Net current assets		37,564	29,115	87	620
Total assets less current liabilities		136,021	130,399	96,805	72,981
Provisions for liabilities and charges	19	(1,665)	(3,279)	–	–
Net assets	1	134,356	127,120	96,805	72,981
Capital and reserves					
Called-up equity share capital	21	14,455	14,396	14,455	14,396
Share premium account	22	41,628	41,325	41,628	41,325
Other reserves	22	33,742	33,366	(424)	(424)
Profit and loss account	22	44,531	38,033	41,146	17,684
Equity shareholders' funds	23	134,356	127,120	96,805	72,981

The accounts on pages 42 to 57 were approved by the Board of Directors on 28 April 2005 and signed on its behalf by:

Patrick Maugein Chairman

Roger Cagle Director

The accompanying notes are an integral part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year to 31 December 2004

	Notes	2004 £000's	2003 £000's
Net cash inflow from operating activities	24	14,446	16,610
Returns on investments and servicing of finance			
Interest received		355	677
Interest paid and similar charges		(28)	(17)
		327	660
Taxation paid		(3,311)	(4,169)
Capital expenditure and financial investment			
Purchase of intangible fixed assets		(11,747)	(21,651)
Purchase of tangible fixed assets		(4,352)	(6,116)
Purchase of own shares by employee benefit trust		–	(583)
Purchase of own shares into treasury		–	(424)
		(16,099)	(28,774)
Acquisitions and disposals			
Sale of subsidiary undertaking	26	9,160	–
Sale of intangible fixed asset	27	1,181	–
		10,341	–
Cash inflow (outflow) before management of liquid resources and financing		5,704	(15,673)
Management of liquid resources			
Increase in funds placed on short term deposit	25	(6,541)	–
Financing			
Issue of ordinary share capital	21	362	862
Decrease in cash in the year	25	(475)	(14,811)

The accompanying notes are an integral part of these accounts.

A summary of the principal accounting policies which, with the exception of the change in accounting policy resulting from the adoption of Urgent Issues Task Force (UITF) Abstract 38 and related amendments to UITF Abstract 17 (revised 2003), have all been applied consistently throughout the year and the prior year, is set out below.

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities". During 2004, the Group adopted UITF Abstract 38 "Accounting for ESOP Trusts" and the related amendments to UITF Abstract 17 (revised 2003) "Employee Share Schemes". UITF Abstract 38 changes the presentation of own shares held by the SOCO Employee Benefit Trust, whereby consideration paid for shares is deducted in arriving at shareholders' funds rather than being recognised as an asset. UITF Abstract 17 (revised 2003) requires the amounts recognised in the profit and loss account to be based on fair value of shares at the date an award is made rather than book value of own shares available for the award. As the adoption of UITF Abstract 38 and UITF Abstract 17 (revised 2003) represents a change in accounting policy prior year amounts have been restated to ensure that they are presented on a consistent basis (see Note 10).

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.

Investments

Except as stated below, fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

Interests in associated undertakings and joint ventures

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

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

Turnover

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

Tangible and intangible fixed assets

Oil and gas exploration and development expenditure

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

Cost pools are established on the basis of geographical area having regard to the operational and financial organisation of the Group. Acquisition, exploration and appraisal costs incurred in a geographical area where the Group has no established cost pool are initially capitalised as intangible fixed assets – exploration expenditure. Upon conclusion of the appraisal programme and determination of whether commercial reserves exist, such costs are either transferred to establish a new cost pool within tangible fixed assets, or written off, as appropriate.

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

Depreciation and depletion

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

Impairment of value

Where there has been a change in economic conditions or in the expected use of an asset that indicates a possible impairment in a geographical cost pool, management assesses the recoverability of the net book value of the Group's oil and gas interests in that pool by comparison with the estimated discounted future net cash flows based on management's expectations of future oil prices and future costs. Any identified impairment is charged to the profit and loss account.

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

Other fixed assets

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

Decommissioning

The decommissioning provision is calculated as the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place. An associated decommissioning asset is recognised, which is amortised for each cost pool on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible fixed assets. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in interest payable.

Changes in estimates

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

Taxation

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

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are recorded at the rates of exchange prevailing at that date, or if appropriate, at the forward contract rate.

The results of overseas operations are translated at the average rate of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on retranslation at the closing rate of the opening net assets and results of overseas operations are dealt with in the statement of total recognised gains and losses. Other foreign exchange differences are taken to the profit and loss account.

Pension costs

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

1 Segment information

	Asia £000's	North Africa and Middle East £000's	Unallocated £000's	Group 2004 £000's
Turnover by origin				
Continuing operations	1,745	15,962	–	17,707
Discontinued operations ¹	–	7,394	–	7,394
	<u>1,745</u>	<u>23,356</u>	<u>–</u>	<u>25,101</u>
Operating profit (loss)				
Continuing operations	–	9,634	(2,315)	7,319
Discontinued operations ¹	–	5,119	–	5,119
	<u>–</u>	<u>14,753</u>	<u>(2,315)</u>	<u>12,438</u>
Profit (loss) on ordinary activities before taxation				
Continuing operations	–	9,652	(1,532)	8,120
Discontinued operations ¹	–	12,939	–	12,939
	<u>–</u>	<u>22,591</u>	<u>(1,532)</u>	<u>21,059</u>
Net assets	<u>81,075</u>	<u>17,124</u>	<u>36,157</u>	<u>134,356</u>
	£000's	£000's	£000's	(Restated) 2003 £000's
Turnover by origin				
Continuing operations	1,723	17,316	–	19,039
Discontinued operations ¹	–	6,451	–	6,451
	<u>1,723</u>	<u>23,767</u>	<u>–</u>	<u>25,490</u>
Operating profit (loss)				
Continuing operations	–	8,415	(2,349)	6,066
Discontinued operations ¹	–	2,957	–	2,957
	<u>–</u>	<u>11,372</u>	<u>(2,349)</u>	<u>9,023</u>
Profit (loss) on ordinary activities before taxation				
Continuing operations	–	8,394	(1,785)	6,609
Discontinued operations ¹	–	3,192	–	3,192
	<u>–</u>	<u>11,586</u>	<u>(1,785)</u>	<u>9,801</u>
Net assets	<u>77,131</u>	<u>20,719</u>	<u>29,270</u>	<u>127,120</u>

¹ In December 2004 the Group disposed of its Tunisia interest (see Note 26).

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 2004 £000's	Discontinued operations ¹ 2004 £000's	Group 2004 £000's	Continuing operations 2003 £000's	Discontinued operations ¹ 2003 £000's	Group (Restated) 2003 £000's
Operating expenses	5,277	1,534	6,811	7,294	2,284	9,578
Depletion and depreciation	2,699	741	3,440	3,012	1,210	4,222
Cost of sales	<u>7,976</u>	<u>2,275</u>	<u>10,251</u>	<u>10,306</u>	<u>3,494</u>	<u>13,800</u>
Gross profit	<u>9,731</u>	<u>5,119</u>	<u>14,850</u>	<u>8,733</u>	<u>2,957</u>	<u>11,690</u>
Administrative expenses	2,412	–	2,412	2,667	–	2,667

¹ In December 2004 the Group disposed of its Tunisia interest (see Note 26).

3 Investment income

	2004 £000's	2003 £000's
Interest receivable	366	491
Realised exchange gain	–	324
	366	815

4 Interest payable and similar charges

	2004 £000's	2003 £000's
Interest payable and similar fees	29	17
Unwinding of discount on provisions (see Note 19)	23	20
Realised exchange loss	84	–
	136	37

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2004 £000's	2003 £000's
Depletion and depreciation	3,527	4,276
Auditors' remuneration for audit services		
UK companies	51	46
Overseas companies	33	75
	84	121
Auditors' remuneration for non-audit services		
UK companies	74	75
Overseas companies	22	–
	96	75

The amounts payable to Deloitte & Touche LLP by the Group in respect of non-audit services related to taxation, remuneration advice and corporate governance. Fees related to taxation comprised compliance in the amount of £22,000 (2003 – £8,700), advisory services of £21,900 (2003 – £33,100) and advice in relation to the sale of the Tunisia interest (see Note 26) of £12,100. Fees related to remuneration included advice in respect of annual benchmarking of £11,500 (2003 – £8,900), specific policy reviews in the amount of £21,800 (2003 – £5,300) and performance criteria measurement at £2,000 (2003 – £1,100). Remuneration advisory fees additionally comprised advice on shareholder reporting of £2,600 (2003 – £10,700) and corporate governance issues of £2,000 (2003 – £7,200).

6 Staff costs

The average monthly number of employees (including Executive Directors but excluding contractors and local staff of overseas operations) was 15 (2003 – 15), of which 12 (2003 – 12) were administrative personnel and 3 (2003 – 3) were operations personnel. Their aggregate remuneration comprised:

	2004 £000's	2003 £000's
Wages and salaries	1,947	1,899
Social security costs	82	62
Other pension costs under money purchase schemes	171	122
	2,200	2,083

7 Directors' remuneration, interests and transactions

Directors' remuneration

Aggregate Directors' remuneration comprised:

	2004 £000's	2003 £000's
Emoluments	1,214	1,174
Money purchase pension contributions	90	48
	1,304	1,222

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

Directors' interests

The interests (all of which were beneficial except as noted below) of the Directors in the ordinary shares of the Company (Shares), warrants to subscribe for the same number of Shares (Warrants) and options to acquire Shares (Options) at 31 December 2004 were as follows:

	Number of Shares		Number of Options ¹		Number of Warrants	
	2004	2003	2004	2003	2004	2003
Executive Director						
E Story	994,456	994,456	3,793,612	3,990,788	–	–
R Cagle ²	70,000	70,000	3,580,646	3,831,857	–	–
Non-Executive Director						
P Maugein ³	6,510,804	5,791,435	–	–	365,867	325,215
P Kingston	4,000	4,000	–	–	–	–
O Barbaroux	10,000	10,000	–	–	–	–
R Cathery	70,000	70,000	–	–	–	–
E Contini	20,000	10,000	–	–	–	–
J Norton	115,000	115,000	–	–	–	–
M Roberts	5,000	–	–	–	–	–
J Snyder ⁴	500,000	500,000	–	–	–	–
R de Sousa ⁵	1,219,987	3,657,873	–	–	1,549,853	1,671,809

¹ Details of Options granted to or held by the Directors in respect of their services as a director, including any relevant conditions of exercise, are set out in the Directors' Remuneration Report on page 40.

² Options held by Mr Roger Cagle as at 31 December 2004 include 1,358,539 (2003 – 1,465,720) held by Cynthia Cagle, having been granted to her in respect of her services to the Group.

³ Mr Patrick Maugein's interests are held by Chemsal Limited, which is owned by a trust company whose potential ultimate beneficiary is the family of Mr Maugein, and by Yunfiel SA, of which Mr Maugein owns 100% of the issued ordinary share capital. Chemsal Limited holds 5,791,435 (2003 – 5,791,435) Shares and 325,215 (2003 – 325,215) Warrants at an exercise price of £0.55. Yunfiel SA holds 719,369 (2003 – nil) Shares and 40,652 (2003 – nil) Warrants at an exercise price of £0.55.

⁴ Mr John Snyder's interest is held by Snyder Family Investments, L.P., which is owned by other partnerships and trusts of which Mr Snyder and members of his family are owners and/or beneficiaries.

⁵ Mr Rui de Sousa's interests are held by New Falcon Oil Limited, of which Mr de Sousa owns 100% of the issued ordinary share capital and by Palamos Limited, which is owned by a trust company whose potential ultimate beneficiary is the family of Mr de Sousa. New Falcon Oil Limited holds 614,619 (2003 – 614,619) Shares and 40,652 (2003 – 40,652) Warrants at a price of £0.55. Palamos Limited holds 605,368 Shares (2003 – nil) and 528,678 (2003 – 528,678) Warrants at an exercise price of £0.65, 925,187 (2003 – 925,187) Warrants at an exercise price of £0.60 and 55,336 (2003 – 14,685) Warrants at an exercise price of £0.55. Mr de Sousa no longer holds a notifiable interest in relation to the Shares (2003 – 3,043,254) or Warrants (2003 – 162,607 at an exercise price of £0.55) held by Quantic Limited.

Whilst the Executive Directors, as potential beneficiaries, are technically deemed to have an interest in all Shares held by the SOCO Employee Benefit Trust (Trust), the table above only includes those Shares which are potentially transferable to the Directors and their families pursuant to Options which have been granted to them under incentive schemes facilitated by the Trust. Details of the Trust and its holdings are set out in Note 22.

Subsequent to 31 December 2004 Mr Ettore Contini acquired an additional 40,000 shares. There have been no other changes in the interests of the Directors between 31 December 2004 and the date of this report. No Director held any other interests in any Group companies.

7 Directors' remuneration, interests and transactions continued

Directors' transactions

Pursuant to a lease dated 20 April 1997, Comfort Storyville (a company wholly owned by Mr Ed Story) has leased to the Group office and storage space in Comfort, Texas. The lease, which was negotiated on an arm's length basis, has a fixed monthly rent of US\$1,000.

In January 2001, the Group entered into an agreement (the Option Agreement) with Mr Rui de Sousa wherein, in exchange for consideration in the amount of US\$400,000 (£267,000), the Group has secured an option to acquire a 30% shareholding in a special purpose entity created by Mr de Sousa to pursue a specific field development and to hold any rights as may be acquired for such development. The Option Agreement, which was negotiated on an arm's length basis, was extended during the year for nil consideration and expires on 31 December 2006 unless extended prior to that date by the Group.

As described in the Financial Review on page 22, with effect from July 2004 the Group entered into a consulting agreement with Quantic Limited (Quantic), a company in which Mr Patrick Maugein and Mr Rui de Sousa have an interest. Under the terms of the agreement, Quantic is entitled to a consulting fee in the amount of US\$50,000 per month in respect of such services as are required to review, assess and progress the realisation of oil and gas exploration and production opportunities in certain areas for a period of 24 months, after which time the consulting agreement will be reviewed.

8 Tax on profit on ordinary activities

Analysis of charge

	2004 £000's	2003 £000's
Current tax		
UK corporation tax at 30% (2003 – 30%)	–	–
Overseas taxation	5,178	4,722
	5,178	4,722
Adjustments in respect of previous years:		
UK corporation tax at 30% (2003 – 30%)	–	–
Overseas taxation	(237)	(201)
	4,941	4,521
Deferred taxation		
Origination and reversal of timing differences	619	(407)
	5,560	4,114

Deferred taxation includes recognition of a net deferred tax charge of £201,000 (2003 credit – £181,000) in respect of the Tunisia interest and a net deferred tax charge of £439,000 (2003 credit – £126,000) in respect of the Yemen interest. There is no unprovided deferred taxation at either balance sheet date except for an unprovided deferred tax asset arising in respect of tax losses that are not expected to be utilised.

8 Tax on profit on ordinary activities continued

Factors affecting tax charge

	2004 £000's	(Restated) 2003 £000's
Profit on ordinary activities before tax	21,059	9,801
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 – 30%)	6,318	2,940
Effects of:		
Expenses not expected to be utilised as a tax loss	753	439
Non taxable profit on disposal (see Note 26)	(2,517)	–
Fixed asset timing differences	(560)	252
Other timing differences	(59)	155
Utilisation of tax losses	–	(29)
Utilisation of tax credits	(112)	(99)
Higher tax rates on overseas earnings	1,355	1,064
Adjustments to tax charge in respect of previous periods	(237)	(201)
Current tax charge for period	4,941	4,521

The tax charge in future periods may also be affected by these factors.

The Group's overseas tax rates are higher than those in the UK, primarily because the profits earned in Tunisia are taxed at a rate of 50% and those earned in Yemen are taxed at a rate of 35%.

9 Profit attributable to SOCO International plc

The profit for the financial year, inclusive of dividends received from subsidiary undertakings, dealt with in the accounts of the Company was £23,462,000 (restated 2003 – £4,989,000). 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 adjustment

Effective 1 January 2004, the Group adopted Urgent Issues Task Force (UITF) Abstract 38 "Accounting for ESOP Trusts" and the related amendments to UITF Abstract 17 (revised 2003) "Employee Share Schemes". The adoption of UITF Abstract 38 and UITF Abstract 17 (revised 2003) represents a change in accounting policy for the way the Group presents and accounts for own shares held by the SOCO Employee Benefit (Trust). The comparative figures in the primary statements and notes have been restated to ensure that they are presented on a consistent basis. Further details of the Trust are provided in Note 22.

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

	2004 £000's	2003 £000's
Profit and loss account		
Increase in administrative expenses	125	150
Balance sheet		
Decrease in fixed asset investments	1,411	1,486
Decrease in other reserves	794	1,171
Decrease in profit and loss account	617	315
Decrease in net assets	1,411	1,486

11 Earnings per share

The calculation of the basic earnings per share is based on the profit for the financial year and on 69,740,521 (2003 – 69,337,797) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year, excluding 2,475,000 (2003 – 2,227,342) ordinary shares of the Company held by the Group (see Note 22).

The calculation of the diluted earnings per share is based on the profit for the financial year and on 78,812,689 (2003 – 78,577,437) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year including 2,475,000 (2003 – 2,227,342) ordinary shares of the Company held by the Group (see Note 22) and 6,597,168 outstanding share options and warrants (2003 – 7,012,298) that have a diluting effect on earnings per share.

12 Intangible fixed assets

	Group £000's
Exploration expenditure	
As at 1 January 2004	82,311
Additions	10,212
Disposals	(1,181)
Foreign exchange	(6,181)
As at 31 December 2004	85,161

Exploration expenditure comprises the Group's exploration and appraisal projects which are pending determination and are held outside depreciable pools. This includes £39.0 million (2003 – £40.4 million) in respect of the Mongolia project and £37.5 million (2003 – £32.8 million) in respect of the Vietnam project. Subject to the completion of the transaction described in Note 28, significant further appraisal is planned in Mongolia and therefore, despite the existence of proved reserves and a pilot production programme, the Mongolia project is included within intangible fixed assets.

13 Tangible fixed assets

	Group			Company
	Oil and gas properties £000's	Other £000's	Total £000's	Other £000's
Cost				
As at 1 January 2004	43,575	1,675	45,250	314
Additions	4,256	324	4,580	459
Disposals	(10,880)	(920)	(11,800)	(223)
Foreign exchange	(3,298)	(34)	(3,332)	–
As at 31 December 2004	33,653	1,045	34,698	550
Depreciation				
As at 1 January 2004	25,681	596	26,277	279
Charge for the year	3,335	192	3,527	66
Disposals	(6,161)	(223)	(6,384)	(223)
Foreign exchange	(1,992)	(26)	(2,018)	–
As at 31 December 2004	20,863	539	21,402	122
Net book value				
As at 31 December 2004	12,790	506	13,296	428
As at 31 December 2003	17,894	1,079	18,973	35

Oil and gas properties comprise the Group's current producing properties which each fall into separate depreciable pools. In December 2004 the Group disposed of its Tunisia interest (see Note 26) including fixed assets with a cost of £10.9 million and a net book value of £4.7 million. Other fixed assets comprise plant and machinery, computer equipment and fixtures and fittings.

14 Fixed asset investments

Principal Group investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2004 which principally affected the profits or net assets of the Group, all of which are indirectly held.

	Country of incorporation	Country of operation	Principal activity	Percentage holding
SOCO Tamtsag Mongolia, LLC	USA	Mongolia	Oil and gas exploration	100
SOCO Yemen Pty Limited ¹	Australia	Yemen	Investment holding	100
SOCO Exploration (Thailand) Co. Ltd	Thailand	Thailand	Oil and gas exploration	100
SOCO Vietnam Ltd ²	Cayman Islands	Vietnam	Oil and gas exploration	80

¹ The Yemen interest, which is in production, is held through Comeco Petroleum, Inc., in which SOCO Yemen Pty Limited held 58.75% of the ordinary share capital at 31 December 2004 (2003 – 58.75%).

² The remaining 20% minority interest is carried by the Group through the exploration phase, with the carried costs plus accrued interest to be recovered from any subsequent production.

Subsidiary undertakings

	Company £000's
Cost as at 1 January 2004	72,326
Additions	23,964
Cost as at 31 December 2004	96,290

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

15 Stocks

	2004 £000's	Group 2003 £000's
Crude oil and condensate	106	40

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

16 Debtors

	Group		Company	
	2004 £000's	2003 £000's	2004 £000's	(Restated) 2003 £000's
Amounts falling due within one year				
Trade debtors	1,763	1,341	–	–
Amounts owed by Group undertakings	–	–	308	209
Taxation	520	416	30	16
Deferred taxation	267	–	–	–
Other debtors	286	418	4	31
Prepayments and accrued income	2,287	959	103	150
	5,123	3,134	445	406
Amounts falling due after more than one year				
Deferred taxation	836	1,629	–	–
	5,959	4,763	445	406

The deferred tax asset arises in respect of fixed asset timing differences and unutilised tax losses. The deferred tax asset is recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred taxation asset can be recovered in future periods based upon economic models of each operation.

17 Current asset investments

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

18 Creditors: Amounts falling due within one year

	Group		Company	
	2004 £000's	2003 £000's	2004 £000's	2003 £000's
Trade creditors	917	2,147	–	–
Taxation and social security	33	58	31	14
Other creditors	107	980	69	32
Accruals and deferred income	4,490	5,401	317	127
	5,547	8,586	417	173

19 Provisions for liabilities and charges

	Group	
	Decommissioning £000's	Deferred taxation £000's
As at 1 January 2004	1,623	1,656
New provisions and changes in estimates	129	201
Disposal of subsidiary	–	(1,718)
Unwinding of discount (see note 4)	23	–
Foreign exchange	(110)	(139)
As at 31 December 2004	1,665	–

The provision for decommissioning is based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field (currently estimated to be between 11 and 14 years) in the removal and decommissioning of the facilities currently in place.

Deferred taxation

Deferred tax is provided as follows:

	Group	
	2004 £000's	2003 £000's
Fixed asset timing differences	–	1,475
Other timing differences	–	181
	–	1,656

20 Derivatives and financial instruments

An explanation of the role that financial instruments have had during the year in creating or changing the risks that the Group faces in its activities, including currency exposures, is included in the Financial Review on pages 22 and 23.

There are no material financial assets or liabilities for which differences between carrying amounts and fair values are required to be disclosed.

21 Called-up equity share capital

	2004 £000's	2003 £000's
Authorised		
125,000,000 ordinary shares of £0.20 each (2003 – 125,000,000)	25,000	25,000
Allotted, called-up and fully-paid		
72,276,932 ordinary shares of £0.20 each (2003 – 71,979,846)	14,455	14,396

21 Called-up equity share capital continued

The Company issued 297,086 new ordinary shares of £0.20 each during 2004 (2003 – 636,450), including 91,744 shares issued upon the exercise of certain share options to purchase shares at £2.60; 14,500 shares issued upon the exercise of certain share options to purchase shares at £0.77 and 190,842 shares issued upon the exercise of certain share options to purchase shares at £0.59.

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

Exercise period	Number of shares under option	Subscription price per share
29.05.97 – 25.04.07	3,454,420	£0.750
15.09.01 – 15.09.05	637,201	£0.725
13.07.02 – 13.07.06	1,445,587	£0.590
04.05.03 – 04.05.10	19,250	£0.770
30.04.05 – 30.04.09	230,000	£2.250
30.09.06 – 30.09.10	50,000	£3.165
03.09.07 – 03.09.11	90,000	£2.920
03.09.07 – 03.09.14	10,000	£2.920

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

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

No warrants were exercised during 2004.

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 2004 (as previously stated)	41,325	34,537	38,348	114,210
Prior year adjustment (see Note 10)	–	(1,171)	(315)	(1,486)
As at 1 January 2004 (restated)	41,325	33,366	38,033	112,724
New shares issued (see Note 21)	303	–	–	303
Amortisation of employee benefit trust shares	–	376	–	376
Loss on foreign currency translation	–	–	(9,001)	(9,001)
Retained profit for the year	–	–	15,499	15,499
As at 31 December 2004	41,628	33,742	44,531	119,901

	Company			
	Share premium account £000's	Other reserves £000's	Profit and loss account £000's	Total £000's
As at 1 January 2004 (as previously stated)	41,325	(424)	17,999	58,900
Prior year adjustment (see Note 10)	–	–	(315)	(315)
As at 1 January 2004 (restated)	41,325	(424)	17,684	58,585
New shares issued (see Note 21)	303	–	–	303
Retained profit for the year (see Note 9)	–	–	23,462	23,462
As at 31 December 2004	41,628	(424)	41,146	82,350

22 Reserves continued

The Group's other reserves arose in respect of merger relief and upon the purchase of the Company's own ordinary shares (Shares), both held in treasury and acquired by the SOCO Employee Benefit Trust (Trust) net of amortisation. The number of treasury Shares held by the Group and the number of Shares held by the Trust at 31 December 2004 was 150,000 (2003 – 150,000) and 2,273,300 (2003 – 2,325,000) respectively. As at 31 December 2004 there were 782,700 Shares conditionally awarded and unvested (2003 – 2,297,100). The market price of the Shares at 31 December 2004 was £3.880 (2003 – £2.745).

The Trust, a discretionary trust, was established to facilitate the administration of long term incentive awards for senior management of the Group (see Note 7 and the Directors' Remuneration Report on pages 35 to 40). Vesting and exercise are conditional upon criteria set at the date of an award. When award conditions are met an unconditional transfer of Shares is made to the participants upon the exercise of a nil cost option, and these Shares are transferred out of the Trust.

The trustees purchase the Company's Shares in the open market. The Group has an obligation to make regular contributions to the Trust to enable it to meet its financing costs. Rights to dividends on the Shares held by the Trust have been waived by the trustees.

Charges of £376,000 (restated 2003 – £722,000) have been reflected in the profit and loss account in respect of the scheme and are included within administrative expenses.

23 Reconciliation of movements in Group equity shareholders' funds

	2004 £000's	(Restated) 2003 £000's
Opening equity shareholders' funds (restated)	127,120	135,210
Profit for the financial year	15,499	5,687
Unrealised currency translation differences	(9,001)	(14,354)
New shares issued (see Note 21)	362	862
Treasury shares purchased	–	(424)
Shares purchased for employee benefit trust	–	(583)
Amortisation of employee benefit trust shares (see Note 22)	376	722
Closing equity shareholders' funds	134,356	127,120

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

24 Reconciliation of operating profit to operating cash flows

	2004 £000's	(Restated) 2003 £000's
Operating profit	12,438	9,023
Depreciation, depletion and amortisation	3,902	4,998
(Increase) decrease in stocks	(343)	268
Increase in debtors	(552)	(508)
(Decrease) increase in creditors	(999)	2,829
Net cash inflow from operating activities	14,446	16,610
Net cash inflow from operating activities comprises:		
Continuing operating activities	8,933	11,621
Discontinued operating activities	5,513	4,989
	14,446	16,610

25 Analysis and reconciliation of net funds

	As at 1 Jan 2004 £000's	Cash flow £000's	Exchange movement £000's	As at 31 Dec 2004 £000's
Cash at bank and in hand	32,898	(475)	(1,946)	30,477
Current asset investments (see Note 17)	–	6,541	28	6,569
Net funds	32,898	6,066	(1,918)	37,046

26 Disposal of Tunisia assets

In December 2004 the Group completed a transaction with an economic effective date of 1 July 2004 whereby it sold its 100% subsidiary, SOCO Overseas Limited (SOCO Overseas), the parent of the wholly owned subsidiary SOCO Tunisia Pty Limited (SOCO Tunisia). SOCO Tunisia directly held the Group's Tunisia interest in the Zarat Permit offshore Tunisia in the Gulf of Gabès. PA Resources AB acquired SOCO Overseas for cash consideration of approximately £10.7 million after working capital adjustments and post economic date cash flow adjustments. The sale resulted in a net cash inflow in 2004 in the amount of £9.2 million reflecting the £10.7 million cash consideration net of transaction costs of £0.2 million and the Group's share of cash held by SOCO Tunisia of £1.3 million, and a profit of £8.4 million. During the financial period up to the completion date of the sale, the Tunisia interest contributed £5.1 million to the Group operating profit (2003 – £3.0 million). Immediately prior to the sale the Group's share of net assets held by the Tunisia interest was £6.3 million, including £4.2 million related to post economic date cash flow adjustments.

27 Sale of OILSOC Investment Company Limited

In March 2004 the Group's 100% owned subsidiary, SOCO North Africa Ltd (SOCO North Africa), and Oilinvest (Netherlands) B.V. (Oilinvest) completed a transaction with a subsidiary of Joint Stock Bank of the Gas Industry Gazprombank (Gazprombank) whereby Gazprombank acquired the entire issued share capital of OILSOC Investment Company Limited (OILSOC), a company which was owned by Oilinvest (55%) and SOCO North Africa (45%). OILSOC assets consist entirely of its 20% shareholding in ODEX Exploration Limited (ODEX), a specific purpose upstream joint venture formed by Oilinvest and SOCO North Africa. The sale resulted in a net cash inflow in 2004 in the amount of £1.2 million reflecting £1.3 million cash consideration net of the Group's share of net assets held by OILSOC, which has been recorded against the carrying value of intangible assets in the balance sheet. Following completion of the transaction, the ODEX shareholders are Oilinvest (46%), SOCO North Africa (34%) and Gazprombank via its OILSOC purchase (20%).

28 Subsequent events

In April 2005 the Group entered into a Sale and Purchase Agreement (Agreement) with an economic effective date of 1 January 2005, to sell its 100% owned subsidiaries SOCO Tamtsag Mongolia, LLC (SOTAMO) and SOCO Mongolia Ltd (SOCO Mongolia) to Daqing Oilfield Limited Company (Daqing), a subsidiary of PetroChina. Together SOTAMO and SOCO Mongolia hold the Group's Mongolia interest. Under the terms of the Agreement the Group will receive consideration of up to approximately US\$93.0 million comprised of cash consideration of US\$40.0 million plus a subsequent payment based on total crude oil produced from the Mongolia interest after the effective date in excess of 27.8 million barrels of oil.

The US\$40.0 million cash consideration is payable in two tranches, the first US\$30.0 million being payable, subject to normal working capital adjustments, upon completion. The second tranche of US\$10.0 million will be paid into an escrow account by Daqing upon completion to be released to the Group 18 months later upon the satisfaction of the condition that no material undisclosed additional liabilities are discovered. The remaining consideration is payable once cumulative production reaches 27.8 million barrels of oil as described above, at the rate of 20% of the average monthly posted marker price for Daqing crude multiplied by the aggregate production for that month, up to a total of approximately US\$53.0 million based on the estimated recoverable costs incurred to 31 December 2004 and expected to be approved by the Mineral Resources and Petroleum Authority of Mongolia.

For the year ended 31 December 2004 turnover of £1.7 million was attributable to the Mongolia interest. As this turnover arose from test production during an appraisal programme an amount was charged from appraisal costs to cost of sales so as to reflect a zero net margin. As at 31 December 2004 the Group's share of net assets held by the Mongolia interest was £35.5 million.

29 Capital commitments

At 31 December 2004 the Group had exploration licence commitments not accrued of approximately £1.2 million (2003 – £0.7 million).

30 Related party transactions

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

FIVE YEAR SUMMARY

	Year to 31 Dec 2004 £000's	(Restated) ² Year to 31 Dec 2003 £000's	(Restated) ² Year to 31 Dec 2002 £000's	Year to 31 Dec 2001 £000's	Year to 31 Dec 2000 £000's
Consolidated profit and loss account					
Turnover – continuing operations	17,707	19,039	18,328	17,223	23,397
Turnover – discontinued operations ¹	7,394	6,451	7,715	20,094	22,455
Operating profit – continuing operations	7,319	6,066	5,212	6,039	11,558
Operating profit – discontinued operations ¹	5,119	2,957	4,392	7,286	10,491
Profit on ordinary activities after taxation	15,499	5,687	5,346	17,740	17,565

	2004 £000's	(Restated) ² 2003 £000's	(Restated) ² 2002 £000's	2001 £000's	2000 £000's
Consolidated balance sheet					
Fixed assets	98,457	101,284	87,638	84,950	94,064
Net current assets	37,564	29,115	50,946	58,172	34,447
Long term liabilities	–	–	–	–	(5,021)
Provisions for liabilities and charges	(1,665)	(3,279)	(3,374)	(1,051)	(1,040)
Net assets	134,356	127,120	135,210	142,071	122,450
Share capital	14,455	14,396	14,269	14,026	14,026
Share premium	41,628	41,325	40,590	38,910	38,910
Other reserves	33,742	33,366	33,651	33,543	34,593
Profit and loss account	44,531	38,033	46,700	55,592	34,921
Equity shareholders' funds	134,356	127,120	135,210	142,071	122,450

	Year to 31 Dec 2004 £000's	(Restated) ² Year to 31 Dec 2003 £000's	(Restated) ² Year to 31 Dec 2002 £000's	Year to 31 Dec 2001 £000's	Year to 31 Dec 2000 £000's
Consolidated cash flow					
Net cash inflow from operating activities	14,446	16,610	18,913	19,337	30,902

Other information

	2004 £000's	(Restated) ² 2003 £000's	(Restated) ² 2002 £000's	2001 £000's	2000 £000's
Earnings per share	22.2p	8.2p	7.7p	25.9p	25.6p
Diluted earnings per share	19.7p	7.2p	6.9p	23.8p	24.3p

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

² During 2004, the Group adopted UITF Abstract 38 "Accounting for ESOP Trusts" and related amendments to UITF Abstract 17 (revised 2003) "Employee Share Schemes", which constituted a change in accounting policy for the way the Group presents and accounts for own shares. Prior year figures were restated to reflect the new policy.

Net proven oil reserves

	Total	Mongolia	Thailand	Tunisia	Yemen
Reserves as at 31 December 2003	42.1	27.8	5.0	5.0	4.3
Changes in the year					
Revision to previous estimates	1.8	–	–	–	1.8
Change of interest	–	–	–	–	–
Sale of reserves	(4.5)	–	–	(4.5)	–
Production	(1.3)	(0.1)	–	(0.5)	(0.7)
Reserves as at 31 December 2004	38.1	27.7	5.0	–	5.4

Net proven and probable oil reserves

	Total	Mongolia	Thailand	Tunisia	Yemen
Reserves as at 31 December 2003	72.5	42.0	18.4	6.3	5.8
Changes in the year					
Revision to previous estimates	1.7	–	–	–	1.7
Change of interest	–	–	–	–	–
Sale of reserves	(5.8)	–	–	(5.8)	–
Production	(1.3)	(0.1)	–	(0.5)	(0.7)
Reserves as at 31 December 2004	67.1	41.9	18.4	–	6.8

Net proven and probable oil reserves yearly comparison

	2004	2003	2002	2001	2000
Reserves as at 1 January	72.5	58.1	59.3	82.2	87.1
Changes in the year					
Revision to previous estimates	1.7	6.4	0.4	33.0	(2.2)
Change of interest	–	9.2	–	–	–
Sale of reserves	(5.8)	–	–	(53.5)	–
Production	(1.3)	(1.2)	(1.6)	(2.4)	(2.7)
Reserves as at 31 December	67.1	72.5	58.1	59.3	82.2

Note: mmbbls denotes millions of barrels.

COMPANY INFORMATION

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Registered No: 3300821

Company Secretary

Cynthia B Cagle

Financial calendar

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

Advisors

Auditors
Deloitte & Touche LLP
London

Bankers

The Royal Bank of Scotland International
PO Box 64
Royal Bank House
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Registrar

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Solicitors

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Stockbrokers

Canaccord Capital (Europe) Limited
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Recognising opportunity
Capturing potential
Realising value

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