SOCO International plc Swan House 32-33 Old Bond Street London W1S 4QJ

SOCO International plc Annual Report and Accounts 2002

SOCO International plc

Annual Report and Accounts 2002

SOCO International plc Annual Report and Accounts 2002

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.

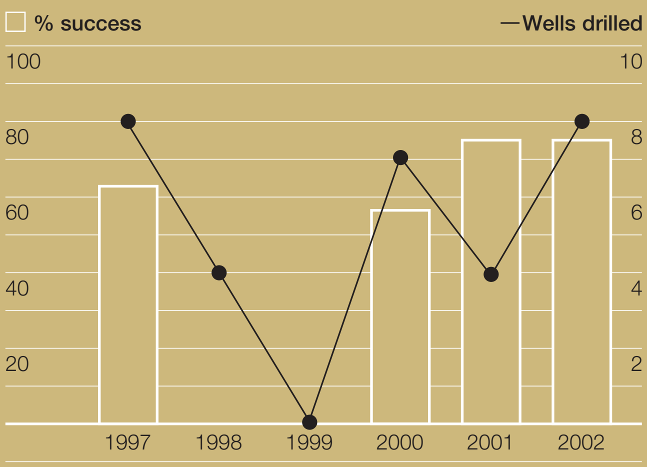
£m	2002	2001	2001 (continuing operations)
Turnover	26.0	37.3	22.8
Net cash inflow from operating activities	18.9	19.3	14.4
Net cash and deposits	51.5	58.6	58.6
Net assets	136.7	143.5	143.5

The Group continues to demonstrate a robust cash inflow from operating activities and a strong balance sheet. Ignoring foreign exchange effects from the strength of the reporting currency of British pounds sterling against the United States dollar, in which the majority of our cash balances are held, year end cash and short term deposits declined only £1.9 million despite the Group having its most active drilling programme in its history.

In what was a rather extraordinary year in terms of operating activity, financial results were mostly devoid of extraordinary influences with no major acquisition or disposal. Profit on ordinary activities was slightly affected by the write off of the Group's North Korea project.

Operational highlights
At a glance

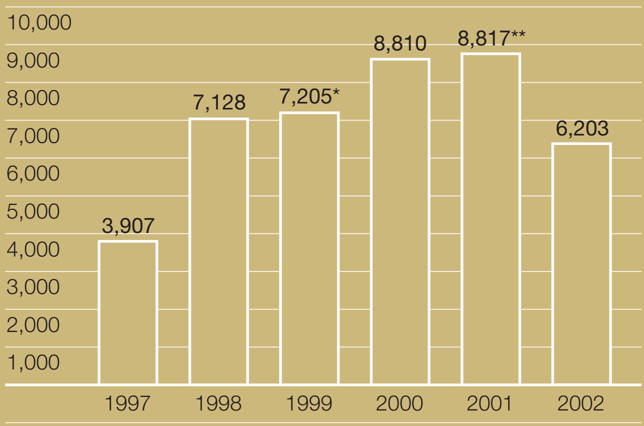
Exploration wells drilled/success



	Vietnam	Mongolia	Thailand
Location	Cuu Long Basin, offshore southeast Vietnam	Tamtsag Basin, eastern Mongolia	Western Basin, offshore Thailand
Total area size (km²)	3,946	25,609	2,400
Operational phase	Exploration drilling	Exploration drilling/ pilot production	Small field discovery (development candidate)
Project partners	Petrovietnam, PTT Exploration and Production Public Company Ltd, Thailand	Huabei Oilfield Services, Petrovietnam	
% owned by SOCO	20 to 23	85	50

Average daily production in barrels of oil per day (BOPD)

*UK asset sale – 1,029 BOPD **Russia asset sale – 2,853 BOPD



Yemen	Tunisia	Libya
East Shabwa, eastern Yemen	Gulf of Gabès, east central Tunisia	
11,835	724	
Production/development drilling	Production/appraisal drilling	Project assessment
Total/Occidental/Kufpec	MP Zarat	Oilinvest
17	22	43

Our portfolio based strategy driven by recognising opportunity, capturing potential and realising value was almost exclusively weighted toward capturing potential within the asset base that we carried into the year.

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

For SOCO, 2002 was focused on adding value through the drill bit. Our portfolio based strategy driven by recognising opportunity, capturing potential and realising value was almost exclusively weighted toward capturing potential within the asset base that we carried into the year. The particular asset in focus was Vietnam where the Company was well rewarded, as there were three discoveries out of the four exploration wells drilled – one of which appears to be a major discovery.

Against a backdrop of uncertainty in the oil markets and indeed the broader financial markets, the Company hedged the exploration risk in Vietnam by farming-out 50% of the Group's interests in return for the remainder of its interests to be funded through the initial four well exploratory drilling phase (a carried interest). As a result, the Company's cash position remained robust with a £51.5 million balance at year end.

The initial four well exploration drilling campaign began in May 2002 and continued into the first quarter of 2003. With the carried portion of the exploration phase ended, the Company will have to incur the obligation of funding approximately 50% of the continuing exploration and appraisal drilling programme in Vietnam. Therefore, the Board of Directors have decided not to declare a dividend.

Operations

Crude oil prices fluctuated widely during the year as they tested both the highs and lows of the target range established by the Organisation of Petroleum Exporting Countries, casting doubt on this organisation's ability to manage prices and thus fuelling further uncertainty. Overall, however, operating results were in line with expectations as SOCO reported an approximate £0.9 million increase in operating profit before exceptional items rising to £10.4 million from production net to its working interest of 6,203 barrels of oil per day (BOPD), which compares to £9.5 million from 5,964 BOPD reported last year net of the contribution from the discontinued Russia joint venture. Net cash flow from operating activities was down only 2% from £19.3 million to £18.9 million despite the disposal of over 30% of production. Although total profitability declined from the previous year, which included contribution from the Russia operations sold in that year and the profit from that sale, it compares favourably with the adjusted net profit, decreasing only £0.9 million to £6.1 million before exceptional items.

Drilling programmes in Yemen and Tunisia resulted in additions to the Company's crude oil reserves. Although demonstrating significant success in the Vietnam exploration drilling programme, SOCO must await the results of an appraisal drilling programme before determining any resultant impact on its proved and probable reserves. The exploration drilling successes in Mongolia require additional production testing before the full impact on reserves can be assessed.

Significant events

Prior to the commencement of the 2002 exploration drilling programme in Vietnam, the Group finalised two major transactions impacting its operations there. In January, the Company executed a Share Exchange Agreement with the minority shareholders of SOCO Vietnam Ltd (SOCO Vietnam). Under the terms of this agreement, SOCO acquired an additional 10% stake, increasing its interest in the majority owned subsidiary from 70% to 80%. Subsequently in February 2002, SOCO Vietnam executed a farm-out agreement with PTT Exploration and Production Public Company Limited of Thailand (PTTEP) to fund SOCO Vietnam's share of drilling a four well exploration programme on Blocks 16-1 and 9-2 in Vietnam in order for PTTEP to earn one-half of SOCO Vietnam's interest.

As reported in the 2002 Interim Report, SOCO Vietnam entered into an agreement with a subsidiary of Amerada Hess (Hess) to acquire one-half, 13.5%, of the Hess total working interest in Block 16-1 in the Cuu Long Basin offshore Vietnam. The remaining one-half interest was acquired by a subsidiary of our co-venturer in Vietnam, PTTEP. With this transaction, SOCO Vietnam's participating interest in Block 16-1 rose to 28.5%.

The aforementioned transactions reflect the Group's tactic of utilising relationships not only to acquire projects but also to strengthen the impact of its presence in such projects. As was the case with the Russia joint venture where we partnered with a subsidiary of OAO Lukoil and brought in the European Bank for Reconstruction and Development for multi-national aid donor financing, the chances of success with projects, especially those in emerging economies or developing nations, can often be significantly enhanced by choosing complementary co-venturers. PTTEP is a strong organisation that brings regional credibility and expertise to the Vietnam projects. By increasing the Group's direct stake in Block 16-1, we have reinforced our desire to have large enough interests in projects with upside to have a material impact on the Company's portfolio.

Stakeholder commitment

For the first time, this report includes a section specifically dedicated to corporate responsibility (see pages 20 to 23). Along with its economic results, the Company's environmental, ethical and social performances serve as benchmarks of its overall achievement.

On behalf of all the Directors of the Company, we wish to ensure that the process through which we attain our corporate results is conducted in such a manner as to ensure that the direct or tangential effects on dependent or interdependent systems or relationships are positive. Essentially, our aim is that all constituents should benefit from their interaction with the Company and each host country should benefit from the presence of SOCO's activities there.

Corporate

Following the vacancy created when the Group's prior auditors ceased trading in the UK, the Board conducted a rigorous review of proposals from a majority of the leading accounting firms. At the conclusion of the process the Board appointed Deloitte & Touche to serve as the Company's auditors until the 2003 Annual General Meeting at which time the shareholders will have an opportunity to vote on their reappointment.

In January 2003, two reports addressing various elements of corporate governance were issued for comment by special committees appointed by UK regulatory and governmental advisory groups. These reports, the Smith Report on audit committees and the Higgs Report on non-executive directors (together the Governance Reports), introduce many suggestions for sweeping changes in the structure and accountability of boards of directors – particularly the role of non-executive directors. As this year's Annual Report and Accounts goes to press, the final comment period on the Governance Reports remains open; however, it is our belief that a significant number of these reports' recommendations will be implemented with full effect for the next accounting year.

We believe that both of these reports mark progress in amalgamating a diverse set of previous recommendations and guidelines relating to corporate governance into one coherent set of benchmarks. We believe that SOCO has been a leader in its peer group in implementing best practice standards and we intend to continue to be pro active. We shall follow developments closely and commit to being prepared to incorporate any relevant requirements when the time arises.

Summary

The guiding principle for the Company continues to be value accretion. As 2002 sharply demonstrates, the focus is on adding shareholder value through building a portfolio of assets, which generate sustainable reserves, then capturing that value rather than focusing on generation of current income.

The Company enjoyed unparalleled success in 2002 with most of the exploratory wells it participated in encountering oil. In this industry, it is foolhardy to count on sustaining such a record. But clearly, by targeting projects that have acceptable risks and material upside, there is a reasonable opportunity for the Company to achieve a great deal of success. The formula that has worked for us is one we intend to apply in the future as we build our asset portfolio.

Outlook

We intend to build on the exciting beginning of our drive to realise potential in Vietnam. A rig has been retained for a further four to five wells to be drilled during 2003 with the expectation of being able to quantify reserves on the discoveries of the past year. Even beyond the upcoming programme, we believe there to be significant additional potential in as yet untested leads and prospects on both Blocks offshore Vietnam. Although Vietnam is expected to be a cornerstone of our ongoing portfolio, the Company intends to progress other assets in the portfolio, will seek opportunity to add additional value and will weigh opportunities for ongoing rationalisation of some of its non-core assets.

Whilst the phase of capturing potential has not yet begun in Libya, there are a large number of opportunities in the country that we believe fit the joint ventures' requirements. Even so, assimilation and analysis of the data on these will require a significant amount of effort. By comparison, we are just completing our first evaluation programme in Vietnam although the first project was awarded in 1999.

When first bringing projects into the portfolio, it takes time to find the right entry point and to build a structure that not only provides a framework to effectively progress each project, but also one that allows a smooth ingress or egress. The entry phase in Russia took over two years. Vietnam required even longer. It is important to realise the number of obstacles to overcome and the time required to do this, and how these factors vary from phase to phase of the portfolio valuation cycle.

We would like to express our appreciation to all the men and women around the world who have contributed to the success which the Company has enjoyed. We also wish to thank all of our stakeholders who believed in the SOCO story and who have supported us throughout. We appreciate your support and look forward to another exciting year for the Company.

Patrick Maugein
Chairman

Ed Story
President and Chief Executive

Review of operations

Exploration
The Group enjoyed tremendous drilling success during the year with excellent exploration discovery rates in Vietnam and Mongolia. Whilst the commercial impact of these discoveries remains uncertain pending appraisal drilling or long term production testing, the implications are significant.


Explore and appraise
Candidate for development
Production/ development/ generate cash flow
Realise value
Mongolia
Vietnam
Thailand
Yemen
Tunisia

Review of operations
continued

Vietnam

The Group acquired its first interest in the Cuu Long Basin in Vietnam in 1999 with the award of Block 16-1 to its majority owned subsidiary, SOCO Vietnam Ltd (SOCO Vietnam). This was followed in 2000 with the award of Block 9-2.

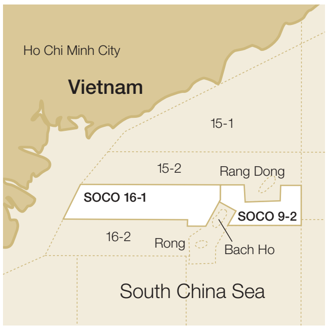
The initial periods following the awards were spent staffing the Joint Operating Companies (JOCs), non-profit entities through which operations in Vietnam are conducted. The Hoan Vu JOC has operating responsibility for Block 9-2. The Hoang Long JOC has operating responsibility for Block 16-1. These JOCs are staffed by personnel assigned by the contracting parties, subsidiaries of SOCO, PTT Exploration and Production Public Company Limited of Thailand (PTTEP) and Petrovietnam, the state owned oil company of Vietnam.

The first 3D seismic acquisition programme was conducted over Block 16-1 in 2000. The following year, a 3D seismic acquisition programme was conducted over Block 9-2. Exploratory drilling began in 2002.

In January 2002 the Group increased its interests from 70% to 80% in SOCO Vietnam, the entity through which the Group holds its interests in Block 9-2 and Block 16-1 in the Cuu Long Basin offshore Vietnam. Subsequently, in February 2002, SOCO Vietnam executed a farm-out agreement with PTTEP to fund SOCO Vietnam's share of drilling a four well exploration programme on both Blocks in order for PTTEP to earn one-half of SOCO Vietnam's interest. Later in the year, in a transaction which closed in early 2003, SOCO Vietnam raised its interest in Block 16-1 from 15% to 28.5% by acquiring 50% of Amerada Hess' (Hess) interest in this Block.



Vietnam drilling operations








The combination of these transactions resulted in SOCO Vietnam having a 25% working interest in Block 9-2 and a 28.5% interest in Block 16-1. Both Blocks are contiguous to the Bach Ho and the Rang Dong producing fields with production rates of approximately 250,000 barrels of oil per day (BOPD) and 150 million cubic feet of gas per day (MCFD) and 65,000 BOPD and 85 MCFD, respectively, at the beginning of 2003. The Company's capital funding requirements in Block 9-2 and its initial 15% interest in Block 16-1 were carried up to a maximum amount of US$50 million by PTTEP through the initial exploration programme under the terms of the farm-out agreement.

The initial exploration programme consisted of four wells, all of which began drilling in 2002 with three being completed during the year. All of these wells were designed as vertical tests, which would be abandoned regardless of the drilling outcome, to gauge the prospectivity of four separate and distinct prospects, two in each Block. Current development techniques throughout the Basin primarily employ horizontal or deviated wells, which typically achieve flow rates significantly greater than those seen in vertical wells.

Review of 2002 results

The exploration drilling campaign in Vietnam got underway in May of 2002 when the first well spudded on the "C" prospect on Block 16-1. The Ngua O-1X well was drilled to a depth of 3,684 metres, penetrating approximately 520 metres into Basement. A drill stem test (DST) was conducted in a Basement interval of 3,174 metres to 3,563 metres after encountering multiple fracture systems. The DST recovered oil at rates of approximately 250 BOPD over an 18 hour interval.

Although an earlier well drilled on the Block had tested approximately 500 BOPD from a Miocene interval and the mud log in the Ngua O-1X well indicated the presence of hydrocarbons in this interval, it was determined that the reservoir characteristics in the upper Miocene were not sufficiently developed to warrant testing. Structure size is the primary concern as a decision to further appraise this prospect will be deferred until after the results of additional drilling on both Blocks.

The second well in the overall programme and the first on Block 9-2, the Ca Ngu Vang-1X, spudded on 23 July to test prospect "D". The well was drilled to a total depth of 4,567 metres, entering Basement at 3,717 metres. An unstimulated open hole test was conducted over an extended period from a Basement interval of 850 metres. The final Basement flow test, impeded by a collapsed section at the top of the Basement interval, yielded a maximum combined rate of approximately 4,500 barrels of crude oil equivalent per day comprised of approximately 3,100 BOPD and approximately 7.9 MCFD.

Although the well was designed as a pure Basement exploration test, a minimal test without stimulation was conducted to test an oil bearing section in the lower Miocene after plugging back from the Basement interval. The test recovered a calculated rate of approximately 125 BOPD.

The Voi Trang-1X exploration well, the second exploration test on Block 16-1 and third in the programme, spudded in October on prospect "A". The well tested a maximum sustained rate of approximately 3,500 BOPD from a section that included both Oligocene and Basement intervals. The high quality 42º API crude was recovered from a bottom hole test conducted over an interval from 2,086 metres to 2,490 metres.

This well also experienced a borehole collapse near the top of the Basement interval. Information gathered from a production logging tool, was believed to indicate that the oil flowed primarily from the Oligocene section. However, due to the impediment caused by the collapsed borehole, the oil source was not definitive.

In late November, the final well of the initial exploration programme spudded on the "C" prospect on Block 9-2. The Ca Ong Doi-1X (COD-1X) well was drilled to a total depth of 4,618 metres terminating in granite wash.

The well encountered more than 1,050 metres of oil shows from inter-bedded Oligocene sands and shale source rocks. A DST was conducted over an open hole section from 3,565 metres to 4,618 metres. However, the interval was not heavily fractured and reservoir quality was therefore inadequate to yield commercial quantities of hydrocarbons.

From seismic re-interpretation, the COD-1X well appeared to be approximately five kilometres from the top of the Basement structure in a location chosen to test both Oligocene and Basement potential. On the basis of information gained from this well, the Company expects a subsequent exploration well will be drilled on the newly interpreted crest of the Basement structure.

Subsequent events and outlook for 2003

The rig used in the drilling of the first four wells in Vietnam has been retained for another four to five well programme to begin further exploration and appraisal drilling to substantiate the discoveries. The Group, which has thus far been carried except for the additional interest in Block 16-1 acquired from Hess, will fund its participating interest going forward. This includes funding its pro rata share of Petrovietnam's interest through the remainder of the exploration and appraisal programme.

A well spudded in February 2003 as an exploratory offset to the Voi Trang-1X discovery on Block 16-1.

Mongolia

Notably, the 19-16 well appears to have intersected the highest quality oil bearing reservoir yet encountered in Mongolia.

Mongolia

In the Tamtsag Basin in Mongolia where the Company's wholly owned subsidiary, SOCO Tamtsag Mongolia, currently holds an approximate 85% working interest in production sharing contracts (PSCs) over Contract Areas 19, 21 and 22, drilling commenced in the second half of 2002 after the Group negotiated a new drilling contract with the Chinese company providing the drilling services, Huabei Oilfield Services (Huabei). Through reduced contract drilling rates, Huabei has earned the right to take a pro rata working interest participation of 10% and a 5% working interest is being carried by the Group through the exploration phase for Petrovietnam, the Vietnamese national oil company.

The Group has thus far conducted a minimal programme having drilled a total of only 23 exploration and appraisal wells over four original PSCs encompassing an area of approximately 53,000 square kilometres. Mongolia remains primarily an exploration venture except for the pilot production programme in the southeastern quadrant of Contract Area 19. Crude oil produced from the pilot production test is sold at world prices under a contract with China National United Oil Corporation. The crude sold is trucked under a turnkey contract to a pipeline terminal in the Aershan Oilfield in China for further transportation to a refining centre.

Mongolia
Producing site from the pilot production programme in Contract Area 19.

Review of 2002 results

The Group had encouraging results in Contract Area 19 as it significantly expanded its area under evaluation by drilling two exploration wells 20 and 25 kilometres, respectively, outside of the pilot production area, which has been the focus in recent efforts. Both exploration wells, only one of which was production tested prior to suspension of drilling operations with the onset of the harsh Mongolian winter, encountered hydrocarbons. Notably, the 19-16 well appears to have intersected the highest quality oil bearing reservoir yet encountered in Mongolia. An appraisal well, drilled across a fault line from one of the structures drilled last year, gave additional confirmation to the reserves upgrade associated with last year's drilling programme.

The first well drilled, the 19-15 appraisal well, spudded in August at a site approximately one kilometre east of the 19-14 well, a producing well drilled in 2001. The 2002 well reached a total depth of 2,579 metres on 28 August having encountered 27 metres of oil shows in a gross interval from 2,006 metres to 2,084 metres in the same interval, the Tsagaantsav Sands of Lower Cretaceous age, as the adjacent discovery. The well was perforated and fracture stimulated prior to being put on production in November at an initial rate of 110 BOPD.

The 19-16 well was an exploratory test located approximately 20 kilometres northeast of the Contract Area 19 development to test a large, previously undrilled structure. It was the first well to be drilled on a sparse seismic grid covering the eastern margin of the basin. The well was drilled to a total depth of 2,227 metres and encountered 31 metres of oil shows in the Tsagaantsav gross interval from 1,682 metres to 1,730 metres. Initial production testing recovered oil and formation water and indicated a good reservoir capable of sustained production.

The last well in the 2002 drilling programme and the second exploratory well was located approximately 25 kilometres north of the Contract Area 19 development. The 19-17 well was drilled to a total depth of 2,445 metres having encountered 26 metres of oil shows in the Tsagaantsav interval from 2,175 metres to 2,348 metres. The well was suspended due to the onset of winter and is expected to be tested in the second quarter of 2003.

Although wells capable of production are located in Contract Areas 19 and 21, those in Contract Area 21 are shut-in primarily due to the distance from processing and storage facilities. Producing wells are regularly taken off stream to deal with mechanical or downhole issues or to experiment with various production enhancing techniques as the operations group seeks to identify the optimum producing configuration for the field. As a consequence, it is unlikely that production will materially increase in this pilot production scheme in the near term.

Subsequent events and outlook for 2003

Following the results of the 19-16 well, the Group has budgeted for the acquisition of additional 2D seismic in the region northeast of the current pilot production programme. A 2D acquisition programme is also scheduled for the northern part of Contract Area 21, where little seismic has been acquired to date. This area has become of heightened interest due to the major discovery in the Hailar Basin, the China extension of the Tamtsag Basin, reported in November 2002 by Daqing Oil and Gas.

In total, the Group plans to acquire approximately 1,500 kilometres of 2D seismic during the winter and spring seasons to identify the location of exploratory tests to be drilled during 2003. Current plans call for a 2003

Mongolia drilling programme that includes the drilling of five wells in the Tamtsag Basin. The first well is expected to spud in the second quarter of the year.

Although some uncertainty remains as to the final outcome, plans for a pipeline delivering crude oil from the Russian oil fields near Irkust to the refining centres in Daqing seem to be progressing. Should these plans become reality and further exploration provide justification, there is discussion of a spur line which would extend south through the Hailar and Tamtsag Basins connecting to the refining centres near Beijing.

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

Thailand

The Company operates and holds a 100% interest, following relinquishment by a co-venturer, in Block B8/38 located offshore in the Gulf of Thailand. Block B8/38 holds a small field discovery, which is a candidate for development, and has remaining exploration potential.

Review of 2002 results

A 2D seismic programme was conducted in February as a prelude to the Group extending the Block B8/38 concession licence for another three years. A portion of the Block was relinquished as a prerequisite to an extension approval by the Thailand regulatory authorities in October. The Group's co-venturer in Block B8/38, which has generally exited the upstream oil and gas industry, opted not to participate in the licence extension and defaulted its 50% working interest back to the Group pending Thailand Governmental approval.

Various discussions continue regarding the nature of future exploration and development of this Block. Although prior negotiations regarding a farm-out leading to development did not come to fruition due to adverse events involving the potential farm-in company, discussions continue with at least three interested parties.

Subsequent events and outlook for 2003

With the Group having a 100% interest in Block B8/38, there are some interesting possibilities for progress to be made on the Block. In the meantime, personnel in the Thailand office continue to oversee the obligations as operator on the Block as well as acting as facilitators with PTTEP regarding joint interests in Vietnam.

North Korea

SOCO affiliate SOCO-Koryo International Ltd. acquired interests in a PSC over an approximate 9,600 square kilometres concession, mostly offshore, in the West Korean Bay after evaluating regional geological similarities to the highly prospective Bohai Bay Basin of northeastern China. The concept was to take advantage of a relatively inexpensive opportunity in a virgin basin to forge a co-venturing team providing the Group with a carried interest.

In the interim, the much anticipated reconciliation overtures between North Korea and South Korea have become increasingly bellicose. On the eve of a decision to renew the Group's commitment there, the likelihood of a meaningful thawing of relations between the two countries appears even more remote. As a consequence, the Group believes that it is not prudent to pursue the North Korea project any further and does not envision renewing its licence, which is now in force majeure, beyond its expiry date in May 2003.

Dan Mercer, Vice President-Operations (right) and John Snyder, Non-Executive Director.

Production and development

Crude oil production net to the Group's working interests, excluding the contribution from its disposed Russia operations (2,853 BOPD), rose slightly in 2002 to 6,203 BOPD from 5,964 BOPD the previous year. The majority of production, 4,214 BOPD, comes from the East Shabwa Development Area in Yemen (East Shabwa). Production from the Didon field in the offshore Tunisia Zarat permit,1,609 BOPD, and from the Tamtsag Basin pilot production project in Mongolia, 380 BOPD, account for the remainder.

Yemen

SOCO holds its interests in East Shabwa through its 58.75% majority shareholding in Comeco Petroleum, Inc. (Comeco), which translates into a 16.785% indirect working interest in East Shabwa. A subsidiary of Occidental Petroleum Corporation, which also has an unrelated independent interest in East Shabwa, acquired the minority interest in Comeco in 2002. The East Shabwa concession is operated by TotalFinaElf E&P Yemen.

East Shabwa production is piped to crude oil transfer facilities on the neighbouring Nexen operated Masila Block which produces approximately 270,000 BOPD. East Shabwa crude oil production is commingled with Masila production and transported by pipeline to the Ash Shihr export terminal on the Yemen coast. SOCO's share of the crude produced is currently sold under a 12 month contract benchmarked to the official Yemen selling price.

Review of 2002 results

Total crude oil production increased approximately 22% during the year rising from approximately 23,000 BOPD to 28,000 BOPD as the Phase III drilling programme got underway in the first half. The drilling of new wells and improvements in facility throughput offset the increasing water cuts typical of wells in this area of Yemen.

Nine wells were drilled during the year – seven producers, one water disposal well and one exploration well. The exploratory test, the Amani well, was drilled into Basement reservoir which yielded some gas, but the well was plugged back and tested heavy oil from the Cretaceous Biyad reservoir. It is currently suspended. Drilling performance improved throughout the year, resulting in a steady reduction of drilling costs to approximately 20% below budgeted targets. A new development approach consisting of directional wells drilled from multi-well clusters contributed to reduced drilling and tie-in costs.

Yemen
Production facilities in the East Shabwa Development Area.

Facilities at the Atuf field were upgraded, boosting water treating capacity to 20,000 barrels of water per day (BWPD) and injection capacity to 18,000 BWPD. Field crude oil export capability was increased to 10,000 BOPD when pipeline upgrade work was completed, thus eliminating the requirement for supplemental trucking of oil.

Engineering work progressed on a hydro-cyclone project, which will allow increased field level separation and injection of produced water. The first installation is expected later this year, thus allowing production rates to be increased from many of the existing high water cut producing wells.

Subsequent events and outlook for 2003

The Phase III drilling programme will continue throughout the upcoming year. A recent Basement test provided a natural flow of approximately 2,000 BOPD, which could lend a new dimension to the remaining prospectivity of East Shabwa. Special equipment is required to place the flowing Basement test on long term production as the remaining wells in the area are on artificial lift. The equipment is being sourced.

Yemen and the surrounding region have been prominent in the news in relation to general unrest and various acts of civil disobedience. Although the East Shabwa operations have thus far been rather unaffected directly by events in the area, an incident that caused damage to an oil tanker preparing to dock at the export terminal during the past year did force a short production curtailment, but with no loss of product.

Tunisia

The Company holds a 22.22% non-operated working interest in the Zarat permit located 75 kilometres offshore eastern Tunisia in the Gulf of Gabès. Crude oil from the Didon field is produced into a floating production storage and off-loading facility (FPSO) and is sold into the spot market. Sales of 497,000 barrels were achieved during the year through six off-loadings from the FPSO.

Review of 2002 results

Improvement of production facilities resulted in new production records for the Didon field during the year as new highs were set for both annual production, approximately 2.6 million barrels of oil, and daily production, approximately 9,300 BOPD. The records were achieved as a result of a sub-sea cooler being installed to reduce flowing temperatures, which had previously restricted production rates.

Tunisia
Unloading of the FPSO at the Didon field in the Zarat Permit.

Production equipment aboard the FPSO was modified and upgraded during the year to accommodate the presence of produced water, which appeared for the first time since the sole producing well was put into service. The water cut was fairly stable at approximately 10% of the production stream as of year end.

There was a temporary halt to production in December as a result of damage to the marine riser. The well was out of service for approximately three weeks pending installation of a temporary replacement. Evaluation of the equipment failure and planning for a long term solution are in progress.

Drilling on the Didon 4 appraisal well began in July and ended just after year end after overcoming a number of difficulties while attempting to penetrate an apparent field extension east of the Didon 3 producing well identified through re-interpretation of seismic. The well was drilled to a total vertical depth of 2,763 metres and a total measured depth of 3,040 metres. The well identified excellent quality reservoir rock and subsequently tested at 3,200 BOPD from a horizontal section in the El Gueria reservoir. The well was shut-in pending completion of future field development plans.

Subsequent events and outlook for 2003

Work continues for the completion and tie-in of the Didon 4 discovery well as part of a comprehensive plan for total field development. The FPSO is expected to be taken out of service during the year for scheduled maintenance, which will have an adverse impact on 2003 production.

The Didon field, which has been producing since mid 1998, has just begun to produce some associated water. Based on the new discovery well and information related to the oil-water contact, the field is expected to continue to perform above initial expectations. Reserves in the Didon field have been increased from initial estimates by approximately 300% due to production performance to date.

Corporate responsibility

The Company has chosen to present its inaugural Sustainability Reporting in the general context and framework of triple bottom line reporting on the physical, economic and social environments. We are cognisant of the evolving body of work focused on this issue and mindful particularly of the more industry specific recommendations of such groups as the International Association of Oil and Gas Producers as well as those contained in the GRI Minerals Reporting Guidelines.

The Company is committed, within the context of its size and in accordance with the framework of applicable law, regulation and good industry practice, to conduct its business in such a manner as to benefit all its constituencies. Specifically the Company's objective is:

To manage our business in such a way as to identify and mitigate the risks associated with the processes we employ through responsible and accountable leadership that provides constructive, clear standards and creates the necessary physical, social and ethical environments for these standards to be implemented and effectively communicates the results that have been achieved.

Generally, companies in the oil and gas industry participate in projects as an operator, a non-operator or through joint venture structures. As operator, SOCO can exercise a great deal of control and applies the corporate objectives and standards as set out above. Where SOCO participates as a major interest holder or co-venturer, it can directly influence operations and seeks to ensure to the extent possible that good industry practice standards are maintained and similar objectives are applied. As a non-operator, the Company realistically exercises little control but avails itself of every avenue to influence operations to apply comparable objectives and standards.

Environmental performance

Our standard is to meet legal and regulatory requirements employing good industry standards whilst striving to utilise environmentally friendly materials and minimize any adverse effects of the by-products of our processes on the natural resources and ecosystems in which we operate.

The physical environment is inevitably impacted by the nature of many processes that this industry employs. The Company recognises this and is pro active in addressing potentially adverse impacts. Upon entry into a new project and before initiating operations, the Company engages independent third parties to conduct environmental impact studies, which in turn establish baseline parameters by which the impact of its operations can be measured.

Currently none of the Company's operated projects are in the development phase. In its exploratory operations, the Group attempts to physically isolate its project from its surroundings and to contain any by-products within the project perimeters. To the extent practicable, the project's energy requirements are met internally through recycling produced hydrocarbons. Generated waste is disposed of in the most favourable ecological process reasonably available. Provisions are in place to meet the cost of any remediation requirements upon site abandonment.

The Company has a clear formal policy concerning environmental issues as a subset of its overall health, safety and environmental policy (HSE), which includes a management template outlining specific action steps to assist those in the field who are responsible for implementing the policy. The Group's policy is reviewed in the context of each project and is adapted to meet any unique circumstances. A comprehensive HSE management system has been specifically designed for and operates in the Company's major projects in Vietnam.

Specific responsibility for HSE is assigned to the Vice President of Operations, who is responsible for ensuring that the corporate policy is disseminated throughout the organisation and that initial and ongoing training is adequate to implement the policy. He reports to the Chief Executive at Board level and his performance is independently audited by the Senior Independent Non-Executive Director, who has substantial experience in this area. Formal reporting to the Board of Directors is in place that routinely reports against incidents and additionally provides follow-up through the investigative process to determine the cause and actions for prevention of future recurrence.

The Group routinely employs third parties to provide inspections of major equipment and processes. Independent audits of HSE practices are conducted on major contractors.

Economic performance
Our standard is to aspire to employ ethical behaviour in the pursuit of corporate commercial objectives in a synergistic relationship with the macro-economies in which we operate and to do so in the framework of a business process that identifies risks and utilises sound practices to safeguard the assets of the corporation.

The economic environment in the industry in which the Company operates is very competitive. The Company believes that its focus on relationships is a major factor in allowing it to compete successfully in seeking projects that offer material upside to its shareholders.

Utilisation of relationships implies that the Company seeks a broader presence in its areas of operation, beyond the scope of an individual project. By partnering with people who understand a particular region, who are experienced in working in that region or who have a common interest with the progress of a particular region, we believe it adds to the likelihood of the Company being successful in the region. This success is sustainable because products and resources are sourced locally when reasonably available. In many cases it means that the Company is the catalyst for creating support infrastructure where none exists.

SOCO's entry into Mongolia re-established an industry dormant in modern Mongolia. Through the Company's and Mongolian Government's co-operation, an indigenous ministry was appointed and a legal framework was constructed by an independent legal firm enabling SOCO Mongolia to sign the first production sharing contracts (PSCs) in the country in 1993. These PSCs led to our initial exploratory operations, which required support and infrastructure. SOCO worked with indigenous Mongolian entrepreneurs to train and equip them to provide services to the Company, thus creating both direct and indirect employment opportunities for the indigenous population. In 2002, the Company was recognised by the Mongolian Government as being the top foreign investor in the country.

The Company's promising venture in Vietnam came to fruition through its association with a consortium led by an expatriate Vietnamese with industry experience who wished to return to Vietnam to develop oil and gas opportunities. SOCO's projects there are run through Joint Operating Companies that provide dual job postings in which expatriates and indigenous Vietnamese work side by side facilitating an exchange of technical and cultural insights with the ultimate goal being the complete Vietnamisation of the projects.

Social performance
Our standard is to endeavour to create a fair, safe and healthy environment in which a fairly compensated, culturally and ethnically diverse, direct and indirect workforce can interact productively in business activities and in the greater community in a transparent manner.

Social initiatives vary broadly from the Company's headquarters in London, to its technical offices in Calgary to its various project sites with wide ranging priorities. The Company, through its operating entities, provides ongoing training to ensure that its employees and contractors operate in the safest manner possible. It administers a clear formal HSE policy as described in the above section. SOCO diligently seeks to create a non-discriminatory setting, mindful of the labour force limitations imposed by some of its countries of operation, wherein a diverse labour force can fulfil their career ambitions.

The Company has formal policies and procedures that govern personnel matters and document that SOCO is an equal opportunity employer where marital status, sex, religion, race or ethnic origin has no bearing on the recruitment process. Applications for employment by disabled persons are fully considered on the basis of skill, knowledge and ability to perform in the required post. In the event of a member of staff becoming disabled, every effort will be made to ensure that their employment with the Group continues and that appropriate training is arranged.

The Group values the involvement of its employees and endeavours to keep them informed on matters affecting them as employees. Employees have formal annual appraisals and the Company provides for training, educational assistance and professional memberships to allow them to progress their careers within the

Company. Because we are a small company, every employee has the opportunity to interact directly with officers of the Company. Formal and informal meetings are routinely conducted to apprise staff members of Company activities.

We directly and indirectly support the communities in which we have a presence. In 2002, the Company provided financial support for flood victims in Vietnam; underwrote the construction of elementary schools in rural Vietnam; provided logistical and other support for a medical team from the United States donating specialist medical care for Mongolian children; provided clothing to Mongolian orphanages; constructed water treatment facilities for Mongolian villages and underwrote a higher education scholarship at the University of Cambridge to provide future leaders in Mongolia.

Indirectly the Company supports a variety of charities both through financing the participation of its employees in their chosen charitable activities and through underwriting various charity fund raising functions. During the year, the Company also underwrote or hosted economic forums for various Mongolian offices or agencies, offering other companies in the same and other industries a chance to learn of the opportunities to conduct business in the country. The Group also underwrote the publication of a modern chronicle of Mongolian history.

In summary, the Group recognises its ongoing obligation to meet its requirements to its various stakeholders. The commitment is real and the results are tangible.


SOCO provides educational support



Roger Cagle, Executive Vice President, Deputy CEO and CFO (left) and Robert Cathery, Non-Executive Director.

Review of 2002 results

Financial and operating

The Group recorded net profit of £5.5 million on turnover of £26.0 million. This compares to a net profit from ordinary activities of £9.3 million the previous year after excluding the profit of £8.5 million on the sale of its Russia operations. Further excluding the net profit contribution from the disposed Russia operations (£2.3 million) yields a previous year direct comparison of a net profit of £7.0 million on turnover of £22.8 million.

Daily average production net to the Company's working interest was 6,203 barrels of oil per day (BOPD) increasing slightly over last year's output of 5,964 BOPD excluding that from disposed Russia operations (2,853 BOPD). The increase in turnover primarily reflects the rebound in average crude oil prices for the year. The average price received per barrel of crude oil sold during the year by the Company increased by approximately US$2.50 to approximately US$24.00 as compared to US$21.50 reported in 2001. Operating profit on continuing operations increased to £10.4 million before exceptional items, from £9.5 million in 2001. Tax on profit on ordinary activities also increased to £5.3 million from £5.1 million in 2001. A £0.6 million exceptional write off of exploration expenditures related to the Group's decision not to extend its North Korea licence was recognised in the period.

Operating costs on continuing operations, excluding depletion and decommissioning provisions (DD&A), rose to £7.4 million from £5.8 million in 2001. On a per barrel basis, these operating costs increased to US$5.15 from approximately US$4.00 in 2001 excluding Russia, primarily reflecting the effect of pilot programme production costs in Mongolia, which are recorded to reflect nil gross margin, and the increased contribution from Tunisia. Due primarily to current capital expenditures, including cost overruns on the appraisal well in Tunisia, the DD&A provisions on continuing operations also increased from £5.5 million (approximately US$3.50 per barrel excluding Russia) in 2001 to £6.0 million (approximately US$4.25 per barrel) in 2002.

At year end the Group was debt free with a net cash position of £51.5 million, with balances held primarily in US dollars. Ignoring exchange rate differences primarily related to the strengthening of the pound sterling (GBP) against the US dollar, the balance declined £1.9 million from the prior year end. Exchange rate differences also resulted in an unrealised currency translation loss of £14.2 million arising on retranslation of the balance sheets of overseas operations at rates ruling as of year end. Due to the continuing programme in Vietnam where the Company will fund its working interest share plus carry its pro rata portion of the Vietnamese Government's share through further exploratory and appraisal drilling, and due to the uncertainty of project awards and thus the capital requirements of the Libya joint venture, the Board of Directors are not recommending the payment of a dividend.

Primarily as the result of the farm-out in Vietnam where its funding requirements for the four well initial exploration programme were carried, Group capital expenditures associated with fixed assets for the year decreased significantly to £15.9 million from £26.7 million in 2001. Although successful drilling programmes were conducted in Vietnam and Mongolia, any addition to net proved and probable crude oil reserve entitlements is pending appraisal drilling and/or long term production testing. Overall net proven and probable reserves, on an entitlement basis, were reduced from 59.3 million barrels at year end 2001 to 58.1 million barrels at year end 2002.

In July, the Trustees of the SOCO Employee Benefit Trust, established in 2001 to administer the Long Term Incentive Plan approved by shareholders at the Annual General Meeting in May 2001, acquired on the open market 325,000 ordinary shares in the Company (0.456%) at an average purchase price of £1.86. Following this transaction, the Trust holds 2,125,000 ordinary shares representing 2.98% of the issued share capital of the Company.

Significant events

In January 2002, SOCO executed a Share Exchange Agreement with the minority shareholders of SOCO Vietnam Ltd (SOCO Vietnam). Per the agreement, SOCO acquired an additional 10% of the shares of SOCO Vietnam thus increasing its interest in the majority owned subsidiary from 70% to 80%. The consideration for the exchange was 926,124 ordinary shares of £0.20 each (valuing each share at £1.893) in the share capital of SOCO, representing approximately 1.3% of the enlarged issued and outstanding share capital. The shares were admitted to the Official List of the UK Listing Authority on 18 February 2002.

SOCO Vietnam executed a Farm-out Agreement in February 2002 with PTT Exploration and Production Public Company Limited of Thailand (PTTEP), the partially privatised upstream branch of the Thailand national oil company. Per the agreement, PTTEP agreed to fund both its own share and SOCO Vietnam's share of the cost of drilling the four initial exploration wells on Blocks 9-2 and 16-1 in the Cuu Long Basin offshore Vietnam or to spend the maximum of US$50 million, whichever was less, to earn 50% of SOCO Vietnam's interest in the Blocks.

In August, SOCO Vietnam entered into an agreement with Amerada Hess (Vietnam) Limited (Hess) whereby it acquired one-half, 13.5%, of the Hess total working interest in Block 16-1 in the Cuu Long Basin offshore Vietnam (see Note 27 to the accounts). The remaining one-half interest was acquired by PTTEP Hoang Long Company Limited (PTTEP-HL), an affiliate of PTTEP. With this transaction, SOCO Vietnam's participating interest in Block 16-1 rose to 28.5%. The transaction was completed in February 2003. The terms of the two transactions, with 1 May 2002 effective dates, resulted in Hess meeting all of its partner funding obligations through July 2002. SOCO Vietnam and PTTEP-HL assumed the remainder of the financial obligations and all of the rights associated with the Hess interest.

Post the farm-out and acquisition of the Hess interest, SOCO Vietnam retains a 25% interest in Block 9-2 and a 28.5% interest in Block 16-1. The additional interest in Block 16-1 was not covered by the farm-out with PTTEP. PTTEP-HL and SOCO were responsible for funding their respective higher participating interests in the Voi Trang-1X discovery, the second well drilled on Block 16-1.

During the summer of 2002, the Group's prior independent auditing firm ceased trading in the UK. After a rigorous review of proposals from a majority of the leading international accounting firms, the Audit Committee recommended to the full Board of Directors the appointment of Deloitte & Touche to fill the vacancy. The Board approved the Audit Committee's recommendation. Shareholders will have an opportunity to vote on Deloitte & Touche's reappointment at the upcoming Annual General Meeting.

Subsequent events and 2003 outlook

The Group was carried through its major capital exposure as a result of the initial exploration programme in Vietnam. Going forward into this year, when an additional four or five exploratory or appraisal wells are to be drilled, the Group is responsible for funding its working interest as well as carrying its pro rata share of the Vietnamese Government's interest. As a consequence, the Group's cash balance is expected to be drawn down more than in previous periods.

Rationalisation of the Group's asset portfolio is an ongoing process and may take a variety of forms. Although at this time, no additional transaction has reached the binding stage, the Company continues to be involved in a number of substantive discussions with various companies concerning potential transactions.

Risk management

Financial

The Board of Directors has designated the Chief Financial Officer as the executive responsible for SOCO's risk management decisions. Oversight is provided by the Audit Committee and ultimate approval authority is retained by the full Board.

Transactions in the oil and gas industry are predominantly in US dollars. The Company reports financial results in GBP. As a result, there may be significant potential for financial statements to be impacted by differences arising from movements in foreign exchange rates. These differences may distort results achieved from actual operations.

Generally, it is the Company's policy to conduct and manage its business in US dollars. Cash balances in Group subsidiaries are primarily held in US dollars or GBP. Balances may be held in local currencies to meet immediate operating or administrative expenses or to comply with local currency regulations. At times, short term hedging positions have been taken to protect the dollar value of the Group's cash balances held in currencies other than US dollars.

Although the Group is currently debt free, future capital requirements to fund operations may be partially satisfied through debt financing. The Company will seek to minimise balance sheet impacts of such financing by negotiating borrowings in matching currencies, primarily expected to be in US dollar denominations.

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

Operational

Conditions which have sharply elevated tensions in the Middle East and other parts of particularly the Arab world continue as of the date of this report. The direct and indirect results have significantly impacted, and will likely continue to impact, risk management, particularly in this industry which has operations in many of the affected regions. The costs of available insurance cover continue to rise while some types of cover cease to be available at any, or prohibitive cost.

Notwithstanding the Company's decision to self insure for war and terrorism risk, SOCO has in place a comprehensive insurance programme that includes property and casualty as well as liability coverages. Placed via an independent risk management brokerage group, the policies conform to industry best practice and provide substantial protection against typical industry operational risks. However, it is neither practical nor cost effective to obtain coverage for 100% of the potential consequences of adverse circumstances. The Company believes that an appropriate balance between exposure and coverage has been struck.

The Company has not entered into any long term marketing contracts with fixed prices. As a consequence production is sold on 'spot' or near term contracts, with prices fixed at the time of a crude oil lifting or on the basis of a monthly average marker price. Oil prices may fluctuate widely during any particular reporting period. Generally the Directors of the Company believe that investors in this sector are willing to accept commodity price risk. It is the Company's policy not to hedge crude oil sales unless such hedging is required to mitigate financial risk associated with debt financing of its assets or to meet the Company's commitments. Accordingly, no price hedging mechanisms were in place during the year. Over time, during periods when the Company sees an opportunity to lock-in attractive oil prices, it may engage in limited price hedging.

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

Board of Directors

1 Patrick Maugein (55)
Non-Executive Chairman
Mr Maugein joined the Board in July 1999. He has developed a portfolio of private investments in several industries and is currently Chairman of the Alternative Finance Group. Mr Maugein is Chairman of the Nominations Committee.

2 Ed Story (59)
President and CEO
Mr Story was President of the international subsidiary of Snyder Oil Corporation, Vice Chairman of Conquest Exploration Company, Vice President and CFO of Superior Oil Company and has held various positions with Exxon Corporation, including seven years' resident in the Far East. He is currently a director of Cairn Energy PLC. Mr Story is a member of the Nominations Committee.

3 Olivier Barbaroux (47)
Non-Executive Director
Mr Barbaroux joined the Board in July 1999. He is a member of the Executive Board of Vivendi Environnement and the Chairman and Chief Executive Officer of Dalkia. From 1999 to 2003, Mr Barbaroux was Managing Director of Compagnie Générale des Eaux and President and Chief Operating Officer of Vivendi Water S.A., having formerly been head of the Energy Sector of the corporate finance department of Paribas. Between 1993 and 1996, he was Chairman and CEO of Coparex International. Mr Barbaroux is a member of the Audit and Nominations Committees.

4 Roger Brittain (65)
Non-Executive Director
Mr Brittain joined the Board in March 1998. Having served seven years with HM Foreign Service, Mr Brittain is also a former director of Corporate Finance at Investec Henderson Crosthwaite. He was an advisor to Devon Energy Corporation and until recently the Chairman of CanArgo Energy Corporation and a director of Transmeridien Exploration, Inc. Mr Brittain is a member of the Remuneration, Audit and Nominations Committees.

5 Roger Cagle (55)

Executive Vice President
Deputy CEO and CFO

Mr Cagle previously held the position of Chief Financial Officer with the international subsidiary of Snyder Oil Corporation and with Conquest Exploration Company. Since 1975 he has held various managerial positions in the oil and gas industry including at Superior Oil Company and Exxon Corporation.

6 Robert Cathery (58)

Non-Executive Director

Mr Cathery joined the Board in June 2001. He has been a member of the London Stock Exchange since 1967 and currently is Managing Director at Canaccord Capital (Europe) Limited and a non-executive director of IndigoVision plc. Mr Cathery is a member of the Audit and Nominations Committees.

7 Ettore Contini (29)

Non-Executive Director

Mr Contini joined the Board in December 2001. Formerly an Asset Manager at Banca del Gottardo, Switzerland, he is currently on the Board of Directors of Italiana Energia e Servizi SpA. Mr Contini is a member of the Audit and Nominations Committees.

8 Rui de Sousa (47)

Non-Executive Director

Mr de Sousa joined the Board in July 1999. He has been the Chief Executive Officer of the Toro Group for over a decade and is also the Chairman of Mediterranean Oil Supply and Trading Limitada and a director of Quantic Limited and New Falcon Oil Limited. Mr de Sousa serves on the Remuneration and Nominations Committees.

9 Peter Kingston (60)

Non-Executive Deputy Chairman and Senior Independent Director

Mr Kingston is a petroleum engineer who has worked in the oil and gas industry since 1965 in various roles. He was a founding director of Enterprise Oil plc, going on to become Managing Director (Technical) and a director of Elf-Enterprise Petroleum Ltd. He is currently a director of Corporate Kudos Ltd, a consultancy advising senior managers on corporate social responsibility. Mr Kingston is Chairman of the Remuneration and Audit Committees and a member of the Nominations Committee.

10 John Norton (65)

Non-Executive Director

Mr Norton joined the Board in April 1997. He is a Chartered Accountant and retired in 1995 as a partner from Arthur Andersen, where he headed its oil and gas practice in Europe, the Middle East and Africa. He is currently a director of the Arab-British Chamber of Commerce and a member of the Oil Industry Accounting Committee. Mr Norton is a member of the Audit and Nominations Committees.

11 John Snyder (61)

Non-Executive Director

Mr Snyder joined the Board in April 1997. He was Chairman of the Board of Santa Fe Snyder Corporation, and also founded its predecessor, Snyder Oil Corporation. Currently, he is an advisory director for 4D Global Energy Advisors and a director of Texas Capital Bancshares. Mr Snyder is a member of the Nominations Committee.

Directors' report

Cynthia Cagle, Vice President and Company Secretary and Peter Kingston, Non-Executive Deputy Chairman and Senior Independent Director.

The Directors present their annual report, along with the audited accounts of the Group for the year ended 31 December 2002.

Principal activity and business review

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

A detailed review of the development of the business and its future prospects is contained in the Chairman's and Chief Executive's statement, the Review of operations and the Financial review on pages 4 to 19 and pages 24 to 27.

Results and dividends

The audited accounts for the year ended 31 December 2002 are set out on pages 42 to 57. The Group operating profit from continuing operations for the period was £10.4 million excluding exceptional items compared to £9.5 million in 2001. The Group profit after taxation for the period was £5.5 million compared to £17.7 million in 2001.

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 (2001 – £nil).

Directors

Director	Date of contract
Patrick C J Maugein* (Chairman)	12.07.99
Peter E Kingston* (Deputy Chairman and Senior Independent Director)	14.05.97
Olivier M G Barbaroux*	12.07.99
Roger W Brittain*	10.06.98
Roger D Cagle	14.05.97
Robert M Cathery*	19.06.01
Ettore P M Contini*	11.12.01
John C Norton*	14.05.97
John C Snyder*	14.05.97
Rui C de Sousa*	12.07.99
Edward T Story	14.05.97

*Denotes independent non-executive Director

The Directors who served during the year and the dates of their current service contracts are as indicated in the left-hand table. All Directors held office throughout the year. Relevant details of the Directors, which include their Committee memberships, are set out on pages 28 to 29. Details of Directors' interests and Directors' transactions are included in Note 8 to the accounts.

In accordance with the Articles of Association Mr Patrick C J Maugein, Mr Edward T Story and Mr John C Norton will retire by rotation at the forthcoming Annual General Meeting (AGM) and, each being eligible, offer themselves for reappointment.

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

Supplier payment policy

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

Charitable contributions

Information regarding the Company's charitable programmes, which are principally carried out in countries outside the UK where the Group has operations, is contained in the Corporate responsibility review on pages 20 to 23.

Employment policies

Information regarding employment policies of the Company is contained in the Corporate responsibility review on pages 20 to 23.

Share capital

Details of changes to share capital during the period can be found 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 10,704,000 shares representing up to 15% of the Company's share capital.

Two special resolutions will be placed before the AGM to replace the Directors' existing authorities to allot securities. One resolution will seek authority under Section 80 of the Companies Act 1985 (the Act) to allot relevant securities, pro rata to existing shareholders, up to a maximum aggregate nominal value of £4,757,726 representing one third of the Company's share capital. If approved, an additional resolution will seek authority under Section 95 of the Act to allot equity securities 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 £713,659 representing 5% of the Company's share capital. To ensure there is adequate authorised share capital in respect of these authorities and the subsisting warrants and options over shares in the Company, an ordinary resolution will be placed before the AGM to increase the Company's authorised share capital from 100,000,000 ordinary shares to 125,000,000 ordinary 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 interest of the Company generally and, for purchases of the Company's share capital, if expected to result in an increase in earnings per share.

Substantial shareholdings

As at 11 March 2003, the Company had been notified, in accordance with sections 198 to 208 of the Act, of the following interests in the issued share capital of the Company and warrants to subscribe for ordinary shares of the Company (Warrants).

	Issued shares		Warrants
Name of holder	Number	% Held	Number
Pontoil Intertrade Limited	9,160,543	12.83	487,823
Chemsa Ltd	5,791,435	8.11	325,215
Opale SA	5,100,000	7.15	0
Fidelity International Limited	5,017,360	7.03	0
Lansdowne Partners Limited Partnership	3,899,168	5.46	0
Quantic Limited	2,807,478	3.93	162,607
SIIF SA (Luxembourg)	2,500,000	3.50	0
Legal & General Investment Management Limited	2,173,265	3.04	0

Auditors

The Directors, having appointed Deloitte & Touche as auditors in order to fill a casual vacancy created when the Company's prior auditors ceased trading in the UK, will place a resolution before the AGM to reappoint Deloitte & Touche as auditors for the ensuing year. Deloitte & Touche also provide non-audit services to the Group which are set out in Note 6 to the accounts. The Directors are currently satisfied, and will continue to ensure, that this range of services is delivered in compliance with the relevant ethical guidance of the accountancy profession and does not impair the judgment or independence of either the auditor or the remuneration advisor.

By order of the Board
Cynthia B Cagle
Secretary
12 March 2003

Swan House
32-33 Old Bond Street
London W1S 4QJ

The Company has applied the Principles of Good Governance, which are set out in section 1 of the Combined Code and appended to the Listing Rules, as described below and, in connection with Directors' remuneration, in the Directors' remuneration report.

The Board

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

The Board has established three Committees, as described below, each having formal terms of reference approved by the Board which comply with the Cadbury Code of Best Practice. Each Director's specific committee memberships are set out on pages 28 to 29.

The Company's Directors strictly abide by their legal and ethical duties owed to the Company to act in the best interests of the Company and its shareholders as a whole. The Board has identified those non-executive Directors it considers to be independent in accordance with provision A.3.2 of the Combined Code and will review this in the context of any relevant changes enacted to the Code.

The Remuneration Committee

The Remuneration Committee consists of three non-executive Directors and is responsible for recommending for approval by the full Board the remuneration of the executive Directors and senior management of the Company and Group. Details of the Committee's policies and objectives are set out in the Directors' remuneration report on pages 35 to 40.

The Audit Committee

The Audit Committee comprises six non-executive Directors and meets at least three times a year. The Chief Financial Officer and a representative of the external auditors are normally invited to attend meetings. At least once a year the Committee meets with the external auditors without executive Board members present. Its primary responsibilities are to review the effectiveness of the Company's and Group's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of that audit, to review risk management processes, to evaluate and select external auditors and to review the annual and interim financial statements before they are submitted to the Board. The Audit Committee has specific responsibility for advising the full Board on compliance with the Combined Code, including its internal control requirements, as well as compliance with evolving guidance on corporate governance issues generally.

The Nominations Committee

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

Relations with shareholders

The Company maintains an open and active dialogue with shareholders. At a minimum, the Company provides three personal communication forums annually – the Annual General Meeting, presentation of Annual Results and presentation of Interim Results – whereby shareholders can directly interface with Company executive management. The Company maintains an internet web site wherein important information can be posted and disseminated promptly to a wide audience and through which shareholders can electronically interface with executive management.

The Board 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 pro actively seeking opportunities for face to face meetings at least twice a year, coincident with mid term and full year results, between fund managers and Company executive management.

Internal control

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

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

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

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

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

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

The Board has performed a specific assessment for the purpose of this Annual Report and Accounts which considers all significant aspects of internal control arising during the period and are satisfied with the process employed and the results thereof. The Audit Committee spearheads the Board in discharging its review responsibilities. Although the Company does not currently have an internal audit function, the Directors review at least annually the need to establish such a function.

Statement of compliance with Code of Best Practice

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

Directors' responsibilities

Accounts, including adoption of going concern basis

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

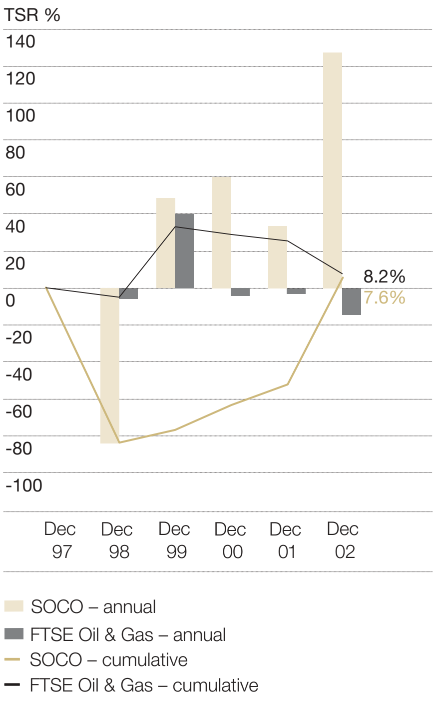
Other matters

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

Auditors' responsibilities

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

Five Year TSR Performance



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

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

The Company has complied throughout the period with the provisions of the Code of Best Practice set out in the Listing Rules of the FSA, as disclosed in the Company's corporate governance statements, and has applied the Principles of Good Governance relating to Directors' remuneration as described below.

Remuneration Committee

The non-executive Directors who served on the Committee during the period were Mr Peter E Kingston (Chairman), Mr Rui C de Sousa and Mr Roger W Brittain. All members are independent of management and free from any conflicts of interest arising from cross-directorships or day-to-day involvement in running the Company's business. No member has any personal financial interest, other than as shareholders, in the matters delegated to the Committee. No Director plays a role in deciding his own remuneration.

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. Their recommendations and decisions are to be developed in full consideration of the Code of Best Practice and with regard to institutional guidelines.

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

Remuneration policy

The policies described in this report have been applied throughout 2002. Whilst these policies are envisaged to be consistently applied in the following and subsequent years, the Committee has an ongoing process for reviewing its policies against evolving market practice and relevant guidance. The Committee would only expect to implement any proposed policy change following a consultation, review and approval process deemed appropriate to the proposed change.

Executive Directors

The Directors believe that a uniquely qualified and motivated executive management is vital to the effective management of the Company's international portfolio and the successful execution of its stated strategy of building shareholder value, as set out opposite page 1. 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 Directors' packages are benchmarked to competitive market ranges, taking into consideration the Group's size and complexity, and positioned within those ranges considering the Directors' critical value to the Company and demonstrated performance over time.

It is the Committee's policy to review all aspects of remuneration on an annual basis and with respect to individual and corporate performance during the year. These reviews are normally conducted in December.

Package components

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

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

Basic salary

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

Bonus

An executive Directors' discretionary annual cash bonus is targeted to provide a balance between basic salary and the performance related element of annual cash remuneration. The annual cash bonus will be awarded based on individual and corporate achievements during the year towards goals based on the Company's strategic plan. Bonus awards are considered in two levels, wherein expected performance will result in awards in the middle of a target range of up to 50%, with a stretch level of up to 100% for exceptional performance. The stretch level was utilised for awards to Directors in 2002 in light of the significance of the Company's exploration success in Vietnam.

Incentive plans

The Committee currently operates a Long Term Incentive Plan (LTIP) and a share option scheme (the Plans). The participants and the level of awards granted, which is discretionary, will be set in consideration of both corporate and individual performance and will 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 aggregate number of new issue shares which may be subject to award under the Plans shall not exceed 5% of the ordinary share capital of the Company. An employee benefit trust currently holds sufficient SOCO shares to satisfy all shares conditionally awarded under the LTIP, as more fully described in Note 14 to the accounts.

At the date of grant of an award, the Committee will set appropriate performance criteria which must be achieved before the award can be exercised or vest. Award levels will take into account the nature of performance targets to ensure that expected total compensation opportunity at assumed levels of share price growth is appropriate in the prevailing market. The Remuneration Committee considers that the Company's relative total shareholder return (TSR) provides the primary basis for determining the value generated for shareholders, and is also the primary indicator of the Company's overall corporate performance. Accordingly, performance targets for awards under the Plans since their approvals have been based on the Company's relative TSR performance over a three year period within a range of comparator companies in the oil exploration and production sector.

LTIP

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

LTIP awards are considered in the course of the annual review, which is intended to put in place an opportunity for regular annual vesting based on performance targets achieved over successive three year periods. Annual awards were made in December 2002 and 2001. The initial awards were deferred from December 2000 to May 2001 pending approval of the LTIP. Whilst this resulted in two awards in the same financial year, Plan limits were not exceeded.

Shares awarded under the Plan are subject to performance criteria measurable on the third anniversary of the date of grant. If the TSR ranking exceeds the median, the award will become exercisable as to 40% of the shares subject to award, with proportionally greater vesting for each higher ranking position up to 100% for ranking 1st or 2nd in the comparator group. The comparator group comprises Aminex, Cairn Energy, Dana Petroleum, Dragon Oil, Paladin Resources, Premier Oil, SOCO, Tullow Oil, Venture Production (having replaced Enterprise Oil) and Ramco Energy (having replaced Bula Resources). The Committee may give consideration, in the light of any exceptional circumstances during a relevant three year period, whether the recorded TSR is consistent with the achievement of actual underlying financial and operational performance which, for the awards to date, shall primarily be assessed, on the basis of appropriate external advice, in terms of the additions to and the management and quality of the Group's oil and gas reserves in view of goals set by the Board.

Option scheme

The Committee currently operates one share option scheme, being the SOCO 1997 Company Share Option Plan. No options have been granted to Directors since introduction of the LTIP. Directors held unvested options at the beginning of 2002 subject to performance criteria measurable on or after the third anniversary of the date of grant. If the Company's TSR ranking exceeded the median, 60% of the options would vest and become exercisable with proportionally greater vesting for each higher ranking position up to 100% for ranking in the upper third of the comparator group. The group comprised Aminex, Cairn Energy, Dana Petroleum, Dragon, JKX Oil & Gas, Paladin Resources, Premier Oil, Ramco Energy, Sibir Energy, SOCO, Tullow Oil, and four companies which ceased trading prior to the end of the measurement period. The Company ranked in first position as at the third anniversary of the date of grant, under a re-investment methodology previously adopted by the Committee as well as under a variety of alternative methods. Accordingly, the options have been determined to be 100% vested and exercisable. Measurement of the Company's relative TSR performance is carried out from external data sources by the Committee's remuneration advisors to ensure its independence.

The Directors hold share options under the SOCO-sub Unapproved Company 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.

Other policies

With prior approval of the Board, executive Directors are allowed to accept non-executive appointments to other boards and to retain the associated directors' fees.

Non-executive Directors

The remuneration of the non-executive Directors is determined by the Board as a whole, based on outside advice and review of current practices in other companies, and within the aggregate limits set out in the Company's Articles of Association and approved by shareholders. Non-executive Directors are not eligible for participation in the Company's incentive schemes or pension schemes.

Directors' contracts

Executive Directors' contracts are for an indefinite period and are terminable by either party on giving one year's notice which may be satisfied with a payment in lieu of notice. The 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, which may not coincide with their appointment, are set out in the Directors' report on page 30.

Audited information

Directors' emoluments

	Fees/Basic salary £000's	Benefits in kind[1] £000's	Annual bonus £000's	Total 2002 £000's	Total 2001 £000's
Executive Director					
E Story	310	19	310	639	494
R Cagle	217	22	163	402	349
Non-executive Director					
P Maugein	55	–	–	55	55
P Kingston[2]	55	–	–	55	55
O Barbaroux	25	–	–	25	25
R Brittain	25	–	–	25	25
R Cathery	25	–	–	25	13
E Contini	25	–	–	25	–
J Norton	25	–	–	25	25
J Snyder	25	–	–	25	25
R de Sousa	25	–	–	25	25
Aggregate emoluments	812	41	473	1,326	1,091

[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:

	2002 £000's	2001 £000's
E Story	25	25
R Cagle	25	25
	50	50

Directors' share options

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

	As at 1 January 2002	Granted/ Awarded	As at 31 December 2002	Exercise price £	Date from which exercisable	Expiry date
E Story						
Pre-IPO share plan [1]	**1,973,954**	**–**	**1,973,954**	0.750	29.05.97	25.04.04
SOCO share plan [2]	**89,286**	**–**	**89,286**	3.850	03.12.00	03.12.04
	284,253	**–**	**284,253**	0.725	15.09.01	15.09.05
	695,195	**–**	**695,195**	0.590	13.07.02	13.07.06
Deferred bonus [3]	**160,000**	**–**	**160,000**	–	31.12.02	21.03.11
LTIP [3]	**291,900**	**–**	**291,900**	–	24.05.04	24.05.11
	256,400	**–**	**256,400**	–	10.12.04	09.12.11
	–	**118,800**	**118,800**	–	04.12.05	03.12.12
R Cagle						
Pre-IPO share plan [1]	**986,977**	**–**	**986,977**	0.750	29.05.97	25.04.04
SOCO share plan [2]	**68,410**	**–**	**68,410**	3.850	03.12.00	03.12.04
	198,977	**–**	**198,977**	0.725	15.09.01	15.09.05
	448,073	**–**	**448,073**	0.590	13.07.02	13.07.06
Deferred bonus [3]	**112,000**	**–**	**112,000**	–	31.12.02	21.03.11
LTIP [3]	**204,300**	**–**	**204,300**	–	24.05.04	24.05.11
	179,500	**–**	**179,500**	–	10.12.04	09.12.11
	–	**83,100**	**83,100**	–	04.12.05	03.12.12

[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, all options conditionally exercisable under the 1997 Company Share Plan have been determined to be fully vested and 100% exercisable. Additional details regarding the plan are set out within this report, including performance criteria measured for those options becoming exercisable during the year.
[3] These conditional awards are in the form of a nil price option to acquire ordinary shares in the Company. To reduce a competitive shortfall identified in 2000, a special deferred bonus was awarded and an LTIP was proposed. Additional details regarding the LTIP are set out within this report. The special deferred bonus, which was awarded at levels consistent with performance over the relevant period, was made in the form of SOCO shares in order to align the interests of the recipients with those of the shareholders, vesting in December 2002 subject to continued employment. The deferred bonus and the proposed LTIP were set out in the Annual Report and Accounts 2000 prior to seeking shareholder approval of the LTIP.

The market price of the ordinary shares at 31 December 2002 was £3.915 and the range during the year to 31 December 2002 was £1.760 to £4.020.

Approval

This report was approved by the Board of Directors on 12 March 2003 and signed on its behalf by:

Peter Kingston Deputy Chairman and Senior Independent Director

Independent auditors' report

To the shareholders of SOCO International plc

We have audited the financial statements of SOCO International plc for the year ended 31 December 2002 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 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 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
Chartered Accountants
and Registered Auditors
London

12 March 2003

Consolidated profit and loss account

for the year to 31 December 2002

	Notes	2002 £000's	2001 £000's
Turnover	1		
Continuing operations		**26,043**	22,841
Discontinued operations		**–**	14,476
		26,043	37,317
Cost of sales	2	**(13,374)**	(21,913)
Gross profit	2	**12,669**	15,404
Administrative expenses	2	**(2,305)**	(2,079)
Exceptional write off of exploration expenditure	3	**(595)**	–
Operating profit	1		
Continuing operations		**9,769**	9,471
Discontinued operations		**–**	3,854
		9,769	13,325
Profit on sale of discontinued operations	26	**–**	8,474
Profit on ordinary activities before finance charges		**9,769**	21,799
Investment income	4	**1,188**	1,361
Interest payable and similar charges	5	**(180)**	(302)
Profit on ordinary activities before taxation	1,6	**10,777**	22,858
Tax on profit on ordinary activities	9	**(5,266)**	(5,118)
Profit for the financial year	23	**5,511**	17,740
Earnings per share			
Basic	11	**8.0p**	25.9p
Diluted	11	**7.1p**	23.8p

Consolidated statement of total recognised gains and losses

for the year to 31 December 2002

	Notes	2002 £000's	2001 £000's
Profit for the financial year	23	**5,511**	17,740
Unrealised currency translation differences	23	**(14,238)**	2,931
Total recognised (losses) gains relating to the year		**(8,727)**	20,671

The accompanying notes are an integral part of these accounts.

Balance sheets
as at 31 December 2002

	Notes	Group 2002 £000's	Group 2001 £000's	Company 2002 £000's	Company 2001 £000's
Fixed assets					
Intangible assets	12	**68,314**	66,660	**–**	–
Tangible assets	13	**19,324**	18,290	**73**	90
Investments	14	**1,475**	1,418	**64,779**	49,355
		89,113	86,368	**64,852**	49,445
Current assets					
Stocks	15	**1,460**	1,068	**–**	–
Debtors	16	**5,445**	5,352	**504**	1,611
Investments	17	–	2,690	–	2,690
Cash at bank and in hand		**51,495**	55,910	**2,653**	5,390
		58,400	65,020	**3,157**	9,691
Creditors: Amounts falling due within one year	18	**(7,454)**	(6,848)	**(290)**	(185)
Net current assets		**50,946**	58,172	**2,867**	9,506
Total assets less current liabilities		**140,059**	144,540	**67,719**	58,951
Provisions for liabilities and charges	19	**(3,374)**	(1,051)	**–**	–
Net assets		**136,685**	143,489	**67,719**	58,951
Capital and reserves					
Called-up equity share capital	21	**14,269**	14,026	**14,269**	14,026
Share premium account	22	**40,590**	38,910	**40,590**	38,910
Other reserves	22	**34,961**	34,961	**–**	–
Profit and loss account	22	**46,865**	55,592	**12,860**	6,015
Equity shareholders' funds	23	**136,685**	143,489	**67,719**	58,951

The accounts on pages 42 to 57 were approved by the Board of Directors on 12 March 2003 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 2002

	Notes	2002 £000's	2001 £000's
Net cash inflow from operating activities	24	**18,913**	19,337
Returns on investments and servicing of finance			
Interest received		**836**	1,508
Interest paid and similar charges		**(14)**	(843)
		822	665
Taxation paid		**(5,332)**	(5,024)
Capital expenditure and financial investment			
Purchase of intangible fixed assets		**(8,399)**	(16,982)
Purchase of tangible fixed assets		**(7,499)**	(9,761)
Purchase of own shares by employee benefit trust		**(611)**	(1,253)
		(16,509)	(27,996)
Acquisitions and disposals			
Sale of business	26	**–**	29,497
Cash (outflow) inflow before management of liquid resources and financing		**(2,106)**	16,479
Management of liquid resources			
Decrease in funds placed on short term deposit	25	**2,690**	19,711
Financing			
Issue of ordinary share capital	21	**170**	–
Increase in bank loan due after more than one year		**–**	3,455
		170	3,455
Increase in cash in the year	25	**754**	39,645

The accompanying notes are an integral part of these accounts.

Statement of accounting policies

A summary of the principal accounting policies, which, with the exception of the change in accounting policy resulting from the adoption of Financial Reporting Standard (FRS) 19, 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 the year the Group adopted FRS19 "Deferred Tax" which had no effect on the Group's net assets and results for the year or previous years.

Basis of consolidation
The Group accounts consolidate the accounts of SOCO International plc and its subsidiary undertakings drawn up to the balance sheet date. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method whereby the assets and liabilities acquired and the consideration given are recognised in the Group accounts at their fair values as at the date of the acquisition.

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

The Group's oil and gas activities are sometimes conducted in joint ventures with other companies which fall within the FRS9 definition of joint arrangements that are not entities. Accordingly, the Group accounts for its relevant proportion of production revenues, capital and operating expenditures, assets and liabilities, and cash flows.

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

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

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

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

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

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

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

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

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

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

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

Deferred taxation is provided on a non-discounted basis and is recognised in respect of all timing differences that have orginated 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 substantively 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

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

	£000's	£000's	£000's	£000's	2001 £000's
Turnover by origin					
Continuing operations	–	595	22,246	–	22,841
Discontinued operations (see Note 26)	14,476	–	–	–	14,476
	14,476	595	22,246	–	37,317
Operating profit (loss)					
Continuing operations	–	–	10,982	(1,511)	9,471
Discontinued operations (see Note 26)	3,854	–	–	–	3,854
	3,854	–	10,982	(1,511)	13,325
Profit (loss) on ordinary activities before taxation					
Continuing operations	–	–	10,838	(180)	10,658
Discontinued operations (see Note 26)	12,200	–	–	–	12,200
	12,200	–	10,838	(180)	22,858
Net assets	–	61,955	23,411	58,123	143,489

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

	Group 2002 £000's	Continuing operations 2001 £000's	Discontinued operations 2001 £000's	Group 2001 £000's
Operating expenses	**7,399**	5,840	8,703	14,543
Depletion and depreciation	**5,975**	5,451	1,919	7,370
Cost of sales	**13,374**	11,291	10,622	21,913
Gross profit	**12,669**	11,550	3,854	15,404
Administrative expenses	**2,305**	2,079	–	2,079

3 Exceptional write off of exploration expenditure

The Group has discontinued its activities in North Korea and does not intend to extend its licence beyond the initial five year exploration period which expires in May 2003. As a result exploration expenditure capitalised pending determination and held outside depreciable pools of £595,000, incurred in North Korea, has been written off.

4 Investment income

	2002 £000's	2001 £000's
Interest receivable	**1,188**	1,361

5 Interest payable and similar charges

	2002 £000's	2001 £000's
Interest payable on bank loans and similar fees	**14**	777
Capitalised finance costs	**–**	(751)
Unwinding of discount on provisions (see Note 19)	**37**	67
Realised exchange loss	**129**	209
	180	302

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2002 £000's	2001 £000's
Depletion and depreciation	**6,043**	7,416
Auditors' remuneration for audit services		
UK companies	**47**	60
Overseas companies	**28**	30
	75	90
Auditors' remuneration for non-audit services		
UK companies	**47**	146
Overseas companies	**2**	180
	49	326

The amounts payable to Deloitte & Touche by the Group in respect of non-audit services related to taxation, remuneration advice and corporate governance. Prior to the appointment of Deloitte & Touche the amount of £23,000 was paid to the Group's previous auditors in respect of non-audit services.

7 Staff costs

The average monthly number of employees (including executive Directors but excluding contractors and local staff of overseas operations) was 15 (2001 – 14), of which 12 (2001 – 12) were administrative personnel and 3 (2001 – 2) were operating personnel. Their aggregate remuneration comprised:

	2002 £000's	2001 £000's
Wages and salaries	**2,061**	1,698
Social security costs	**74**	65
Other pension costs under money purchase schemes	**112**	112
	2,247	1,875

8 Directors' remuneration, interests and transactions

Directors' remuneration

Aggregate Directors' remuneration comprised:

	2002 £000's	2001 £000's
Emoluments	**1,326**	1,091
Money purchase pension contributions	**50**	50
	1,376	1,141

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 2002 were as follows:

	Number of Shares		Number of Options[1]		Number of Warrants	
	2002	2001	**2002**	2001	**2002**	2001
Executive Director						
E Story	**994,456**	994,456	**3,869,788**	3,750,988	**–**	–
R Cagle [2]	**70,000**	70,000	**3,684,157**	3,535,057	**–**	–
Non-executive Director						
P Maugein [3]	**5,791,435**	4,842,955	**–**	–	**325,215**	325,215
P Kingston	**11,500**	11,500	**–**	–	**–**	–
O Barbaroux	**10,000**	–	**–**	–	**–**	–
R Brittain	**106,400**	103,500	**–**	–	**–**	–
R Cathery	**70,000**	30,000	**–**	–	**–**	–
E Contini	**10,000**	10,000	**–**	–	**–**	–
J Norton	**90,000**	75,000	**–**	–	**–**	–
J Snyder [4]	**500,000**	500,000	**–**	–	**–**	–
R de Sousa [5]	**3,422,097**	2,947,097	**–**	–	**1,671,809**	1,671,809

[1] Details of Options granted to or held by the Directors in respect of their services as a director, including any relevant conditions of exercise, are set out in the Directors' remuneration report on pages 35 to 40.

[2] Options held as at 31 December 2002 include 1,402,820 (2001 – 1,336,820) held by Cynthia Cagle, having been granted to her in respect of her services to the Group.

[3] Mr Patrick Maugein's interest is held by Chemsa Limited, which is owned by a trust company whose potential ultimate beneficiary is the family of Mr Maugein.

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

[5] Mr Rui de Sousa's interest comprises:
2,807,478 (2001 – 2,357,478) Shares and 162,607 (2001 – 162,607) Warrants at a price of £0.55 held by Quantic Limited of which Mr de Sousa owns 50% of the issued ordinary share capital;
614,619 (2001 – 589,619) Shares and 40,652 (2001 – 40,652) Warrants at a price of £0.55 held by New Falcon Oil Limited of which Mr de Sousa owns 100% of the issued ordinary share capital; and
528,678 (2001 – 528,678) Warrants at a price of £0.65, 925,187 (2001 – 925,187) Warrants at a price of £0.60 and 14,685 (2001 – 14,685) Warrants at a price of £0.55 held by Palamos Limited, which is owned by a trust company whose potential ultimate beneficiary is the family of Mr de Sousa (2001 – held by Mantegna Consultadoria E Servicos Limitada of which Mr de Sousa owns 100% of the issued ordinary share capital.)

Whilst the Executive Directors, as potential beneficiaries, are technically deemed to have an interest in all Shares held by the SOCO Employee Benefit Trust (Trust), the table above only includes those Shares which are potentially transferable to the Directors and their families pursuant to Options which have been granted to them under incentive schemes facilitated by the Trust. Details of the Trust and its holdings are set out in Note 14.

There have been no changes in the interests of the Directors between 31 December 2002 and the date of this report. No Director held any other interests in any Group companies.

8 Directors' remuneration, interests and transactions (continued)

Directors' transactions

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

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

9 Tax on profit on ordinary activities

Analysis of charge

	2002 £000's	2001 £000's
Current tax		
UK Corporation tax at 30% (2001 – 30%)	–	–
Overseas taxation	4,315	5,841
	4,315	5,841
Adjustments in respect of previous years:		
UK Corporation tax at 30% (2001 – 30%)	–	–
Overseas taxation	260	(335)
	4,575	5,506
Deferred taxation		
Origination and reversal of timing differences	691	(388)
	5,266	5,118

Deferred taxation includes recognition of a net deferred tax charge of £1,206,000 (2001 – £27,000) in respect of the Tunisia interest and a net deferred tax credit of £515,000 (2001 – £526,000) 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.

	2002 £000's	2001 £000's
Factors affecting the tax charge		
Profit on ordinary activities before tax	10,777	22,858
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 – 30%)	3,233	6,857
Effects of:		
Expenses not expected to be utilised as a tax loss	207	312
Exceptional item not deductible for tax purposes (see Note 3)	179	–
Fixed asset timing differences	(583)	959
Other timing differences	(80)	(353)
Utilisation of tax losses	(28)	(2,996)
Utilisation of tax credits	(116)	(107)
Higher tax rates on overseas earnings	1,503	1,169
Adjustments to tax charge in respect of previous periods	260	(335)
Current tax charge for the period	4,575	5,506

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

9 Tax on profit on ordinary activities (continued)

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

10 Profit (loss) attributable to SOCO International plc

The profit for the financial year, inclusive of a dividend received from a subsidiary undertaking, dealt with in the accounts of the Company was £6,845,000 (2001 – loss of £1,245,000). As provided by Section 230 of the Companies Act 1985, no profit and loss account is presented in respect of the Company.

11 Earnings per share

The calculation of the basic earnings per share is based on the profit for the financial year and on 69,200,100 (2001 – 68,625,106) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year, excluding 1,947,808 (2001 – 1,502,603) ordinary shares of the Company held by the Group (see Note 14).

The calculation of the diluted earnings per share is based on the profit for the financial year and on 77,705,708 (2001 – 74,427,164) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year including 1,947,808 (2001 – 1,502,603) ordinary shares of the Company held by the Group (see Note 14) and 6,557,799 outstanding share options and warrants (2001 – 4,299,455) that have a diluting effect on earnings per share.

12 Intangible fixed assets

	Group £000's
Exploration expenditure	
As at 1 January 2002	**66,660**
Additions	**9,498**
Exceptional write off (see Note 3)	**(595)**
Foreign exchange	**(7,249)**
As at 31 December 2002	**68,314**

Exploration expenditure comprises the Group's exploration and appraisal projects which are pending determination and are held outside depreciable pools. This includes £38.2 million in respect of the Mongolia project and £19.9 million in respect of the Vietnam project at 31 December 2002. 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 2002	38,274	1,221	39,495	292
Additions	8,783	276	9,059	20
Foreign exchange	(4,125)	(99)	(4,224)	–
As at 31 December 2002	42,932	1,398	44,330	312
Depreciation				
As at 1 January 2002	20,856	349	21,205	202
Charge for the year	5,889	154	6,043	37
Foreign exchange	(2,221)	(21)	(2,242)	–
As at 31 December 2002	24,524	482	25,006	239
Net book value				
As at 31 December 2002	18,408	916	19,324	73
As at 31 December 2001	17,418	872	18,290	90

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

14 Fixed asset investments

	Group		Company	
	2002 £000's	2001 £000's	2002 £000's	2001 £000's
Subsidiary undertakings	–	–	64,779	49,355
Own shares	1,475	1,418	–	–
	1,475	1,418	64,779	49,355

Own shares

	Group £000's
Cost	
At 1 January 2002	1,622
Additions	611
At 31 December 2002	2,233
Amortisation	
At 1 January 2002	204
Charge for the year	554
At 31 December 2002	758
Net book value	
As at 31 December 2002	1,475
As at 31 December 2001	1,418

14 Fixed asset investments (continued)

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

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

Charges of £554,000 (2001 – £204,000) have been reflected in the profit and loss account in respect of the scheme and are included within administrative expenses. The number and market price of the Shares held by the Trust at 31 December 2002 was 2,125,000 (2001 – 1,800,000) and £3.915 (2001 – £1.695) respectively. As at 31 December 2002 there were 2,028,300 Shares conditionally awarded and unvested (2001 – 1,732,600).

Principal Group investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2002 which principally affected the profits or net assets of the Group, all of which are indirectly held.

	Country of incorporation	Country of operation	Principal activity	Percentage holding
SOCO Tamtsag Mongolia, LLC	USA	Mongolia	Oil and gas exploration	100.0
SOCO Tunisia Pty Limited	Australia	Tunisia	Oil and gas exploration and production	100.0
SOCO Yemen Pty Limited[1]	Australia	Yemen	Investment holding	100.0
SOCO Exploration (Thailand) Co. Ltd	Thailand	Thailand	Oil and gas exploration	99.9
SOCO Vietnam Ltd[2]	Cayman Islands	Vietnam	Oil and gas exploration	80.0

[1] The Yemen interest, which is in production, is held through Comeco Petroleum, Inc., in which SOCO Yemen Pty Limited held 58.75% of the ordinary share capital at 31 December 2002 (2001 – 58.75%).

[2] The Group increased its percentage holding in SOCO Vietnam Ltd from 70% to 80% in January 2002 (see Note 21). The remaining 20% minority interest is carried 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 2002	**49,355**
Additions	**15,424**
Cost as at 31 December 2002	**64,779**

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

15 Stocks

	Group 2002 £000's	Group 2001 £000's
Crude oil and condensate	**316**	404
Materials and consumables	**1,144**	664
	1,460	1,068

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

16 Debtors

	Group		Company	
	2002 £000's	2001 £000's	**2002 £000's**	2001 £000's
Amounts falling due within one year				
Trade debtors	**1,013**	2,557	**–**	–
Amounts owed by Group undertakings	**–**	–	**254**	1,423
Taxation	**825**	294	**20**	71
Deferred taxation	**27**	29	**–**	–
Other debtors	**371**	581	**83**	17
Prepayments and accrued income	**1,649**	703	**147**	100
	3,885	4,164	**504**	1,611
Amounts falling due after more than one year				
Deferred taxation	**1,560**	1,188	**–**	–
	5,445	5,352	**504**	1,611

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

17 Current asset investments

Current asset investments held in 2001 comprised short term deposits which mature in periods greater than 24 hours.

18 Creditors: Amounts falling due within one year

	Group		Company	
	2002 £000's	2001 £000's	**2002 £000's**	2001 £000's
Trade creditors	**2,523**	1,139	**–**	–
Taxation and social security	**211**	459	**21**	14
Deferred taxation (see Note 19)	**–**	873	**–**	–
Other creditors	**384**	397	**71**	79
Accruals and deferred income	**4,336**	3,980	**198**	92
	7,454	6,848	**290**	185

19 Provisions for liabilities and charges

	Group		
	Decommissioning £000's	**Deferred taxation £000's**	**Total £000's**
As at 1 January 2002	**1,051**	**–**	**1,051**
Reclassified from current liabilities (see Note 18)	**–**	**873**	**873**
New provisions and changes in estimates	**287**	**1,206**	**1,493**
Unwinding of discount (see Note 5)	**37**	**–**	**37**
Foreign exchange	**–**	**(80)**	**(80)**
As at 31 December 2002	**1,375**	**1,999**	**3,374**

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

19 Provisions for liabilities and charges (continued)

Deferred taxation

Deferred tax is provided as follows:

	Group	
	2002 £000's	2001 £000's
Fixed asset timing differences	**1,727**	661
Other timing differences	**272**	212
	1,999	873

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 26 and 27.

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

21 Called-up equity share capital

	2002 £000's	2001 £000's
Authorised		
100,000,000 ordinary shares of £0.20 each (2001 – 100,000,000)	**20,000**	20,000
Allotted, called-up and fully-paid		
71,343,396 ordinary shares of £0.20 each (2001 – 70,127,709)	**14,269**	14,026

The Company issued 1,215,687 new ordinary shares of £0.20 each during 2002 (2001 – nil). In January 2002 the Company issued 926,124 shares, pursuant to a Share Exchange Agreement, wherein for a consideration of £1,753,153 satisfied by the newly issued shares, the Group acquired an additional 10% of the share capital of SOCO Vietnam Ltd. In March 2002, 284,563 shares were issued upon the exercise of certain warrants entitling the warrant holders to subscribe for shares at £0.55 each. In December 2002, 5,000 shares were issued upon the exercise of certain share options to purchase shares at £2.60 each.

Subsequent to 31 December 2002 the Company issued 30,000 new shares pursuant to the exercise of certain share options.

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

Exercise period	Number of shares under option	Subscription price per share
29.05.97 – 25.04.04	**3,454,420**	£0.750
29.05.97 – 25.04.04	**488,488**	£2.600
03.12.00 – 03.12.04	**217,437**	£3.850
15.09.01 – 15.09.05	**807,753**	£0.725
13.07.02 – 13.07.06	**1,765,877**	£0.590
04.05.03 – 04.05.10	**100,000**	£0.770
04.05.03 – 04.05.13	**50,000**	£0.770
30.04.05 – 30.04.09	**230,000**	£2.250

21 Called-up equity share capital (continued)

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

In March 2002, 284,563 warrants to subscribe for the same number of shares at £0.55 each were exercised.

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 2002	**38,910**	**34,961**	**55,592**	**129,463**
New shares issued (see Note 21)	**1,680**	**–**	**–**	**1,680**
Loss on foreign currency translation	**–**	**–**	**(14,238)**	**(14,238)**
Retained profit for the year	**–**	**–**	**5,511**	**5,511**
As at 31 December 2002	**40,590**	**34,961**	**46,865**	**122,416**

	Company		
	Share premium account £000's	Profit and loss account £000's	Total £000's
As at 1 January 2002	**38,910**	**6,015**	**44,925**
New share issues (see Note 21)	**1,680**	**–**	**1,680**
Retained profit for the year (see Note 10)	**–**	**6,845**	**6,845**
As at 31 December 2002	**40,590**	**12,860**	**53,450**

The Group's other reserves arose in respect of merger relief.

23 Reconciliation of movements in Group equity shareholders' funds

	2002 £000's	2001 £000's
Opening equity shareholders' funds	**143,489**	122,818
Profit for the financial year	**5,511**	17,740
Unrealised currency translation differences	**(14,238)**	2,931
New shares issued (see Note 21)	**1,923**	–
Closing equity shareholders' funds	**136,685**	143,489

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

	2002 £000's	2001 £000's
Operating profit	**9,769**	13,325
Depreciation, depletion and amortisation	**6,662**	7,682
Exceptional write off of exploration expenditure (see Note 3)	**595**	–
Decrease (increase) in stocks	**57**	(231)
Decrease (increase) in debtors	**1,203**	(1,729)
Increase in creditors	**693**	290
Decrease in provisions	**(66)**	–
Net cash inflow from operating activities	**18,913**	19,337

	2002 £000's	2001 £000's
Net cash inflow from operating activities comprises:		
Continuing operating activities	**18,913**	14,436
Discontinued operating activities	**–**	4,901
	18,913	19,337

25 Analysis and reconciliation of net funds

	As at 1 January 2002 £000's	Cash flow £000's	Exchange movement £000's	As at 31 December 2002 £000's
Cash at bank and in hand	55,910	754	(5,169)	51,495
Current asset investments	2,690	(2,690)	–	–
Net funds	58,600	(1,936)	(5,169)	51,495

Current asset investments are term deposits.

26 Disposal of interest in Permtex

In October 2001 the Group sold its 50% interest in Permtex, a Russian limited liability company, through which the Group held its producing Russia interest.

27 Subsequent events

In February 2003 SOCO Vietnam Ltd (SOCO Vietnam), the Group's 80% owned subsidiary, received Vietnamese Governmental approval to complete an agreement with Amerada Hess (Vietnam) Limited (Hess) whereby it acquired one-half, 13.5%, of the Hess total working interest in Block 16-1 in the Cuu Long Basin offshore Vietnam. The terms of the transaction, with a 1 May 2002 effective date, resulted in an obligation for Hess to meet all of its partner funding obligations through July 2002. Throughout 2002 Hess continued to fund its share pending governmental approval. Accordingly, a working capital adjustment of US$1.6 million was paid to Hess at closing in settlement of their funding for the period from July 2002. The remaining one-half interest was acquired by PTTEP Hoang Long Company Limited, an affiliate of the Thailand national oil company, which farmed into 50% of SOCO Vietnam's initial interest in February 2002. With this transaction, SOCO Vietnam's participating interest in Block 16-1 increased to 28.5%.

28 Capital commitments

At 31 December 2002 the Group had future exploration licence commitments not accrued of approximately £3 million (2001 – £27 million).

29 Related party transactions

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

Five year summary

	Year to 31 Dec 2002 £000's	Year to 31 Dec 2001 £000's	Year to 31 Dec 2000 £000's	Year to 31 Dec 1999 £000's	(Restated)[1] Year to 31 Dec 1998 £000's
Consolidated profit and loss account					
Turnover – continuing operations	**26,043**	22,841	31,323	11,819	5,359
Turnover – discontinued operations [2]	**–**	14,476	14,529	11,983	10,160
Operating profit (loss) – continuing operations	**9,769**	9,471	16,364	2,862	(1,330)
Operating profit (loss) – discontinued operations [2]	**–**	3,854	5,685	2,754	(460)
Profit (loss) on ordinary activities after taxation	**5,511**	17,740	17,565	7,414	(836)

	2002 £000's	2001 £000's	2000 £000's	1999 £000's	(Restated)[1] 1998 £000's
Consolidated balance sheet					
Fixed assets	**89,113**	86,368	94,432	70,419	70,312
Net current assets	**50,946**	58,172	34,447	29,098	11,896
Long term liabilities	**–**	–	(5,021)	(1,551)	–
Provisions for liabilities and charges	**(3,374)**	(1,051)	(1,040)	(651)	(2,776)
Minority interests	**–**	–	–	(175)	(157)
Net assets	**136,685**	143,489	122,818	97,140	79,275
Share capital	**14,269**	14,026	14,026	13,828	10,365
Share premium	**40,590**	38,910	38,910	38,367	38,358
Other reserves	**34,961**	34,961	34,961	34,961	29,933
Profit and loss account	**46,865**	55,592	34,921	9,984	619
Equity shareholders' funds	**136,685**	143,489	122,818	97,140	79,275

	Year to 31 Dec 2002 £000's	Year to 31 Dec 2001 £000's	Year to 31 Dec 2000 £000's	Year to 31 Dec 1999 £000's	Year to 31 Dec 1998 £000's
Consolidated cashflow					
Net cash inflow from operating activities	**18,913**	19,337	30,902	9,175	4,088
Other information					
Earnings (loss) per share	**8.0p**	25.9p	25.6p	12.5p	(1.7)p
Diluted earnings (loss) per share	**7.1p**	23.8p	24.3p	12.4p	(1.7)p

[1] Effective 1 January 1999, the Group adopted FRS12 "Provisions, Contingent Liabilities and Contingent Assets", which constituted a change in accounting policy for the way the Group accounts for decommissioning costs. Prior year figures were restated to reflect the new policy.
[2] Discontinued operations includes the results of all discontinued operations throughout the five years shown.

Reserve statistics unaudited, net entitlement basis (mmbbls)

Net proven oil reserves

	Total	Mongolia	Thailand	Tunisia	Yemen
Reserves as at 31 December 2001	**35.0**	**28.0**	**2.5**	**0.9**	**3.6**
Changes in the year					
Revision to previous estimates	**2.0**	**–**	**–**	**1.4**	**0.6**
Purchase of reserves	**–**	**–**	**–**	**–**	**–**
Sale of reserves	**–**	**–**	**–**	**–**	**–**
Production	**(1.6)**	**(0.1)**	**–**	**(0.6)**	**(0.9)**
Reserves as at 31 December 2002	**35.4**	**27.9**	**2.5**	**1.7**	**3.3**

Net proven and probable oil reserves

	Total	Mongolia	Thailand	Tunisia	Yemen
Reserves as at 31 December 2001	**59.3**	**42.2**	**9.2**	**3.3**	**4.6**
Changes in the year					
Revision to previous estimates	**0.4**	**–**	**–**	**0.3**	**0.1**
Purchase of reserves	**–**	**–**	**–**	**–**	**–**
Sale of reserves	**–**	**–**	**–**	**–**	**–**
Production	**(1.6)**	**(0.1)**	**–**	**(0.6)**	**(0.9)**
Reserves as at 31 December 2002	**58.1**	**42.1**	**9.2**	**3.0**	**3.8**

Net proven and probable oil reserves yearly comparison

	2002	2001	2000	1999	1998
Reserves as at 1 January	**59.3**	82.2	87.1	91.6	81.8
Changes in the year					
Revision to previous estimates	**0.4**	33.0	(2.2)	0.4	1.4
Purchase of reserves	**–**	–	–	0.8	10.8
Sale of reserves	**–**	(53.5)	–	(3.3)	–
Production	**(1.6)**	(2.4)	(2.7)	(2.4)	(2.4)
Reserves as at 31 December	**58.1**	59.3	82.2	87.1	91.6

Note: mmbbls denotes millions of barrels

Registered Office
SOCO International plc
Swan House
32-33 Old Bond Street
London W1S 4QJ
Tel: 020 7399 3300
Fax: 020 7399 3333
Web site: www.socointernational.co.uk
Registered No: 3300821

Advisors

Auditors:
Deloitte & Touche
180 Strand
London WC2R 1BL

Bankers:
The Royal Bank of Scotland International
PO Box 64
Royal Bank House
71 Bath Street
St Helier
Jersey JE4 8PJ

JPMorgan
125 London Wall
London EC2Y 5AJ

Company Secretary:
Cynthia B Cagle

Registrar:
Lloyds TSB Registrars Scotland
P O Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ

Solicitors:
Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA

Stockbrokers:
Canaccord Capital (Europe) Limited
1st Floor, Brook House
27 Upper Brook Street
London W1K 7QF

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

Designed and produced by:
GA Corporate Marketing

Printed by:
Wace