Annual Report and Accounts 2001

SOCO INTERNATIONAL plc

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

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

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

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

Financial highlights

£37.3m
Turnover

£22.9m
Profit before taxation

£143.5m
Net assets

Turnover in £m

01	37.3
00	45.9
99	23.8

Profit before taxation in £m

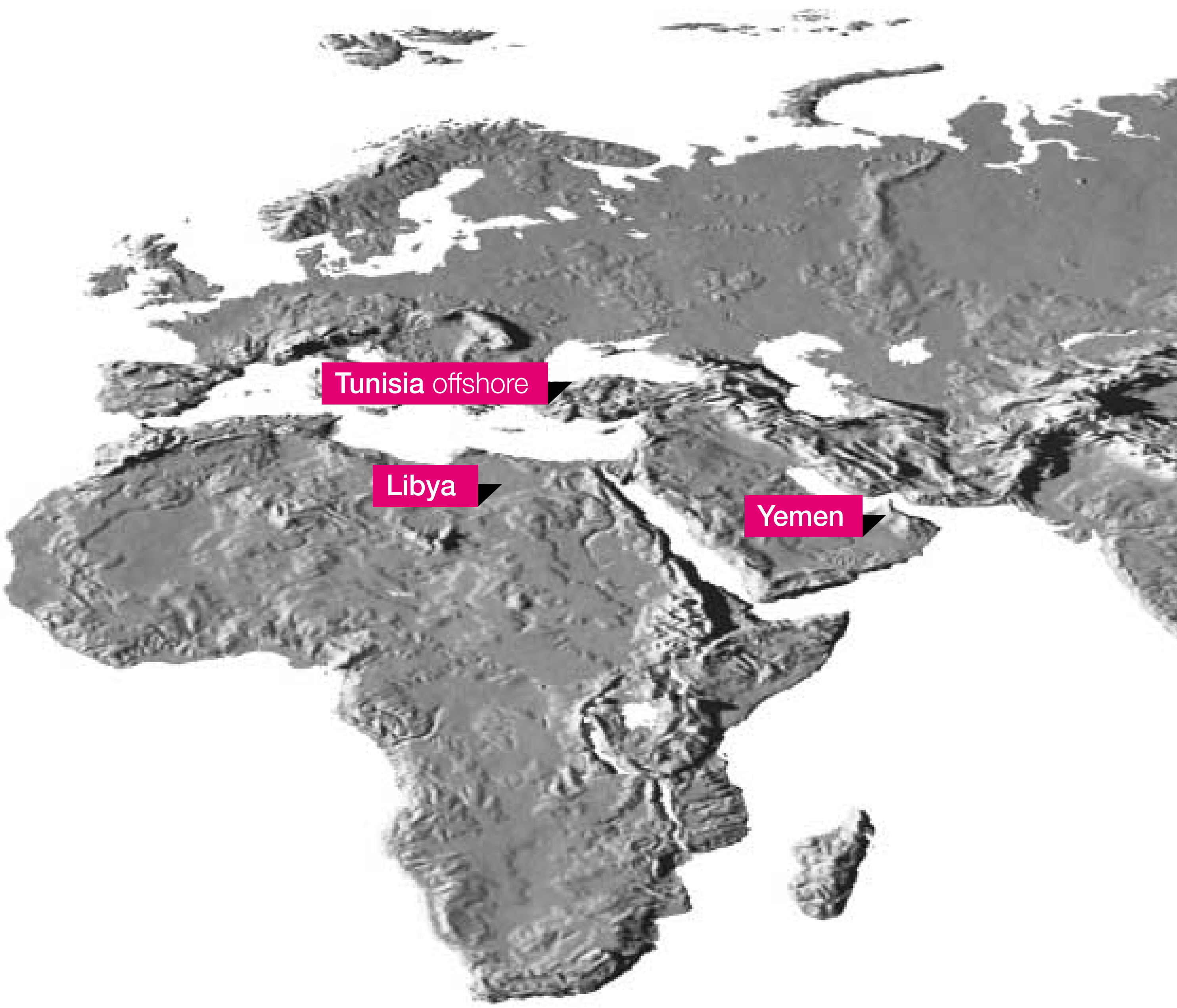
01	22.9
00	24.1
99	8.3

Earnings per share in pence

01	25.9
00	25.6
99	12.5

Operational highlights

In 2001, Group production net to its working interests rose to a new record of 8,817 barrels of oil per day (BOPD). The Company continued its operating success with the drill bit as three of four wells drilled in Mongolia were successful. The Group completed its acquisition of the second block in Vietnam and conducted an extensive offshore 3D seismic acquisition programme there and created a new joint venture in Libya.

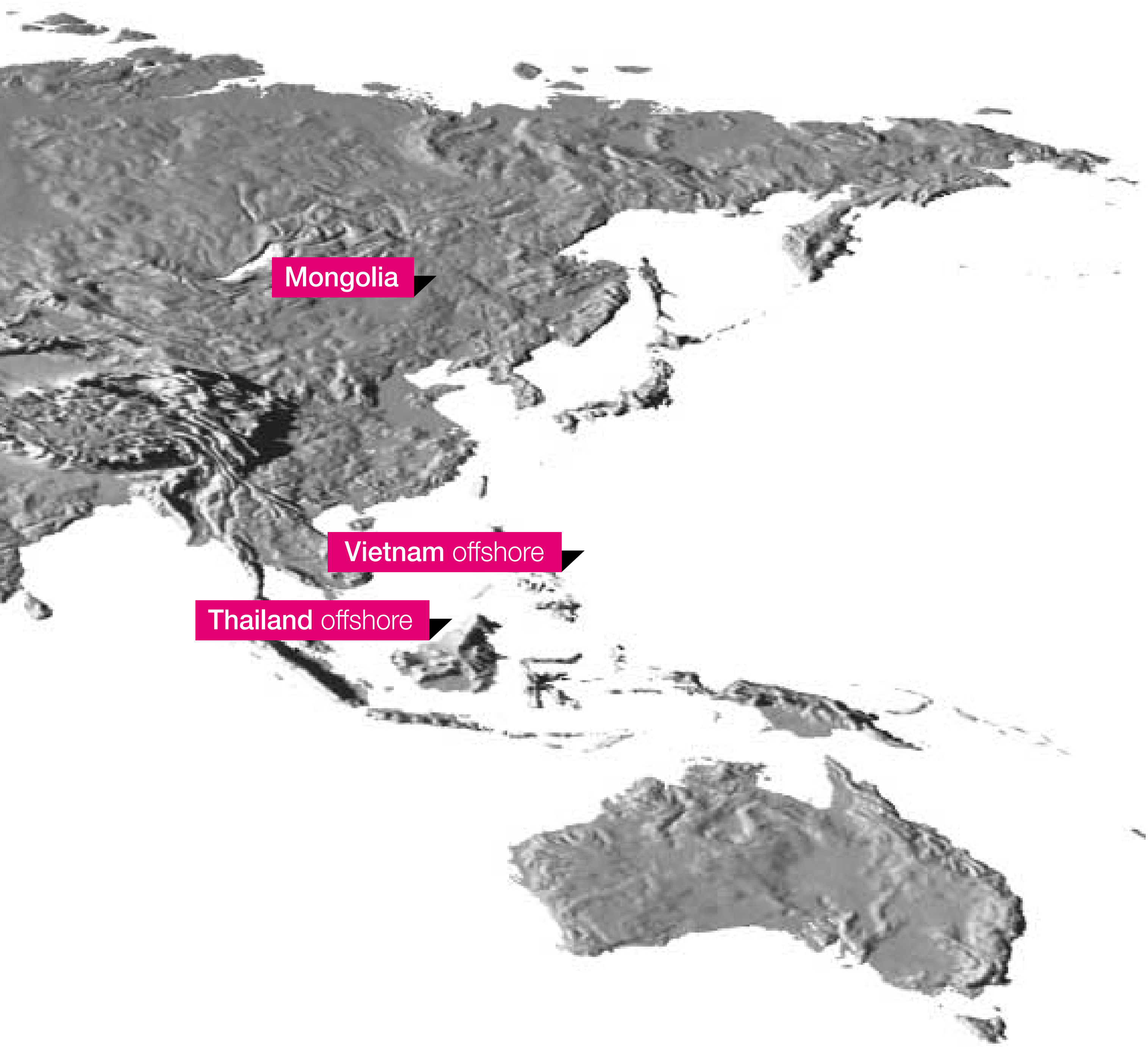


Yemen The production base stabilised during the year, averaging 27,453 BOPD (approximately 4,600 BOPD net to SOCO's working interest), yet still has room for growth through exploration.

Mongolia The Company again experienced excellent success repeating its 75% success ratio in Mongolia for the second straight year, making this a total of six successes out of the last eight wells drilled there.

Tunisia Modifications to the production facilities during 2001 allowed us to improve the average production capability by about 25%.

Vietnam While mitigating a substantial portion of the front end risk during exploration, SOCO Vietnam Ltd has retained significant exposure to the upside of the highly prospective Cuu Long Basin offshore, holding a 15% stake in Block 16-1 and a 25% stake in Block 9-2.



…the past year was one that encapsulated the goals of the Company to recognise opportunity, capture potential and realise value….
Patrick Maugein

In all likelihood, 2001 better typified a normal year for the industry than any year since the Company listed in 1997. The year was absent the "boom/bust" characteristics that defined the previous three years. We also feel that the past year was one that encapsulated the goals of the Company to recognise opportunity, capture potential and realise value as the Company entered into a new venture in Libya; conducted an active drilling programme in Mongolia and progressed the Vietnam project toward drilling; and, sold its interests in the Russian joint venture, Permtex.

With the Russian asset disposal adding £8.5 million of exceptional income, profit before taxation equalled £22.9 million as compared to a pre-tax profit of £24.1 million for the prior year. With the sale of the Russian assets, the Company disposed of the debt obligations on its balance sheet. At year end 2001 cash and cash equivalents were at a record high of £58.6 million.

The strong balance sheet contributes to our ability to negotiate favourable transaction terms as was evidenced by the Vietnam farm-out. However, with success in our upcoming Vietnam drilling programme, SOCO would be in the position of having to fund further development there. Accordingly the Board of Directors has elected not to declare a dividend.

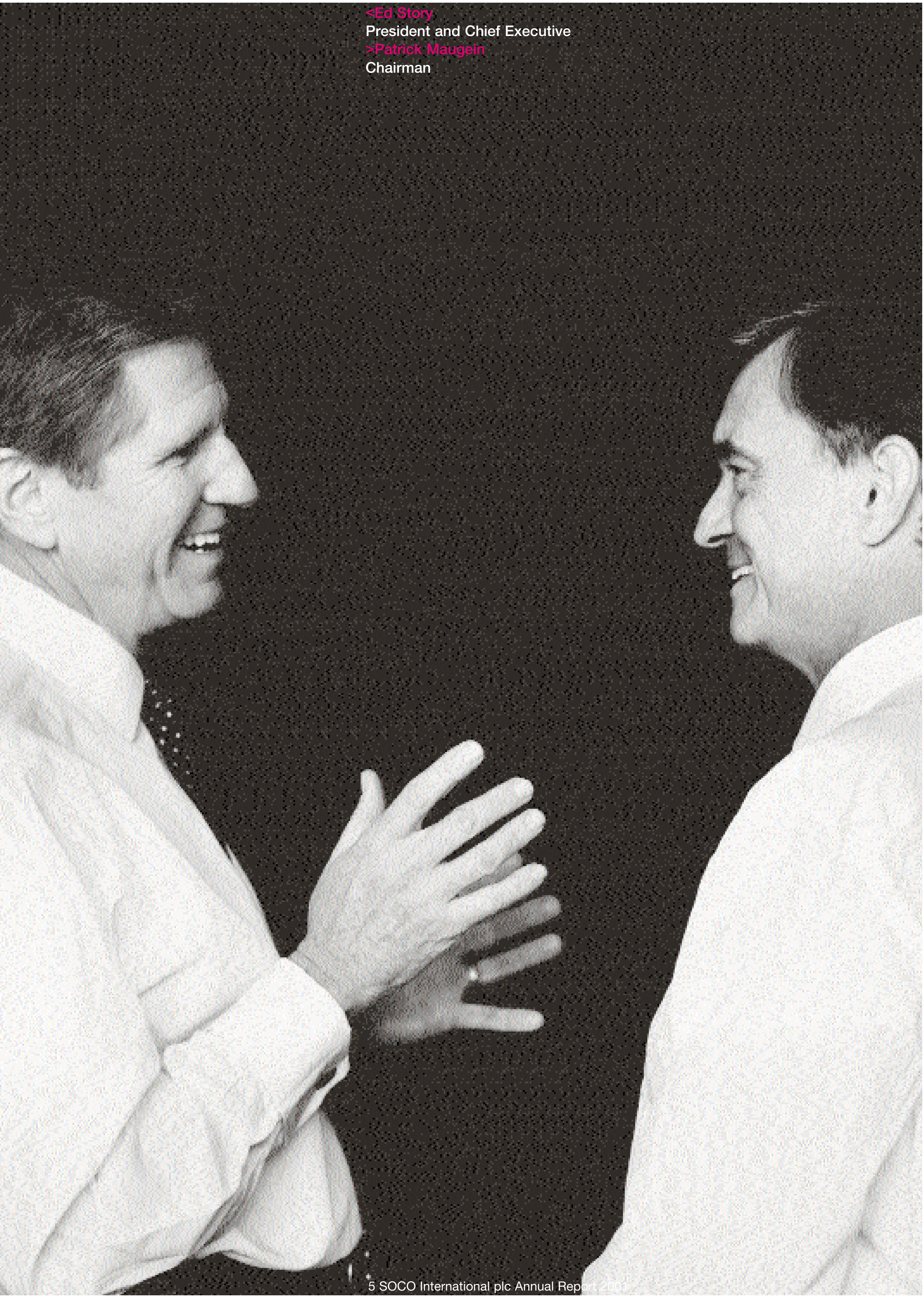
Operations Although the Company hit a new record production level, 8,817 barrels of oil per day (BOPD), net to its working interest, there is a significant difference in the profile of SOCO at the end of 2001 as compared to last year. With the acquisition of the second block in Vietnam and the creation of a new joint venture in Libya, the Company has in place cornerstones to what we expect to be core areas of future growth – Southeast Asia/Far East and North Africa/Middle East.

While significant proved and probable reserves were added through the Mongolia drilling programme, the disposal of our Russian asset meant that we had a drop in year end reserves. Similarly, this disposal meant that about 32% of last year's production is not available going forward. However, the disposal did not signal a change in direction from focusing on building a strong reserve base nor a detour from our stated strategy of maintaining a strong production base to provide cash flow to fund exploration operations. As is often the case, the orchestration of events to create perfect timing is near impossible and the opportunity to capture excellent value from a project must be exercised as it presents itself.

The production base in Yemen stabilised during the year averaging 27,453 BOPD (approximately 4,600 BOPD net to SOCO's working interest), yet still has room for growth through exploration. Work began in February 2002 on the Phase III development programme that includes additional development, water injection and exploration drilling. Much of the future effort will be focused on maintaining production through adding development wells and water injection wells and increasing water-handling facilities to accommodate disposal of the increased production of water which typifies producing fields in this area of Yemen. Modifications to the production facilities during 2001 in Tunisia allowed us to improve the average production capability by about 25%; contributing approximately 1,950 BOPD to SOCO's working interest production post construction.

The Company again experienced excellent success with the drill bit repeating its 75% success ratio in Mongolia for the second straight year, making this a total of six successes out of the last eight wells drilled there. The success is reflected in the proven and probable reserve additions, 30.2 million barrels net to SOCO's entitlement interests, recorded in Mongolia for year end 2001. With the addition of handling facilities for crude oil from the new wells and replacement of facilities damaged in 2000, exports to China were reinitiated in the second half of the year. Trucking capacity has been significantly expanded with the signing of a crude oil transportation contract with Huabei late in the year. While we continue to explore alternative ways to maximise value in Mongolia, we are confident that we have created significant value there.

Significant events The disposal of the Group's 50% interest in Permtex, the Russian joint venture, and the creation of a joint venture with Oilinvest to explore for and develop oil in Libya are two events that redefined SOCO during the year. Subsequently in February 2002, a farm-out agreement with PTT Exploration and Production Public



<Ed Story
President and Chief Executive
>Patrick Maugein
Chairman

Company Limited of Thailand (PTTEP) to fund SOCO Vietnam Ltd's (SOCO Vietnam) 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, is expected to have a significant impact on defining SOCO for 2002.

On 17 August 2001, the Company entered into a Purchase and Sale Agreement with a subsidiary of OAO Lukoil wherein it disposed of all its interests in Russia for US$50 million. The disposal was conditional upon approval of the Company's shareholders. An Extraordinary General Meeting was held on 6 September, at which time the shareholders overwhelmingly approved the disposal. Subsequently the transaction received the approval of the Russian Anti-monopoly Committee, as required by law, and the transaction closed at the end of October.

Our project in Russia was a good investment, with professional staff there guiding it through some difficult times and building the value with each benchmark that was achieved. The October sale was predicated upon our strategy of having a sound structure, the right partner, multi-national aid donor financing and the patience to await the formation of the proper synergies.

In November 2001, SOCO North Africa Ltd, a subsidiary of SOCO, teamed with Oilinvest, a private Dutch holding company with interests in all sectors of the downstream oil industry, to create a company, ODEX Exploration Limited (ODEX), focused on developing and exploring opportunities in Libya and the neighbouring countries in North Africa. ODEX is the result of years of hard work built on, and accelerated by, the previous relationships which had existed between SOCO's major shareholding group and various Libyan interests. It is a model which, with some important distinctions, is based upon the successful strategy employed in Russia. Two partners, with complementary skills and a common objective, come together to create a structure, which provides a stable framework to build a significant foothold in a highly prospective area. While there appear to be strong advantages to this relationship, success is not guaranteed and much work remains to be done before these apparent advantages can be demonstrated. Nevertheless, we are confident that we have taken the first major step toward building a new core area in North Africa.

Our first step there, similar to our first step in Russia, was to create a viable structure that will allow our initiative to progress even in difficult times. The focus is on building value over time, not on simply securing a one-off project. As yet no projects have been introduced into the joint venture, which we formed with Oilinvest in November of 2001, but the process of identifying and injecting the right projects is under way.

With the February 2002 farm-out in Vietnam, through which PTTEP will fund the cost of SOCO Vietnam's share of the four-well drilling campaign scheduled this year for Blocks 9-2 and 16-1 offshore Vietnam to a maximum of US$50 million in order to earn one half of SOCO Vietnam's interest, the Company was able to mitigate some of the risk which accompanies any exploration venture. At the same time, SOCO Vietnam has retained significant exposure to the upside of the highly prospective Cuu Long Basin offshore Vietnam, holding a 15% stake in Block 16-1 and a 25% stake in Block 9-2, not dissimilar to the interest that many major oil companies typically retain in their core projects. Joining with PTTEP, which has extensive experience in Southeast Asia and will participate in the management of the joint operating companies overseeing operations on both Blocks, adds technical and managerial strength to the projects.

Stakeholder commitment Over the course of the second half of last year, there were a number of political and economic events that may have materially changed expectations for the world in general and investors in particular. These emphasised that the concept of a safe haven in any context can be elusive regardless of the perceived security. Risks are inherent in business in general and the focus must be on mitigating or reducing risks to acceptable levels rather than eliminating them.

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Ed Story

Your Board recognises the risks associated with the industry and the environs in which it operates. We will continue to make you, the investor, aware of those risks, and affirm our commitment to managing those risks to an acceptable level. We will maintain our course of identifying and mitigating risks but continue to recognise that risk is inherent in this industry and we believe that in order to be successful one needs to control, not avoid, risk.

With the failure of one of the largest United States public companies toward the end of last year, we believe the evidence is clear that despite the welcome initiatives in corporate governance and the safeguards provided by externally audited financial statements, the burden of responsibility and accountability remains in the board room. Integrity in the board room is of the highest priority for the Company. We have always supported and will continue to support full transparency of the Company's financial and operating information.

We have and will continue to focus on corporate responsibility in the regions in which we operate. Beyond the necessity to provide a healthy and safe workplace for our employees, we support the many host countries in which we have operations by contributing directly to the betterment of the environment and the indigenous people.

Board At the Annual General Meeting in May of 2001, shareholders overwhelmingly approved the expansion of the SOCO Board of Directors. During the year the Company added two Directors to the Board, Mr Robert Cathery and Mr Ettore Contini, bringing the total number of Directors to 11. Each Director brings skills to the Board which we believe improves the effectiveness of the Director group. Mr Cathery's background is as a broker with SG Securities (London) Ltd and Mr Contini is a banker employed by Banca Del Gottardo. More detailed information on each of the Directors can be found on page 24.

Summary A combination of events came together for the Company in 2001 that resulted from several years of hard work and steady progress. What these events perhaps demonstrated more than anything else is that creating value for shareholders is a process whereas realising value may be event based. We believe this process successfully came together in 2001 to demonstrate the strategy employed by the Company to build shareholder value. We do not think the past year is anomalous, albeit fortuitous from a timing perspective. As we enjoy the success of the past year, we are busy laying the groundwork to repeat similar successes in the years to come.

Outlook As significant as 2001 has been in terms of defining the Company, we expect 2002 to bring added value and expanded opportunity. It will be a very important year from a drilling perspective as we embark on the drilling programme in Vietnam. The year ahead also has the potential to be an active year of portfolio rationalisation if the mid-range, stable oil price environment continues.

Such an environment has traditionally been conducive to stimulating industry activity especially when some energy companies that engaged in rapid expansion pare debt and rationalise their portfolios. Also with the prior consolidation in the industry, it could well be a time when new companies emerge to compete in the independent sector.

It also will be a meaningful year as we build the base for future growth in the new core area in North Africa. We appreciate your support throughout the past year and look forward to another exciting year for SOCO.

Patrick Maugein
Chairman

Ed Story
President and Chief Executive

Recognising opportunity

Libya

In November, SOCO North Africa Ltd (SOCO North Africa), a subsidiary of SOCO, entered into an agreement creating a specific-purpose upstream joint venture. The joint venture, ODEX Exploration Limited (ODEX), was formed to identify, develop, produce and market hydrocarbon opportunities in Libya and the surrounding countries in northern, central and western Africa.

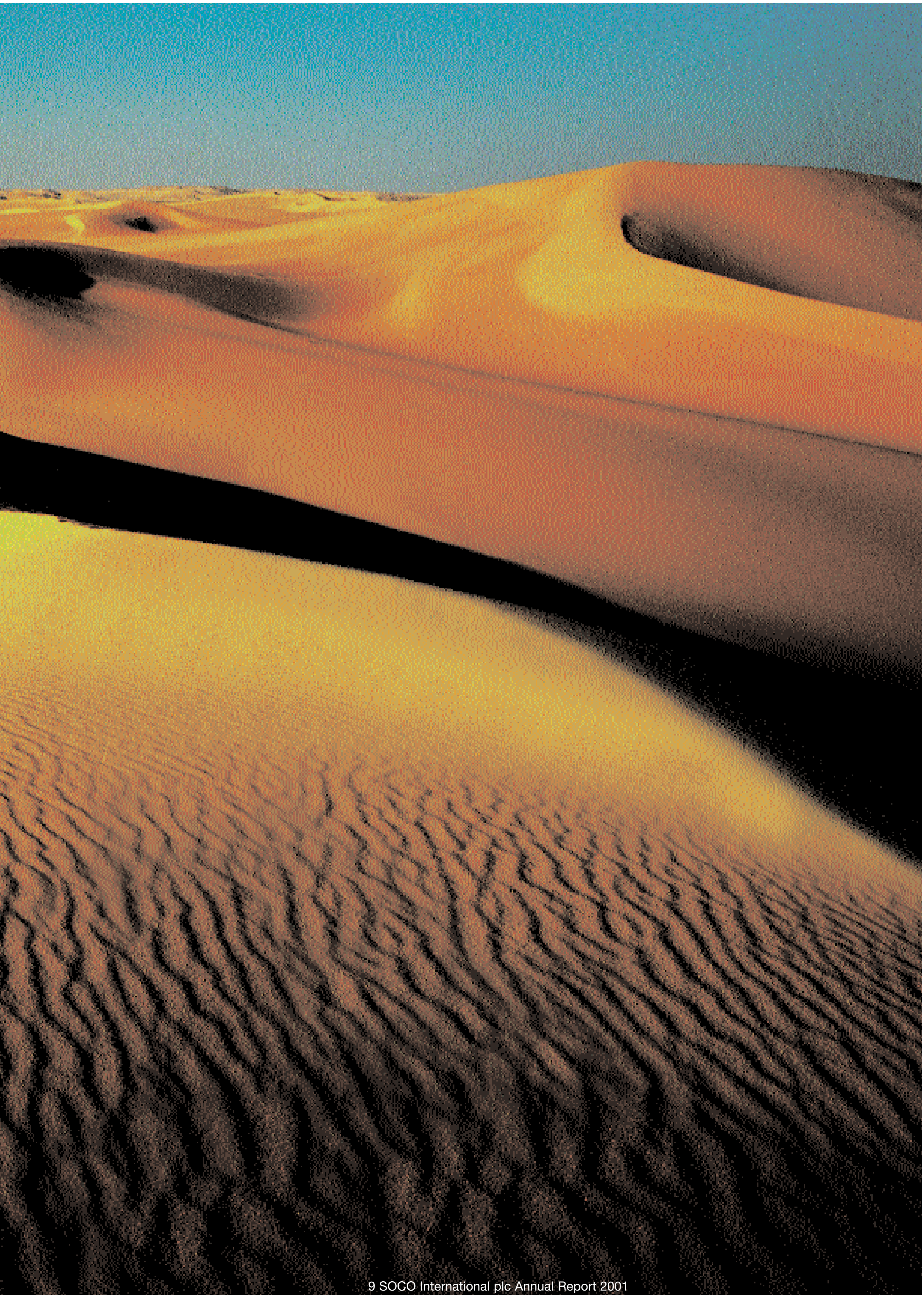
ODEX is held 57% by Oilinvest (Netherlands) B.V. (Oilinvest), a private Dutch holding company with interests in all sectors of the downstream oil industry including refineries and retail operations throughout Europe and in parts of North Africa, and 43% by SOCO North Africa. The joint venture is Oilinvest's entry into the upstream oil and gas industry and SOCO's entry into Libya, where it intends to establish a new core business area.

In most surveys identifying the most coveted regions of the world in which industry participants would like to establish operations, Libya is usually near the top of the list. It has known, highly prospective hydrocarbon potential in a number of geological settings. It has highly developed infrastructure, including extensive distribution systems, and enjoys relatively low costs of production.

SOCO North Africa has been in discussions with a number of Libyan entities for the past two years exploring avenues of building a cornerstone for future operations in the region. The focus has been on creating a framework for the development of multiple projects in the whole of the north and central African region, not on landing a one-off exploration project. The region is ripe with promise but has a number of obstacles to be overcome.

ODEX has been formed to identify and secure delineated oil and gas projects, which by reason of size, complexity, economic or other reasons are available for development. ODEX will then pursue oil and gas exploration opportunities in previously identified prospective regions, which, again by reason of size, complexity, economic or other reasons are not subject to extensive competition. From the mission statement, it is clear that SOCO expects the process of creating value from the potential will be extensive.

The key to ultimate success in this new venture will be introducing quality, high-potential exploitation projects early and then to use these to provide cash flow for exploration in the surrounding regions.



Vietnam

SOCO Vietnam Ltd (SOCO Vietnam) acquired its 30% interest in Block 16-1 in 1999. It was awarded a 50% interest in Block 9-2 in late 2000 and paid the signature bonus in February 2001. Both Blocks are located in the highly prospective Cuu Long Basin that has been an area of significant discoveries during the past several months. Both Blocks are contiguous to producing fields, including the Bach Ho field that is currently producing approximately 280,000 barrels of oil per day (BOPD).

Pending approval by Petrovietnam and the government of Vietnam, SOCO Vietnam's interests in the Block 9-2 Petroleum Contract will be reduced through a farm-out and the Block will be held 50% by Petrovietnam, 25% by SOCO Vietnam and 25% by PTT Exploration and Production Public Company Limited of Thailand (PTTEP). The Company's Block 16-1 Petroleum Contract interests will also be reduced through a farm-out and the Block will be held 41% by Petrovietnam, 15% by SOCO Vietnam, 15% by PTTEP, and 29% by industry third parties.

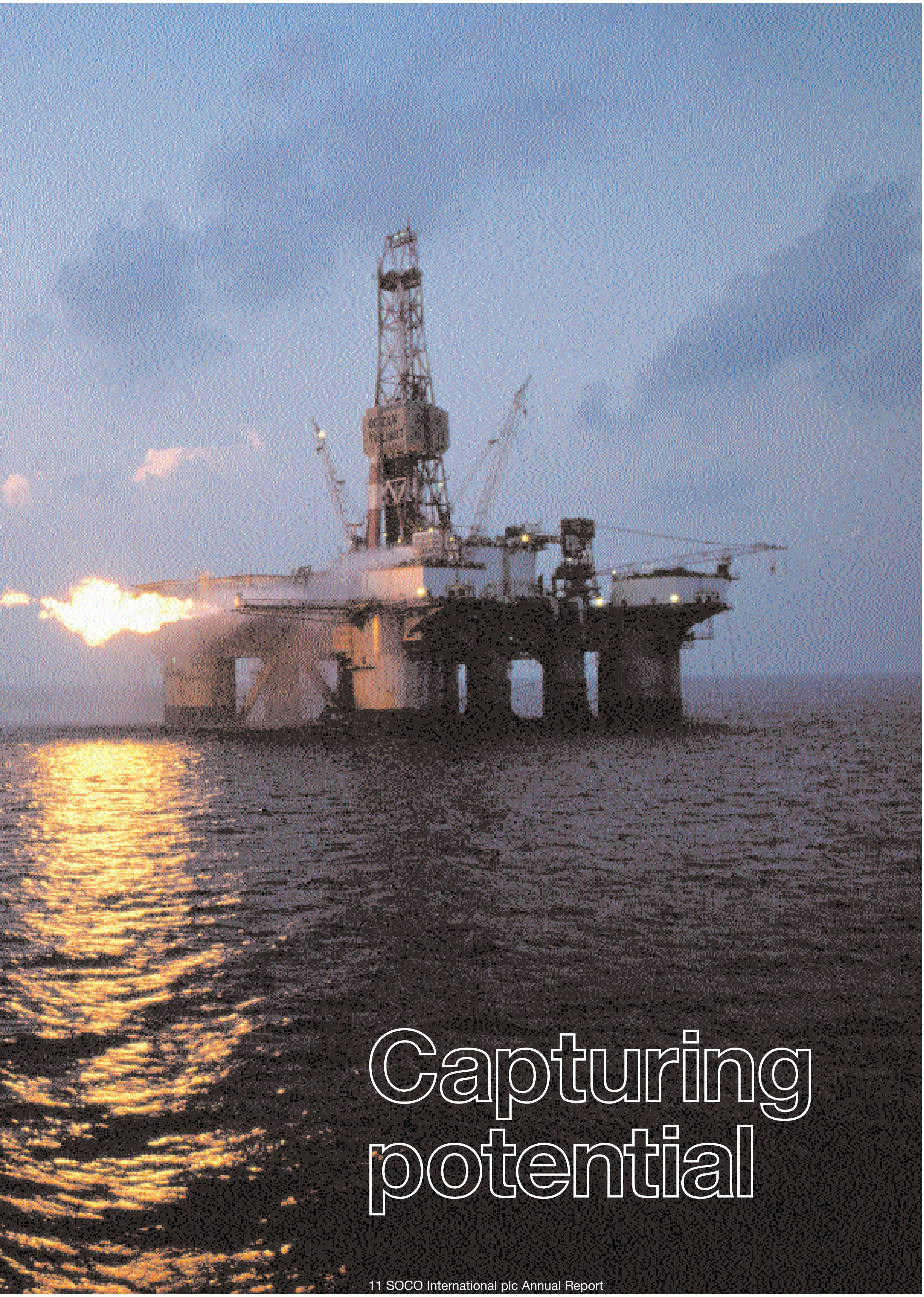
On Block 16-1, the exploration period is divided into three phases, during the first of which the contractor parties, participants other than Petrovietnam, are obligated to conduct seismic appraisal and to drill two exploratory wells. On Block 9-2, the contractor parties are required to drill three wells and to conduct seismic appraisal during the first phase of a two-phase exploration period.

Review of 2001 results The two Joint Operating Companies (JOCs), established to manage the joint venture Petroleum Contracts, which define the structure of operations and responsibilities of the participants, signed a co-operation agreement during the year allowing them to share services to provide operating and cost efficiencies, particularly during the exploratory drilling phase of operations. During the year, both the Hoan Vu JOC, with project oversight of Block 9-2, and the Hoang Long JOC, with project oversight of Block 16-1, were involved in various stages of preparation for the drilling programme that is scheduled to commence in May 2002. The Hoan Vu JOC completed a 650 square kilometre 3D seismic acquisition programme in May 2001. The Hoang Long JOC continued its analysis of 3D seismic acquired in 2000 with Pre Stack Depth Migration processing to improve the imaging of the basement structures in Block 16-1.

Both Blocks are situated in the central portion of the Cuu Long Basin off the coast of Vietnam in water depths ranging between 40 metres and 60 metres with Block 9-2 being more centrally positioned in the basin. In addition to their proximity to the prolific Bach Ho field, the Blocks are also adjacent to the Rang Dong field, which is currently producing approximately 40,000 BOPD. Activity in the region has been characterised by a recent string of 12 discoveries out of 13 wells drilled by a major oil company. Initial production tests from both tertiary and basement sections of these discoveries ranged from approximately 8,000 BOPD to approximately 18,000 BOPD.

Subsequent events and outlook for 2002 In January of 2002, SOCO announced that it had increased its ownership of SOCO Vietnam, the company which holds its interests in Vietnam, from 70% to 80%. The following month it was announced that, subject to regulatory approval in Vietnam, SOCO Vietnam had farmed-out 50% of its interest in each block to PTTEP, the partially privatised state oil company of Thailand. Post farm-out SOCO Vietnam retains a 25% interest in Block 9-2 and a 15% interest in Block 16-1. Per the terms of the farm-out, PTTEP agreed to fund SOCO Vietnam's share of the cost of drilling the four well programme scheduled to begin in May of this year up to a maximum of US$50 million in order to earn one half of SOCO Vietnam's interest.

Also in 2002, a rig contract was signed for a firm four-well drilling programme, with several optional wells. The four wells are designed to test two prospects on Block 16-1 and two prospects on Block 9-2 and drilling is scheduled to commence in May 2002 with the first well scheduled to be drilled on Block 16-1.



Capturing potential

Realising value

Russia

In 2001, SOCO disposed of its 50% interest in the Russian joint venture Permtex, a Russian limited liability company, to an affiliate of OAO Lukoil, one of Russia's largest oil companies. The transaction was finalised and effective as at the end of October 2001. In the transaction, SOCO received US$50 million for its shares in Permtex. As a result, the Russian operations are reflected in 10 months of the full period operating results and contributed 2,853 BOPD to SOCO's total production net to its working interest.

SOCO Perm Russia, LLC (SOCO Perm), the Company subsidiary which held its Russian interest, signed a Protocol of Intent in 1991 to pursue the formation of a joint venture to explore and produce hydrocarbons from the Volga Urals Basin in European Russia. In August 1993, Permtex was registered as a Russian limited liability partnership. Operations began a year later with the first shipment of crude exported by Permtex in October 1994.

In the intervening period until SOCO Perm sold its interest in Permtex to a subsidiary of Lukoil, the project, which is situated in an environmentally sensitive region, was progressed through a series of Russian political, social and economic crises, partner changes and operating challenges. With a modest initial investment, the Company added management expertise, international aid donor financing and technical capability. It worked through the privatisation process to attract a strong local partner, then oversaw the construction of major infrastructure to bring Permtex to the threshold of a major development drilling campaign.

The ultimate success of the project is attributable to the initial structure put in place to protect the assets of the joint venture and to the hardworking and dedicated professionals in Russia who oversaw the evolution of Permtex from a start-up company dependent upon its shareholders for expertise and funding to a fully functioning independent production operation, which contributed profits to its shareholders. For SOCO, the culmination of the value-creation phase came with the 2001 completion of a 40 kilometre pipeline that connected the northern fields in the project to a trunk pipeline connecting to distribution infrastructure.

The Company's exit from Russia came not as a result of lack of success, but rather as the result of a successful conclusion of its aspirations for a particular project. It stands as a paradigm for realising value at an appropriate time in the life cycle of one of the portfolio holdings.

Exploration

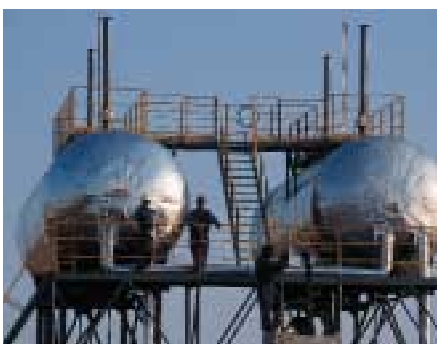
In 2001, the Company continued its drilling successes in Mongolia, again experiencing a success rate of 75% as three of four wells drilled were successful. The Group also conducted a large 3D seismic acquisition programme over offshore Vietnam Block 9-2, extending into the adjacent development area of the Rang Dong field thereby allowing the seismic to be tied into existing producing well logs.

Mongolia
For the second year in a row, there was a 75% success ratio in drilling as six of the last eight wells are capable of production

Mongolia

During the year, the Company pared its holdings, relinquishing Contract Areas 19E, 20 and 20E in the Tamtsag Basin and Contract Area 11 in the Gobi Basin, choosing to focus on the more prospective areas without incurring further work commitments elsewhere. It holds an approximate 85% working interest in Contract Areas 19, 21 and 22 with the Chinese company providing the drilling services having earned the right to take a 10% working interest, which requires it to fund its share of future work programmes, and a 5% interest being carried through the exploration phase for Petrovietnam, the Vietnamese national oil company. Mongolia remains primarily an exploration venture except for the pilot production programme in the southeastern quadrant of Contract Area 19.

Review of 2001 results Following the lifting of border restrictions, a four-well drilling programme began in July. The 19-13 well, drilled on a new structure of approximately 1,500 acres, spudded on 6 July. This well, the 17th well drilled by the Company in Mongolia, reached target depth of 2,311 metres on 22 July with drilling log analysis indicating a net productive reservoir of approximately 55 metres in a gross interval from 1,968 metres to 2,284 metres.



Mongolia
Reconstruction of storage and production facilities was completed in August.

On 29 July, the drilling rig spudded the second well in the campaign, the 19-14. Located approximately 1.5 kilometres northeast and in a contiguous fault block to the 19-13 well, the 19-14 was drilled to a depth of 2,376 metres in mid-August having encountered oil shows in a 286 metre gross interval from 2,051 metres to 2,337 metres in the Upper Tsagantsav Sands.

The final two wells in the 2001 programme were drilled in Contract Area 21, approximately 100 kilometres northeast of the region of activity in Contract Area 19. The 21-3 well, a rank wildcat test, was spudded 24 August and drilled to a depth of 2,100 metres. The well did not encounter productive reservoir sands and was abandoned without testing on 5 September. The 21-4 well, spudded on 11 September, was a 400 metre offset to the SOTAMO 21-2 well drilled in May 1997. The 21-4 well drilled to a total depth of 2,500 metres encountering a total of 75 metres of oil shows in a gross interval from 1,667 metres to 2,020 metres. The drilling rig was released on 29 September. Primarily due to the distance from processing and storage facilities, none of the wells in Contract Area 21 have been completed and put on production.

With the completion of the 2001 drilling campaign, Huabei Oilfield Services, the Chinese company providing the drilling services to the Company in Mongolia and a subsidiary of PetroChina Company Limited, satisfied its earning obligation to become a 10% interest owner in Contract Areas 19, 21 and 22, which requires it to fund its pro-rata share of future work programmes. SOCO retains an approximate 85% interest in the Tamtsag Basin, with Petrovietnam, the state oil company of Vietnam, holding the remaining 5% participation.

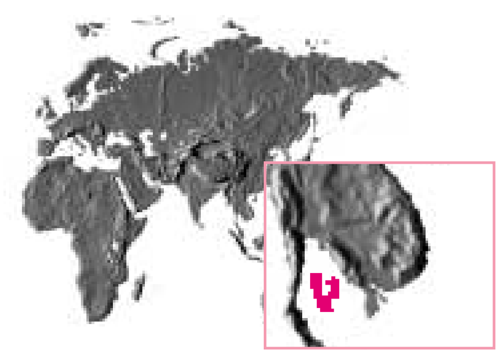
Reconstruction of storage and production facilities that were damaged in 2000 was completed in August. The 19-10 and 19-12 wells, which were drilled and completed last year but not tested due to the lack of facilities, were put on production in July and August and sales to China were reinstated in August. Sales from this pilot production programme, which were restricted due to a lack of trucking capacity, averaged approximately 150 BOPD for the year. Trucking capacity was expanded during October but capacity will be substantially increased through the initiation of a transportation agreement signed with a Chinese company whereby it will provide transportation of all crude produced in the Tamtsag Basin. Transportation under the new contract is expected to begin late in the first quarter of 2002.

All the new wells capable of production in Contract Area 19 were put on stream in 2001. At various times during the year, the Company produced oil from Contract Area 19 wells 3, 9, 10, 12, 13 and 14. Although mechanical problems or other operating issues had caused a number of these wells to be shut-in at year end, production averaged approximately 450 BOPD for the two-month period of December 2001 and January 2002.

Subsequent events and outlook for 2002 Exploration results to date compare favourably with those being conducted by Chinese exploration companies in the adjacent extension of the Tamtsag Basin, the Hailar Basin, to the north and further afield in the Aershan Basin to the south. A pipeline delivering crude oil from the Russian oil fields near Irkutsk to the refining centres in the Daqing region has been approved by Russian and Chinese authorities. Should 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.

Should the spur pipeline become reality, the issue of transportation will have been solved. Even without construction of this spur pipeline, development of the Tamtsag fields will proceed with the product being transported to market by truck until sufficient producing capability and reserves are developed to justify a pipeline.

A budget has been approved for the 2002 exploration programme that includes the drilling of four wells in the Tamtsag Basin. The first well is expected to spud in Contract Area 19 during the second quarter of this year. Discussions concerning various alternatives for outside participation in the Mongolia project are continuing.



Thailand

The Group is operator of, and holds a 50% interest in, Block B8/38 located offshore in the Gulf of Thailand. Through earlier exploration efforts, the Group has a small field discovery which is a candidate for development.

Review of 2001 results Contacts with potential farm-in candidates were initiated in February and continued throughout the year. In December, an exclusive, non-binding Heads of Agreement was signed with a company to farm-in to one half of the Group's interest in Thailand. Negotiations continue as this report went to press.

Subsequent events and outlook for 2002 A small 2D seismic programme was acquired over Block B8/38 in the first quarter of 2002 as the Company fulfilled its only remaining commitment associated with the Thailand Concession Agreement. If the programme indicates additional potential and warrants an extension of the Concession, the Company has the option to extend 50% of the Block for a further three-year exploration period with only a minimal commitment.

North Korea

SOCO affiliate SOCO Koryo International Ltd has interests in a Production Sharing Contract (PSC) over an approximate 9,600 square kilometre concession, mostly offshore, in the West Korean Bay. The PSC continues to afford a relatively inexpensive opportunity to test the regional geological similarities to the highly prospective Bohai Bay Basin of northeastern China.

Review of 2001 results The Company continued to limit its financial exposure to the region as operations were largely at a standstill during the year. Farm-out discussions advanced with SOCO introducing various South Korean parties for consideration by its North Korean partners. To date, no approval of a proposed farm-in candidate has been granted.

Subsequent events and outlook for 2002 The Company will continue to pursue farm-out discussions. Without third-party participation, the outlook for meaningful progress of operations on the Block in the near term is not optimistic.

Dan Mercier (centre), Vice President-Operations with Hai Hoang Nguyen (left) and Gordon Graham, General Managers of the Hoan Vu JOC and the Hoang Long JOC respectively.

Production and development

Group production net to its working interests rose slightly in 2001 to 8,817 BOPD from 8,810 BOPD last year despite the October disposal of its Russian producing property, major interruptions in Tunisia due to equipment failure and Mongolia production being shut-in for almost eight months. December 2001 production rates averaged approximately 6,120 BOPD reflecting the production level at the end of 2001 post disposal of the Russian asset.

Yemen

SOCO holds its interests in the East Shabwa Development Area in Yemen (East Shabwa) through its shareholding in Comeco Petroleum, Inc. (Comeco). The Company's 58.75% interest in Comeco translates to a 16.785% indirect working interest in East Shabwa. The concession is operated by TotalFinaElf Yemen.

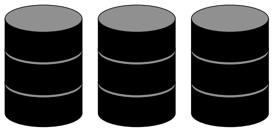
Review of 2001 results Work continued throughout the year on geological and geophysical studies associated with the 3D seismic acquisition of 2000. However, the Phase III drilling programme that was expected to commence in the fourth quarter of 2001 was delayed into 2002 due to the unavailability of a drilling rig.

Yemen
East Shabwa production for 2001 averaged approximately 4,600 BOPD net to SOCO's working interest. Phase III development drilling got underway in 2002.

Gross production for 2001 averaged approximately 27,450 BOPD (SOCO's working interest approximately 4,600 BOPD) from the Kharir, Atuf NW and Wadi Taribah fields. This represented a slight shortfall to budgeted projections primarily due to rapidly increasing water cuts and delays in commencing Phase III drilling.

East Shabwa production is piped to crude oil transfer facilities on the neighbouring Nexen operated Masila Block which produces about 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 sold into the spot market.

Subsequent events and outlook for 2002 The Phase III drilling programme began in January 2002 with the budget calling for up to eight wells to be drilled. The drilling campaign commenced with the Kharir 2.6 development well, after which the rig is scheduled to move to an exploration location. The exploration programme is targeting anomalies highlighted in the seismic programme acquired in 2000. The upgrade to the Atuf field's water-handling facilities is expected to be complete by mid year.



Didon field production has averaged 8,750 BOPD since returning to production.

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, currently under a 12 month contract negotiated in 2001.

Review of 2001 results As a result of operational problems during the first part of the year and modification of the production facilities during the second half of the year that necessitated taking the production off line, production declined year on year in Tunisia, dropping from 1,293 BOPD net to the Company's working interest to 1,206 BOPD. Subsequent to coming back on line after the modifications, Didon production has averaged approximately 8,750 BOPD, approximately 1,950 BOPD net to the Company's working interest. The well continues to produce without any signs of pressure decline.

Subsequent events and outlook for 2002 The Didon well, which has been producing since mid 1998, has continued to perform extremely well. Estimates of recoverable reserves in the Didon field have been increased since then by approximately 300% due to production performance to date.

Due to updated technical evaluations and re-mappings of the structure, it is likely that an additional well will be drilled on the structure in 2002 to maximise the economic recovery of oil.

Roger Cagle, Executive Vice President, Deputy CEO and CFO with Carol Fan, Executive Assistant.

Review of 2001 results

Financial and operating

Net profit, including the profit on the sale of discontinued operations, slightly exceeded that of last year rising to £17.7 million from £17.6 million. However, turnover and operating profit for 2001 could not keep pace with the record levels set during last year's period of extremely high oil prices. Excluding the profit on sale of discontinued operations, the Company recorded profit from ordinary activities of £9.3 million on turnover of £37.3 million compared to the previous year's record profit of £17.6 million on turnover of £45.9 million.

Daily average production net to the Group's working interest rose to record levels with a small increase over last year's output rising to 8,817 barrels of oil per day (BOPD) from 8,810 BOPD. The average price received per barrel of crude oil sold during the year by the Company declined to approximately US$21.50, down 17% from approximately US$26.00 reported in 2000.

With a view towards the Company's possible exposure to a development in Vietnam and the introduction of new projects through its Libyan joint venture, the Board of Directors are not recommending the payment of a dividend. At year end, the Group is totally debt free as its entire debt obligation was associated with the Russian joint venture, which was sold during the year.

Capital expenditures associated with tangible and intangible fixed assets for the year increased to £26.7 million from £22.8 million in 2000, primarily reflecting the signature bonus and pre-drilling activity associated with the Company's successful bid for Block 9-2 in Vietnam. The successful drilling programme in Mongolia resulted in a net proved and probable crude oil reserve entitlement increase of 25.5 million barrels, which partially offset the reduction (48.8 million barrels) associated with the disposal of the Company's 50% interest in Permtex, the Russian joint venture. Overall net proven and probable reserves, on an entitlement basis, were down from 82.2 million barrels at year end 2000 to 59.3 million barrels at year end 2001.

Pursuant to shareholder approval of a long term incentive plan at the Annual General Meeting in May 2001, the Company established the SOCO Employee Benefit Trust, which purchased an additional 1.2 million shares of the Company's common stock on the open market for a total of £1.2 million.

Operating costs, excluding depreciation, depletion and amortisation provisions (DD&A), rose to £14.5 million from £13.0 million in 2000. On a per barrel basis, 2001 operating costs increased to US$6.5 from US$5.8 in 2000 primarily reflecting the rise in the cost of production in Russia before its sale in October. DD&A provisions fell from £8.9 million (US$4.1 per barrel) in 2000 to £7.4 million (US$3.1 per barrel) in 2001.

Significant events

Russia In August 2001, SOCO Perm Russia, LLC (SOCO Perm), a wholly owned subsidiary of SOCO, entered into an agreement to dispose of its 50% interest in the Russian joint venture, Permtex, which held various production and development licences in the Volga-Urals Basin of European Russia. Acont Enterprises Limited (Acont), a wholly owned subsidiary of Lukoil Overseas BVI Ltd, a subsidiary of OAO Lukoil, one of Russia's largest oil and gas companies, acquired the whole of SOCO Perm's interest for a total cash consideration of US$50 million. Additionally, Acont assumed all obligations of SOCO Perm regarding SOCO Perm's share of long term debt associated with the European Bank for Reconstruction and Development loan amounting to approximately US$15 million. The transaction was subject to approval by the shareholders of the Company and clearance by the Russian Anti-monopoly Committee. Shareholder approval was obtained at an

"The Company reported record annual production, net to its working interest, slightly exceeding that reported last year. Overall net profits were at the same level as last year's record profits, largely due to income resulting from the disposal of the Company's Russian joint venture.

Operating cashflow for the year was £19.3 million, fully funding the capital expenditure requirements (£17.4 million) for the exploration programme during the year."
Roger Cagle

Extraordinary General Meeting held on 6 September and the Russian regulatory clearance obtained in October. The transaction completed with an effective date of 31 October 2001.

As at 31 December 2000, SOCO's share of Permtex's net assets was approximately £22.3 million. In 2001, SOCO's share of Permtex's turnover, operating profit and net profit was, respectively, £14.5 million (39% of the total), £3.9 million (29%) and £2.3 million (25%).

Working interest production to the Group from its Russian interests averaged approximately 2,853 BOPD for the year, approximately one third of SOCO's total working interest production of 8,817 BOPD during the year.

Libya In November, SOCO and Oilinvest (Netherlands) B.V. (Oilinvest), a private Dutch holding company principally engaged in the areas of refining and marketing of crude oil and refined products with year end 2000 net assets of approximately €1.8 billion, announced the formation of a specific-purpose upstream joint venture, ODEX Exploration Limited (ODEX), to identify, develop, produce and market hydrocarbon opportunities in Libya and the surrounding countries in northern, central and western Africa. The joint venture is held 57% by Oilinvest and 43% by SOCO North Africa Ltd, a subsidiary of SOCO. The joint venture provides SOCO with an entry into what is expected to become a core business area and Oilinvest with an entry into the upstream oil and gas industry.

The initial brief for ODEX is to identify and secure delineated oil and gas projects, which by reason of size, complexity, economic or other reasons are available for development. ODEX will then pursue oil and gas exploration opportunities in previously identified prospective regions, which, again by reason of size, complexity, economic or other reasons are not subject to extensive competition.

As at the date of publishing these results, no projects had been introduced into ODEX, but the expectation is that projects will begin to be introduced during this year. Although it is not possible to quantify the extent of the Company's financial exposure to the new projects at this time, it is the Company's intent to establish this region as a new core area, which will attract the appropriate level of investment.

Subsequent events and 2002 outlook

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 of 71,053,833 shares. 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 SOCO Vietnam's share of the cost of drilling the four exploration wells scheduled later this year for Blocks 9-2 and 16-1 in the Cuu Long Basin offshore Vietnam or to spend a maximum of US$50 million, whichever is less, to earn 50% of SOCO Vietnam's interest in the Blocks.

Post farm-out SOCO Vietnam retains a 25% interest in Block 9-2 and a 15% interest in Block 16-1. The agreement is subject to the approval of Petrovietnam, the state owned Vietnamese oil company, and the Government of Vietnam.

As has been demonstrated in 2001, 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 pounds sterling (GBP). As a result, there may be significant potential for financial statements to be impacted by differences arising from movements in foreign exchange rates. These differences may distort results achieved from actual operations.

Generally, it is the Company's policy to conduct and manage its business in US dollars. Cash balances in Group subsidiaries are 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. No other foreign currency instruments were used by the Group during the year.

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.

SOCO has employed Arthur Andersen as its external auditors since its initial public listing. In 2001, Enron Corporation, one of the largest public companies listed in the United States and a client of Arthur Andersen's US firm, declared bankruptcy. Both Enron Corporation and Arthur Andersen are under scrutiny in the United States as part of an investigation, which is ongoing as this report went to press. The investigation highlights important issues involving the responsibility of management and external auditors in presenting fair and reliable financial information to stakeholders.

While the Directors believe that the Company has received professional and competent advice from its external audit firm during its tenure, the Directors are aware that they must ensure that the Company continues to receive an acceptable level of service and that shareholder confidence in the Company's accounts is not impacted. The Directors see no cause to take any action currently but will closely monitor the situation as it progresses and take any actions they deem appropriate to maintain the credibility of SOCO's financial information.

Operational

The events of 11 September in the United States of America brought into sharp focus the consequence of unanticipated risks. The direct and indirect results of events on that day have significantly impacted, and will likely continue to impact, risk management throughout the world. From an industry standpoint, insurance cover, the cost of which had already increased approximately threefold earlier in the year, underwent further radical changes. One such change saw the elimination of war and terrorist cover, which previously were unscheduled but inclusive clauses. Specifically to the Company, reinstatement of such cover as a scheduled item in SOCO's insurance portfolio would have required another threefold increase in its insurance premium.

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, SOCO believes that 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 take commodity price risk. It is the Company's policy not to hedge crude oil sales unless such hedging is required to mitigate financial risk associated with debt financing of its assets or to meet the Company's commitments. Accordingly, no price hedging mechanisms were in place during the year. Over time, during periods when the Company sees an opportunity to lock-in attractive oil prices, it may engage in limited price hedging.

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

Health, safety and environmental

The Company has a formal Health, Safety and Environmental (HSE) policy that emphasises its corporate responsibility for identifying and minimising the potential adverse effects that Group operations may have on its employees, the public and the environment. The focus of the programme is on prevention and avoidance, in recognition that the potential impact of an adverse event is far greater than the cost to overcome a breakdown in compliance.

The Group operates in many developing countries and in several frontier environments where health, safety and environmental standards may be considerably below the norms in more developed countries or regions with a better developed infrastructure. Even with its best efforts, the Group may be severely handicapped in demonstrating "best practice" standards in comparison to operations or operators in different regions. At a minimum, the Group must be in compliance with applicable host country regulations, but SOCO is more ambitious in that it generally seeks to improve awareness and increase standards beyond those currently required.

Board of Directors

Directors left to right:
1 2 3 4 5 6   7 8 9 10 11

1 Roger Brittain
Non-Executive

2 John Norton
Non-Executive

3 Ettore Contini
Non-Executive

4 Peter Kingston
Non-Executive Deputy Chairman and Senior Independent Director

5 Rui de Sousa
Non-Executive

6 Ed Story
President and CEO

7 **John Snyder**
Non-Executive

8 **Patrick Maugein**
Non-Exectutive Chairman

9 **Robert Cathery**
Non-Executive

10 **Roger Cagle**
Executive Vice President
Deputy CEO and CFO

11 **Olivier Barbaroux**
Non-Executive

Patrick Maugein (54)
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.

Ed Story (58)
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, including seven years resident in the Far East, with Exxon Corporation. He is currently a director of Cairn Energy PLC. Mr Story is a member of the Nominations Committee.

Peter Kingston (59)
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. Mr Kingston is Chairman of the Remuneration and Audit Committees and a member of the Nominations Committee.

Roger Cagle (54)
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.

Olivier Barbaroux (46)
Non-Executive Director
Mr Barbaroux joined the Board in July 1999. He is General Manager of Compagnie Générale des Eaux 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.

Roger Brittain (64)
Non-Executive Director
Mr Brittain joined the Board in March 1998. He was formerly a director of Corporate Finance at Investec Henderson Crosthwaite and is an advisor to Devon Energy Corporation. He is Chairman of CanArgo Energy Corporation and a director of Transmeridien Exploration, Inc. Mr Brittain serves on the Audit, Remuneration and Nominations Committees.

Robert Cathery (57)
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 a director and the Head of Corporate Sales at SG Securities (London) Ltd and a non-executive director of IndigoVision plc. Mr Cathery is a member of the Audit and Nominations Committees.

Ettore Contini (28)
Non-Executive Director
Mr Contini joined the Board in December 2001. He is currently an Asset Manager in the Private Banking department of Banca del Gottardo in Lausanne, Switzerland and is on the Board of Directors of Italiana Energia E Servize SpA. Mr Contini is a member of the Audit and Nominations Committees.

John Norton (64)
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. Mr Norton is a member of the Audit and Nominations Committees.

John Snyder (60)
Non-Executive Director
Mr Snyder joined the Board in April 1997. He was, prior to its merger with Devon Energy Corporation, Chairman of the Board of Santa Fe Snyder Corporation, a predecessor of which, Snyder Oil Corporation, he founded. He is a director of Texas Capital Bancshares, Dallas, Texas. He is a member of the Nominations Committee.

Rui de Sousa (46)
Non-Executive Director
Mr de Sousa joined the Board in July 1999. Mr de Sousa has, since the 1980s, been the Chief Executive Officer of the Toro Group. He is the Chairman of Mediterranean Oil Supply and Trading Limitada, and is also a director of Quantic Limited. Mr de Sousa serves on the Remuneration and Nominations Committees.

Cynthia Cagle, Vice President and Company Secretary with Non-Executive Directors Roger Brittain (left) and John Norton.

The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 December 2001.

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, Thailand and North Korea. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 12 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 21.

Results and dividends The audited accounts for the year ended 31 December 2001 are set out on pages 34 to 49. The Group profit after taxation for the period was £17.7 million compared to £17.6 million in 2000.

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 (2000 – £nil).

Directors The Directors who served during the year were as follows:

Patrick Maugein* (Chairman)
Peter E Kingston* (Deputy Chairman and Senior Independent Director)
Olivier M G Barbaroux*
Roger W Brittain*
Roger D Cagle
Robert M Cathery* (appointed 19 June 2001)
Ettore P M Contini* (appointed 10 December 2001)
John C Norton*
John C Snyder*
Rui C de Sousa*
Edward T Story

*Denotes independent non-executive Director

All Directors held office throughout the year except as otherwise noted above. Details of Directors' interests are included in Note 7 to the accounts.

In accordance with the Articles of Association Peter E Kingston, Olivier M G Barbaroux and Rui C de Sousa will retire by rotation at the forthcoming Annual General Meeting and, each being eligible, offer themselves for reappointment.

In addition, in accordance with the Articles of Association, Robert M Cathery and Ettore P M Contini, having been appointed by the Board since the last Annual General Meeting, also retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for 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.

Share capital Details of changes to share capital during the period can be found in Note 20 to the accounts.

Substantial shareholdings On 18 March 2002, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the issued ordinary share capital of the Company and warrants to subscribe for ordinary shares of the Company (Warrants).

	Issued Shares		Warrants
Name of Holder	Number	% Held	Number
Pontoil Intertrade Limited	8,685,813	12.22	447,171
Chemsa Limited	4,842,955	6.82	325,215
Fidelity International Limited	4,685,800	6.59	–
SIIF SA (Luxembourg)	4,127,335	5.81	284,563
Opale SA	4,000,000	5.63	–
Quantic Limited	2,807,478	3.95	162,607
Lansdowne Partners Limited Partnership	2,339,940	3.29	–

Auditors The Directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

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

By order of the Board
Cynthia B Cagle
Secretary
19 March 2002

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 Remuneration report and in Note 7 to the accounts.

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 page 24.

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. The main objective of the Committee is to ensure that employees are remunerated on a basis which is appropriate to their position, experience and value to the Company and Group, whilst recognising that remuneration packages must be set at a level to attract, retain and motivate staff. The Committee meets at least two times annually. The Remuneration report is on pages 30 to 32.

The Audit Committee The Audit Committee comprises six non-executive Directors and meets at least twice a year. The Chief Financial Officer and a representative of the external auditors are normally invited to attend meetings. At least once a year the Committee meets with the external auditors without executive Board members present. Its primary responsibilities are to review the effectiveness of the Company's and Group's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of that audit and to review the annual and interim financial statements before they are submitted to the Board. The Audit Committee has specific responsibility for advising the full Board on compliance with the Turnbull Committee's published guidance and the implementation of the Combined Code's internal control requirements.

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

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

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

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

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

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

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

The Board has performed a specific assessment for the purpose of this Annual Report and Accounts which considers all significant aspects of internal control arising during the period and are satisfied with the process employed and the results thereof. The Audit Committee spearheads the Board in discharging its review responsibilities. Although the Company does not currently have an internal audit function, the Directors 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 33.

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

The 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.

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

Policy The Company's policy on executive Director remuneration is to provide rewards that are competitive with those offered in comparable businesses, bearing in mind the necessity to attract, retain and motivate the high calibre of management vital to the Company's growth and profitability. The value and the structure of the remuneration packages, which have been designed to provide an appropriate balance between basic salary and performance related remuneration, are benchmarked to competitive market ranges, considering the Group's size and complexity.

It is the Committee's policy to review all aspects of remuneration on an annual basis and with respect to the year's individual and corporate performance. In addition to basic salary, executive Directors will be eligible to receive an annual cash bonus and to receive annual awards under incentive plans approved by shareholders and designed to provide appropriate incentive opportunities linked to performance over the longer term.

Bonus The annual cash bonus will be awarded at the discretion of the full Board, upon recommendation by the Committee and subject to Principle B.2 of the Combined Code, based on the achievement by each individual of personal goals based on the Company's strategic plan. An executive Director's discretionary annual bonus is targeted to provide a balance between basic salary and the performance related element of annual cash remuneration but shall not exceed 100% of basic salary. Bonus awards with respect to 2001 performance are reflected in Note 7 to the accounts.

LTIP Based on the 2000 annual review of remuneration and on benchmarking to market ranges conducted by independent remuneration advisors, the Committee determined that incentive opportunities available to the Company's Executives were not competitive with sector market competitors. As a result the Directors proposed the adoption of a Long Term Incentive Plan (LTIP), which was approved by shareholders at the May 2001 Annual General Meeting. The LTIP, which is operated in the context of the Company's overall remuneration policy, provides greater flexibility both in terms of maintaining the competitiveness of current Executives' remuneration and in the packages that can be offered to attract high calibre senior executive talent to SOCO in the future. This flexibility enables a more significant proportion of executive remuneration packages to be linked to performance, thereby further aligning their interests with those of the shareholders and providing keen incentives to perform at the highest levels.

LTIP awards, which will be made to executive Directors and senior management on the recommendation of the Committee, are subject to individual limits and will only vest over a three year period subject to demanding performance targets. Performance targets for each of the awards made under the plan since its approval are based on the Company's relative total shareholder return (TSR) performance against a range of comparator companies in the oil exploration and production sector, with proportional vesting for each ranking position above the median up to 100% vesting for upper quartile performance. 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.

Consideration of LTIP awards annually is intended to put in place an opportunity for regular annual vesting based on performance over successive three year periods. Given that a competitive shortfall in remuneration had been identified in 2000, the Committee addressed this through a series of actions intended to provide continuity with the introduction of the LTIP. As reported in the 2000 Annual Report and Accounts, a special deferred bonus was awarded in the form of SOCO shares, which will vest at the end of 2002 subject to the continued employment of the recipient. In the 2000 annual review, consideration of longer term incentive awards was deferred until shareholder approval of the LTIP in May 2001. For 2001 and subsequent years, incentive awards are considered in the course of the annual review of all aspects of remuneration normally conducted in December. Awards under the LTIP plan are detailed in Note 7 to the accounts.

Option scheme The Committee currently operates one share option scheme, being the SOCO 1997 Company Share Option Plan. The grant of options to executive Directors and senior management is on the recommendation of the Committee. The Committee recommends, at its discretion, the participants and the number of shares over which their option will be granted, which will take into account awards made under the LTIP or any other incentive plans to ensure that total expected compensation opportunity is appropriate in the context of the prevailing market. The number of shares over which the option will become exercisable is determined on the basis of the Company's TSR performance within a group of comparator companies in the oil exploration and production sector, determined on or after the third anniversary of the date of grant. No options were granted to Directors in 2001.

The executive Directors' contracts are terminable by either party on giving not less than one year's notice. The non-executive Directors' appointments are terminable at the will of the parties but are envisaged to establish an initial term of three years after which they will be reviewed annually. The remuneration of the non-executive Directors is determined by the Board as a whole, based on outside advice and review of current practices in other companies.

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

Independent auditors' report

To the shareholders of SOCO International plc We have audited the accounts of SOCO International plc for the year ended 31 December 2001 which comprise the Profit and loss account, Balance sheets, Cash flow statement, Statement of total recognised gains and losses, Statement of accounting policies and the related notes numbered 1 to 28. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors The Directors' responsibilities for preparing the annual report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' responsibilities. Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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

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

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited accounts. This other information comprises only the Chairman's and Chief Executive's statement, Review of operations, Financial review, Directors' report, Corporate governance statements, Remuneration report, Statement of Directors' responsibilities, Five year summary and Reserve statistics. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

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 accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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

Opinion In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2001 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and
Registered Auditors

180 Strand
London
WC2R 1BL
19 March 2002

Consolidated profit and loss account

for the year to 31 December 2001

	Notes	2001 £000's	2000 £000's
Turnover	1		
Continuing operations		**22,841**	31,323
Discontinued operations		**14,476**	14,529
		37,317	45,852
Cost of sales	2	**(21,913)**	(21,830)
Gross profit	2	**15,404**	24,022
Administrative expenses	2	**(2,079)**	(1,973)
Operating profit	1		
Continuing operations		**9,471**	16,364
Discontinued operations		**3,854**	5,685
		13,325	22,049
Profit on sale of discontinued operations	26	**8,474**	–
Profit on ordinary activities before finance charges		**21,799**	22,049
Investment income	3	**1,361**	2,102
Interest payable and similar charges	4	**(302)**	(62)
Profit on ordinary activities before taxation	1,5	**22,858**	24,089
Tax on profit on ordinary activities	8	**(5,118)**	(6,524)
Profit for the financial year	22	**17,740**	17,565
Earnings per share			
Basic	10	**25.9p**	25.6p
Diluted	10	**23.8p**	24.3p

Consolidated statement of total recognised gains and losses

for the year to 31 December 2001

	Notes	2001 £000's	2000 £000's
Profit for the financial year	22	**17,740**	17,565
Unrealised currency translation differences	22	**2,931**	7,372
Total recognised gains relating to the year		**20,671**	24,937

The accompanying notes are an integral part of these accounts.

Balance sheets

as at 31 December 2001

		Group		Company	
	Notes	**2001 £000's**	2000 £000's	**2001 £000's**	2000 £000's
Fixed assets					
Tangible and intangible assets	11	**84,950**	94,064	**90**	133
Investments	12	**1,418**	368	**49,355**	49,355
		86,368	94,432	**49,445**	49,488
Current assets					
Stocks	13	**1,068**	1,199	**–**	–
Debtors	14	**5,352**	7,869	**1,611**	229
Investments	15	**2,690**	22,252	**2,690**	8,977
Cash at bank and in hand		**55,910**	15,795	**5,390**	2,174
		65,020	47,115	**9,691**	11,380
Creditors: Amounts falling due within one year	16	**(6,848)**	(12,668)	**(185)**	(672)
Net current assets		**58,172**	34,447	**9,506**	10,708
Total assets less current liabilities		**144,540**	128,879	**58,951**	60,196
Creditors: Amounts falling due after more than one year	17	**–**	(5,021)	**–**	–
Provisions for liabilities and charges	18	**(1,051)**	(1,040)	**–**	–
Net assets		**143,489**	122,818	**58,951**	60,196
Capital and reserves					
Called-up equity share capital	20	**14,026**	14,026	**14,026**	14,026
Share premium account	21	**38,910**	38,910	**38,910**	38,910
Other reserves	21	**34,961**	34,961	**–**	–
Profit and loss account	21	**55,592**	34,921	**6,015**	7,260
Shareholders' funds	22	**143,489**	122,818	**58,951**	60,196

The accounts on pages 34 to 49 were approved by the Board of Directors on 19 March 2002 and signed on its behalf by:

Patrick Maugein Chairman
Roger D Cagle Director

The accompanying notes are an integral part of these accounts.

Consolidated cash flow statement

for the year to 31 December 2001

	Notes	2001 £000's	2000 £000's
Net cash inflow from operating activities	23	**19,337**	30,902
Returns on investments and servicing of finance			
Interest received		**1,508**	1,947
Interest paid and similar charges		**(843)**	(290)
		665	1,657
Taxation paid		**(5,024)**	(6,794)
Capital expenditure and financial investment			
Purchase of tangible and intangible fixed assets		**(26,743)**	(22,814)
Purchase of own shares by employee benefit trust		**(1,253)**	–
		(27,996)	(22,814)
Acquisitions and disposals			
Sale of business	26	**29,497**	507
Cash inflow before management of liquid resources and financing	24	**16,479**	3,458
Management of liquid resources			
Decrease (increase) in funds placed on short term deposit	24	**19,711**	(884)
Financing			
Issue of ordinary share capital	20	**–**	741
Issue of preference shares to minority interests		**–**	8
Increase in bank loan due after more than one year	24	**3,455**	3,338
		3,455	4,087
Increase in cash in the year	24	**39,645**	6,661

The accompanying notes are an integral part of these accounts.

Statement of accounting policies

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

Basis of accounting
The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

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, including those in Russia and Yemen, 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.

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

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

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

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

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

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

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

The results of overseas operations are translated at the average rate of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on retranslation at the closing rate of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are dealt with through reserves. 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.

Notes to the accounts

1 Segment information

	Europe £000's	Asia £000's	North Africa and Middle East £000's	Unallocated £000's	Group 2001 £000's
Turnover by origin					
Continuing operations	**–**	**595**	**22,246**	**–**	**22,841**
Discontinued operations [1]	**14,476**	**–**	**–**	**–**	**14,476**
	14,476	**595**	**22,246**	**–**	**37,317**
Operating profit (loss)					
Continuing operations	**–**	**–**	**10,982**	**(1,511)**	**9,471**
Discontinued operations [1]	**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 [1]	**12,200**	**–**	**–**	**–**	**12,200**
	12,200	**–**	**10,838**	**(180)**	**22,858**
Net assets	**–**	**61,955**	**23,411**	**58,123**	**143,489**

	£000's	£000's	£000's	£000's	2000 £000's
Turnover by origin					
Continuing operations	–	296	31,027	–	31,323
Discontinued operations [1]	14,529	–	–	–	14,529
	14,529	296	31,027	–	45,852
Operating profit (loss)					
Continuing operations	–	–	18,395	(2,031)	16,364
Discontinued operations [1]	5,685	–	–	–	5,685
	5,685	–	18,395	(2,031)	22,049
Profit (loss) on ordinary activities before taxation					
Continuing operations	–	–	18,526	(90)	18,436
Discontinued operations [1]	5,653	–	–	–	5,653
	5,653	–	18,526	(90)	24,089
Net assets	22,564	46,130	23,468	30,656	122,818

[1] In October 2001 the Group sold its Russian interest (see Note 26).

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

2 Cost of sales, gross profit and administrative expenses

	Continuing operations 2001 £000's	Discontinued operations 2001 £000's	Group 2001 £000's	Continuing operations 2000 £000's	Discontinued operations 2000 £000's	Group 2000 £000's
Operating expenses	**5,840**	**8,703**	**14,543**	5,767	7,183	12,950
Depletion and depreciation	**5,451**	**1,919**	**7,370**	7,219	1,661	8,880
Cost of sales	**11,291**	**10,622**	**21,913**	12,986	8,844	21,830
Gross profit	**11,550**	**3,854**	**15,404**	18,337	5,685	24,022
Administrative expenses	**2,079**	**–**	**2,079**	1,973	–	1,973

3 Investment income

	2001 £000's	2000 £000's
Interest receivable	**1,361**	1,988
Realised exchange gain	**–**	114
	1,361	2,102

4 Interest payable and similar charges

	2001 £000's	2000 £000's
Interest payable on bank loans and similar fees	**777**	479
Capitalised finance costs (see Note 17)	**(751)**	(463)
Unwinding of discount on provisions	**67**	46
Realised exchange loss	**209**	–
	302	62

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2001 £000's	2000 £000's
Depletion and depreciation	**7,416**	8,942
Auditors' remuneration for audit services		
UK companies	**60**	59
Overseas companies	**30**	31
	90	90
Auditors' remuneration for non-audit services		
UK companies	**146**	13
Overseas companies	**180**	84
	326	97

The amounts payable to Arthur Andersen by the Group in respect of non-audit services related to taxation, remuneration advice, establishment of the SOCO Employee Benefit Trust and the SOCO International plc Long Term Incentive Plan and costs associated with the disposal of the Russian interest including those relating to the circular to shareholders.

6 Staff costs

The average monthly number of employees (including executive Directors but excluding contractors and local staff of overseas operations) was 14 (2000 – 14), of which 12 (2000 – 12) were administrative personnel and 2 (2000 – 2) were operating personnel. Their aggregate remuneration comprised:

	2001 £000's	2000 £000's
Wages and salaries	**1,698**	1,800
Social security costs	**65**	70
Other pension costs under money purchase schemes	**112**	89
	1,875	1,959

7 Directors' remuneration, interests and transactions

Directors' emoluments

Executive Directors	Fees/Basic salary £000's	Benefits in kind[1] £000's	Annual bonus £000's	Total 2001 £000's	Total[3] 2000 £000's
E Story	**272**	**18**	**204**	**494**	430
R Cagle	**190**	**16**	**143**	**349**	305
Non-executive Directors					
P Maugein	**55**	**–**	**–**	**55**	55
P Kingston[2]	**55**	**–**	**–**	**55**	55
O Barbaroux	**25**	**–**	**–**	**25**	25
R Brittain	**25**	**–**	**–**	**25**	25
R Cathery[4]	**13**	**–**	**–**	**13**	–
E Contini[4]	**–**	**–**	**–**	**–**	–
J Norton	**25**	**–**	**–**	**25**	25
J Snyder	**25**	**–**	**–**	**25**	25
R de Sousa	**25**	**–**	**–**	**25**	25
Aggregate emoluments	**710**	**34**	**347**	**1,091**	970

[1] Benefits include a permanent health insurance scheme, medical insurance, life assurance cover, critical illness cover 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.
[3] In addition, on 22 March 2001 Mr Ed Story and Mr Roger Cagle were granted a conditional deferred bonus award of 160,000 and 112,000 ordinary shares in the Company, respectively, in the form of a nil cost option receivable from 31 December 2002 conditional, subject to compassionate circumstances, on continued employment. At the date of the grant the market price of the ordinary shares was £1.065.
[4] Mr Robert Cathery and Mr Ettore Contini were appointed to the Board on 19 June 2001 and 10 December 2001, respectively.

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

Directors' pension entitlements

The executive Directors are members of two money purchase schemes. Contributions paid into the schemes by the Company in respect of the executive Directors were as follows:

	2001 £000's	2000 £000's
E Story	**25**	24
R Cagle	**25**	24
	50	48

Basic salary is the only element of a Director's remuneration which is pensionable.

7 Directors' remuneration, interests and transactions (continued)

Directors' share options

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

	As at 31 December 2000	Granted	As at 31 December 2001	Exercise price £	Date from which exercisable[1]	Expiry date
E Story	**1,973,954**	–	**1,973,954**	0.750	29.05.97	25.04.04
	89,286	–	**89,286**	3.850	03.12.00	03.12.04
	284,253	–	**284,253**	0.725	15.09.01	15.09.05
	695,195	–	**695,195**	0.590	13.07.02	13.07.06
R Cagle[2]	**1,480,466**	–	**1,480,466**	0.750	29.05.97	25.04.04
	128,151	–	**128,151**	3.850	03.12.00	03.12.04
	352,948	–	**352,948**	0.725	15.09.01	15.09.05
	750,392	–	**750,392**	0.590	13.07.02	13.07.06
Total	**5,754,645**	–	**5,754,645**			

[1] Options held under the SOCO-sub Unapproved Company Share Option Plan were granted prior to the listing of the Company's shares on the London Stock Exchange and are exercisable from 29 May 1997. No additional grants are available under the Plan. All other grants have been made under the SOCO 1997 Company Share Option Plan.
[2] Options held as at 31 December 2001 include 1,009,520 (2000 – 1,009,520) held by Cynthia Cagle, having been granted to her in respect of her services to the Company.

The ability to exercise options granted under the SOCO 1997 Company Share Option Plan is determined on the basis of the Company's relative total shareholder return performance (TSR) against a comparator group. Based on the Company's TSR performance over a three year period those options conditionally exercisable from 3 December 2000 and from 15 September 2001 have been determined to be fully vested and 100% exercisable.

None of the above options were exercised or lapsed in the year.

The market price of the ordinary shares at 31 December 2001 was £1.695 and the range during the year to 31 December 2001 was £1.015 to £1.695.

Directors' long term incentive scheme

Awards in the form of a nil price option over ordinary shares of £0.20 each in the Company (Shares) were made on 10 December 2001 and 24 May 2001 pursuant to the 2001 and 2000 annual remuneration reviews, respectively. Up to 100% of these awards will be exercisable from 10 December 2004 and 24 May 2004, respectively, provided certain performance conditions are met. On the dates of the December and May awards, the market price of the Shares was £1.41 and £1.265, respectively. The Company did not operate a long term incentive scheme prior to 2001.

	Number of conditional shares awarded		
	2001 December	2001 May	2000
E Story	**256,400**	**291,900**	–
R Cagle[1]	**318,400**	**326,000**	–

[1] Awards include 260,600 Shares awarded to Cynthia Cagle in respect of her services to the Company.

The SOCO Employee Benefit Trust has been established to facilitate administration of the long term incentive scheme (see Note 12).

7 Directors' remuneration, interests and transactions (continued)

Directors' interests

The interests (all of which were beneficial except as noted below) of the Directors of the Company in the ordinary shares and warrants to subscribe for the same number of ordinary shares of the Company (Warrants) at 31 December 2001 were:

	Number of shares		Number of warrants	
	2001	2000	**2001**	2000
Executive Director				
E Story	**994,456**	994,456	**–**	–
R Cagle	**70,000**	70,000	**–**	–
Non-executive Director				
P Maugein [1]	**4,842,955**	4,688,955	**325,215**	325,215
P Kingston	**11,500**	11,500	**–**	–
O Barbaroux	**–**	–	**–**	–
R Brittain	**103,500**	64,500	**–**	–
R Cathery	**30,000**	30,000	**–**	–
E Contini	**10,000**	10,000	**–**	–
J Norton	**75,000**	50,000	**–**	–
J Snyder [2]	**500,000**	25,000	**–**	–
R de Sousa [3]	**2,947,097**	2,947,097	**1,671,809**	1,930,965

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

[2] Mr 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.

[3] Mr Rui de Sousa's interest comprises:
2,357,478 (2000 – 2,357,478) ordinary shares and 162,607 (2000 – 162,607) Warrants at a price of £0.55p held by Quantic Limited of which Mr de Sousa owns 50% of the issued ordinary share capital;
589,619 (2000 – 589,619) ordinary shares and 40,652 (2000 – 40,652) Warrants at a price of £0.55p held by New Falcon Oil Limited of which Mr de Sousa owns 100% of the issued ordinary share capital; and
528,678 (2000 – 621,974) Warrants at a price of £0.65, 925,187 (2000 – 1,088,455) Warrants at a price of £0.60 and 14,685 (2000 – 17,277) Warrants at a price of £0.55 held by Mantegna Consultadoria E Servicos Limitada of which Mr de Sousa owns 100% of the issued ordinary share capital.

On 18 January 2002, an additional 450,000 ordinary shares were purchased by Quantic Limited, in which Mr Rui de Sousa has a beneficial interest. There have been no other changes in the beneficial interests between 31 December 2001 and the date of this report. No Director held any other interests in any Group companies.

Directors' transactions

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

In January 2001, the Group entered into an agreement (the Option Agreement) with Mr Rui de Sousa wherein, in exchange for consideration in the amount of US$400,000 (£267,000), the Group has secured an option to acquire a 30% shareholding in a special purpose entity created by Mr de Sousa to pursue a specific field development and to hold any rights as may be acquired for such development. The Option Agreement, which was negotiated on an arm's length basis, expires on 31 December 2002 unless extended prior to that date by the Group.

8 Tax on profit on ordinary activities

The tax charge comprises:

	2001 £000's	2000 £000's
UK Corporation tax at 30% (2000 – 30%)	**–**	–
Current overseas taxation	**5,506**	6,592
Deferred overseas taxation	**(388)**	(68)
	5,118	6,524

Deferred taxation includes recognition of a net deferred tax charge of £27,000 (2000 – £601,000) in respect of the Tunisian interest and £111,000 (2000 – net deferred tax credit of £274,000) in respect of the Russian interest and a net deferred tax credit of £526,000 (2000 – £395,000) in respect of the Yemen interest. The overseas deferred tax credits arise primarily on the net foreign tax credits carried forward and fixed asset timing differences. There is no unprovided deferred taxation at either balance sheet date.

9 Loss attributable to SOCO International plc

The loss for the financial year dealt with in the accounts of the Company was £1,245,000 (2000 – £1,097,000). As provided by Section 230 of the Companies Act 1985, no profit and loss account is presented in respect of the Company.

10 Earnings per share

The calculation of the basic earnings per share is based on the profit for the financial year and on 68,625,106 (2000 – 68,591,969) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year, excluding 1,502,603 (2000 – 600,000) ordinary shares of the Company held by the Group (see Note 12).

The calculation of the diluted earnings per share is based on the profit for the financial year and on 74,427,164 (2000 – 72,416,560) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year including 1,502,603 (2000 – 600,000) ordinary shares of the Company held by the Group (see Note 12), and 4,299,455 outstanding share options and warrants (2000 – 3,275,828) that have a diluting effect on earnings per share.

11 Tangible and intangible fixed assets

	Group			Company
	Oil and gas properties £000's	Other £000's	Total £000's	Other £000's
Cost				
As at 1 January 2001	**112,640**	**1,559**	**114,199**	**288**
Additions	**22,249**	**990**	**23,239**	**4**
Disposals	**(32,839)**	**(1,348)**	**(34,187)**	**–**
Foreign exchange	**2,884**	**20**	**2,904**	**–**
As at 31 December 2001	**104,934**	**1,221**	**106,155**	**292**
Depreciation				
As at 1 January 2001	**19,324**	**811**	**20,135**	**155**
Charge for the year	**6,971**	**445**	**7,416**	**47**
Disposals	**(5,874)**	**(923)**	**(6,797)**	**–**
Foreign exchange	**435**	**16**	**451**	**–**
As at 31 December 2001	**20,856**	**349**	**21,205**	**202**
Net book value				
As at 31 December 2001	**84,078**	**872**	**84,950**	**90**
As at 31 December 2000	93,316	748	94,064	133

Included within oil and gas properties at 31 December 2001 are costs of £66.7 million (2000 – £52.4 million) comprising the Group's exploration and appraisal projects which are pending determination and are held outside depreciable pools. This includes £39.5 million in respect of the Mongolia project and £16.4 million in respect of the Vietnam project at 31 December 2001. Capitalised costs relating to the Group's current producing properties each fall into separate depreciable pools. Other fixed assets comprise plant and machinery, computer equipment and fixtures and fittings.

12 Fixed asset investments

	Group		Company	
	2001 £000's	2000 £000's	**2001 £000's**	2000 £000's
Subsidiary undertakings	**–**	–	**49,355**	49,355
Own shares	**1,418**	368	**–**	–
	1,418	368	**49,355**	49,355

Own shares

	Group £'000
Cost	
At 1 January 2001	**368**
Additions	**1,254**
At 31 December 2001	**1,622**
Amortisation	
At 1 January 2001	**–**
Charge for the year	**204**
At 31 December 2001	**204**
Net book value	
As at 31 December 2001	**1,418**
As at 31 December 2000	368

The Company operates a long term incentive plan for senior management of the Group (see Note 7). Awards under the plan are conditional 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 transfered 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. Additionally, in March 2001 trustees of the Trust purchased 600,000 Shares which were held by the Group at 31 December 2000. The Company 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 £204,000 (2000 – £nil) have been reflected in the profit and loss account in respect of the scheme and are included under wages and salaries in the analysis of staff costs. The number and market value of the Shares held by the Trust at 31 December 2001 was 1,800,000 (2000 – nil) and £1.695 respectively. As at 31 December 2001 there were 1,732,600 Shares conditionally awarded and unvested (2000 – nil).

Principal Group investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2001 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 Perm Russia, LLC [1]	USA	Russia	Investment holding	100.0
SOCO Tunisia Pty Limited	Australia	Tunisia	Oil and gas exploration and production	100.0
SOCO Yemen Pty Limited [2]	Australia	Yemen	Investment holding	100.0
SOCO Exploration (Thailand) Co. Ltd	Thailand	Thailand	Oil and gas exploration	99.9
SOCO Vietnam Limited [3]	Cayman Islands	Vietnam	Oil and gas exploration	70.0

[1] The Russian interest, which was sold in October 2001 (see Note 26), was held through Permtex, a Russian limited liability company, which was 50% owned by SOCO Perm Russia, LLC.

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

[3] The Group increased its percentage holding in SOCO Vietnam Ltd to 80% in January 2002 (see Note 25). 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.

12 Fixed asset investments (continued)

Subsidiary undertakings

	Company	
	2001 £000's	2000 £000's
Cost as at 31 December	**49,355**	49,355

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

13 Stocks

	Group	
	2001 £000's	2000 £000's
Crude oil and condensate	**404**	419
Materials and consumables	**664**	780
	1,068	1,199

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

14 Debtors

	Group		Company	
	2001 £000's	2000 £000's	**2001 £000's**	2000 £000's
Amounts falling due within one year				
Trade debtors	**2,557**	4,152	**–**	–
Amounts owed by Group undertakings	**–**	–	**1,423**	–
Taxation	**294**	1,060	**71**	17
Deferred taxation	**29**	506	**–**	–
Other debtors	**581**	643	**17**	21
Prepayments and accrued income	**703**	940	**100**	191
	4,164	7,301	**1,611**	229
Amounts falling due after more than one year				
Deferred taxation	**1,188**	568	**–**	–
	5,352	7,869	**1,611**	229

15 Current asset investments

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

16 Creditors: Amounts falling due within one year

	Group		Company	
	2001 £000's	2000 £000's	**2001 £000's**	2000 £000's
Trade creditors	**1,139**	2,779	**–**	–
Amounts owed to Group undertakings	**–**	–	**–**	264
Taxation and social security	**459**	600	**14**	26
Deferred taxation	**873**	962	**–**	–
Other creditors	**397**	345	**79**	42
Accruals and deferred income	**3,980**	7,982	**92**	340
	6,848	12,668	**185**	672

17 Creditors: Amounts falling due after more than one year

	Group	
	2001 £000's	2000 £000's
Bank loan	**–**	5,021

The bank loan comprised the Group's 50% share of a US$15 million loan balance outstanding at 31 December 2000 drawn down by Permtex, the entity through which the Company's wholly owned subsidiary SOCO Perm Russia, LLC held its Russian interest, under a reserve based financing facility with the European Bank for Reconstruction and Development. The loan bore interest, equal to the London Interbank Offering Rate plus a variable premium, which was capitalised in accordance with the Group's accounting policy and totaled £nil at 31 December 2001 (2000 – £555,000). The Group sold its Russian interest in October 2001 (see Note 26) at which point the liability was transfered to the purchaser.

18 Provisions for liabilities and charges

	Group
	2001 £000's
Decommissioning	
As at 1 January	**1,040**
New provisions and changes in estimates	**269**
Disposal of Russian interest (see Note 26)	**(325)**
Unwinding of discount	**67**
As at 31 December	**1,051**

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

19 Derivatives and financial instruments

An explanation of the role that financial instruments have had during the year in creating or changing the risks that the Group faces in its activities, including currency exposures, is included in the Financial Review on pages 20 and 21.

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

20 Called-up equity share capital

	2001 £000's	2000 £000's
Authorised		
100,000,000 ordinary shares of £0.20 each (2000 – 100,000,000)	**20,000**	20,000
Allotted, called-up and fully-paid		
70,127,709 ordinary shares of £0.20 each (2000 – 70,127,709)	**14,026**	14,026

The Company did not issue any new shares during 2001. During 2000 the Company issued 986,977 ordinary shares of £0.20 each at a premium of £0.55 each upon the exercise of certain share options. See Note 25 for details of ordinary shares issued subsequent to 31 December 2001.

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

Exercise period	Number of shares under option	Subscription price per share
29.05.97 – 25.04.04	**3,454,420**	£0.750
29.05.97 – 25.04.04	**493,488**	£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

20 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	1,399,441	£0.550
13.07.00 – 13.07.10	1,088,455	£0.600
13.07.00 – 13.07.10	621,974	£0.650

21 Reserves

				Group
	Share premium account £000's	Other reserves £000's	Profit and loss account £000's	Total £000's
As at 1 January 2001	38,910	34,961	34,921	108,792
Gain on foreign currency translation	–	–	2,931	2,931
Retained profit for the year	–	–	17,740	17,740
As at 31 December 2001	38,910	34,961	55,592	129,463

			Company
	Share premium account £000's	Profit and loss account £000's	Total £000's
As at 1 January 2001	38,910	7,260	46,170
Retained loss for the year	–	(1,245)	(1,245)
As at 31 December 2001	38,910	6,015	44,925

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

22 Reconciliation of movements in Group shareholders' funds

	2001 £000's	2000 £000's
Opening shareholders' funds	122,818	97,140
Profit for the financial year	17,740	17,565
Unrealised currency translation differences	2,931	7,372
New shares issued	–	741
Closing shareholders' funds	143,489	122,818

23 Reconciliation of operating profit to operating cash flows

	2001 £000's	2000 £000's
Operating profit	13,325	22,049
Depreciation and amortisation	7,682	8,942
Movement in stocks	(231)	169
Movement in debtors	(1,729)	(1,194)
Movement in creditors	290	936
Net cash inflow from operating activities	19,337	30,902

Net cash inflow from operating activities comprises:		
Continuing operating activities	14,436	24,784
Discontinued operating activities	4,901	6,118
	19,337	30,902

24 Analysis and reconciliation of net funds

	As at 31 December 2000 £000's	Cash flow £000's	Sale of business £000's	Exchange movement £000's	As at 31 December 2001 £000's
Cash at bank and in hand	15,795	39,645	–	470	55,910
Current asset investments	22,252	(19,711)	–	149	2,690
Bank loan due after more than one year	(5,021)	(3,455)	8,612	(136)	–
Net funds	33,026	16,479	8,612	483	58,600

Current asset investments are term deposits.

25 Subsequent events

In January 2002 pursuant to a Share Exchange Agreement the Group acquired an additional 10% of the share capital of SOCO Vietnam Ltd (SOCO Vietnam), increasing its interest in the majority owned subsidiary from 70% to 80%. The consideration for the exchange was £1,753,153 satisfied by 926,124 newly issued ordinary shares of £0.20 each (valuing each share at £1.893) in the share capital of SOCO.

In February 2002 SOCO Vietnam executed a farm-out agreement (Agreement) with PTT Exploration and Production Public Company Limited of Thailand (PTTEP), subject to the approval of the Government of Vietnam. Per the Agreement, PTTEP will fund the Group's share of drilling four wells scheduled during 2002 on Blocks 9-2 and 16-1 in the Cuu Long Basin offshore Vietnam to a maximum of $50 million (£35 million), whichever is less. Post farm-out SOCO Vietnam, in which the Company holds an 80% interest, retains a 25% interest in Block 9-2 and a 15% interest in Block 16-1.

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 Russian interest. OAO Lukoil acquired the interest for cash consideration of approximately £34.5 million. The sale resulted in a reduction of Group debt of £8.6 million and a net cash inflow in 2001 in the amount of £29.5 million reflecting the £34.5 million cash consideration net of transaction costs and the Group's share of cash held by Permtex, and a profit of £8.5 million. During the period prior to the sale the Russian interest contributed £3.9 million to Group operating profit (2000 – £5.7 million). Immediately prior to the sale the Group's share of net assets held by the Russian interest was £25.6 million.

27 Capital commitments

At 31 December 2001 the Group had exploration licence commitments not accrued of approximately £27 million (2000 – £16 million). Pursuant to a farm-out agreement with PTTEP (see Note 25) the Group's exploration licence commitments not accrued reduced to £3 million.

28 Related party transactions

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

Five year summary

	Year to 31 Dec 2001 £000's	Year to 31 Dec 2000 £000's	Year to 31 Dec 1999 £000's	(Restated)[2] Year to 31 Dec 1998 £000's	(Restated)[2] Incorporation to 31 Dec 1997[1] £000's
Consolidated profit and loss account					
Turnover – continuing operations	**22,841**	31,323	11,819	5,359	–
Turnover – discontinued operations[3]	**14,476**	14,529	11,983	10,160	8,474
Operating profit (loss) – continuing operations	**9,471**	16,364	2,862	(1,330)	(583)
Operating profit (loss) – discontinued operations[3]	**3,854**	5,685	2,754	(460)	1,709
Profit (loss) on ordinary activities after taxation	**17,740**	17,565	7,414	(836)	2,556

	2001 £000's	2000 £000's	1999 £000's	(Restated) 1998 £000's	(Restated) 1997 £000's
Consolidated balance sheet					
Fixed assets	**86,368**	94,432	70,419	70,312	57,510
Net current assets	**58,172**	34,447	29,098	11,896	31,941
Long term liabilities	**–**	(5,021)	(1,551)	–	–
Provisions for liabilities and charges	**(1,051)**	(1,040)	(651)	(2,776)	(2,563)
Minority interests	**–**	–	(175)	(157)	(7,886)
Net assets	**143,489**	122,818	97,140	79,275	79,002
Share capital	**14,026**	14,026	13,828	10,365	9,870
Share premium	**38,910**	38,910	38,367	38,358	37,449
Other reserves	**34,961**	34,961	34,961	29,933	29,933
Profit and loss account	**55,592**	34,921	9,984	619	1,750
Equity shareholders' funds	**143,489**	122,818	97,140	79,275	79,002

	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	Incorporation to 31 Dec 1997 £000's
Consolidated cashflow					
Net cash inflow from operating activities	**19,337**	30,902	9,175	4,088	3,062
Other information					
Earnings (loss) per share	**25.9p**	25.6p	12.5p	(1.7)p	5.5p
Diluted earnings (loss) per share	**23.8p**	24.3p	12.4p	(1.7)p	5.4p

[1] The Company was incorporated in January 1997, and the period ending 31 December 1997 reflects activity from 29 May 1997 when the Company commenced operations.
[2] 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.
[3] 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	Russia[1]	Mongolia[2]	Thailand	Tunisia	Yemen
Reserves as at 31 December 2000	33.3	25.7	0.6	2.5	0.6	3.9
Changes in the year						
Revision to previous estimates	31.9	–	30.6	–	0.7	0.6
Purchase of reserves	–	–	–	–	–	–
Sale of reserves	(27.8)	(24.7)	(3.1)	–	–	–
Production	`(2.4)	(1.0)	(0.1)	–	(0.4)	(0.9)
Reserves as at 31 December 2001	35.0	–	28.0	2.5	0.9	3.6

Net proven and probable oil reserves

	Total	Russia	Mongolia	Thailand	Tunisia	Yemen
Reserves as at 31 December 2000	82.2	49.8	16.8	9.2	1.9	4.5
Changes in the year						
Revision to previous estimates	33.0	–	30.2	–	1.8	1.0
Purchase of reserves	–	–	–	–	–	–
Sale of reserves	(53.5)	(48.8)	(4.7)	–	–	–
Production	(2.4)	(1.0)	(0.1)	–	(0.4)	(0.9)
Reserves as at 31 December 2001	59.3	–	42.2	9.2	3.3	4.6

Net proven and probable oil reserves yearly comparison

	2001	2000	1999	1998	1997
Reserves as at 1 January	82.2	87.1	91.6	81.8	84.9
Changes in the year					
Revision to previous estimates	33.0	(2.2)	0.4	1.4	(1.8)
Purchase of reserves	–	–	0.8	10.8	–
Sale of reserves	(53.5)	–	(3.3)	–	–
Production	(2.4)	(2.7)	(2.4)	(2.4)	(1.3)
Reserves as at 31 December	59.3	82.2	87.1	91.6	81.8

Note: mmbbls denotes millions of barrels

[1] The Group disposed of its Russian interest in October 2001 (see Note 26).

[2] Huabei Oilfield Services of China earned the right to take a 10% interest in the Mongolian reserves in October 2001.

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

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