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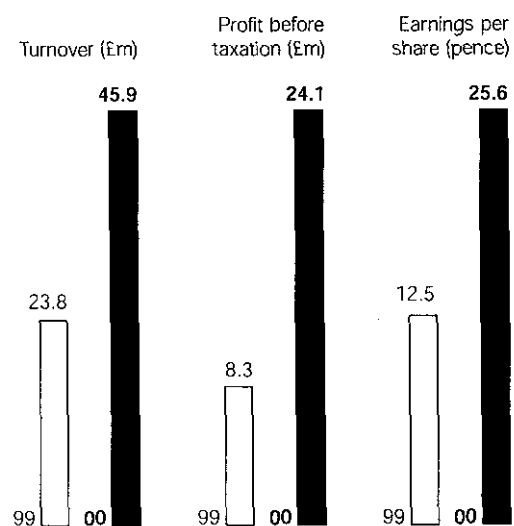
We are an international oil and gas exploration and production company headquartered in London and listed on the London Stock Exchange. We have current operations in seven countries: Mongolia, Yemen, European Russia, Thailand, Tunisia, Vietnam and North Korea.

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**£45.9m**  
Turnover

**£24.1m**  
Profit before taxation

**£122.8m**  
Net assets



1 SOCO International plc Annual Report 2000

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**Financial highlights**

SOCO International plc is an independent, London headquartered, oil and gas exploration and production company with solid financial underpinnings through its production interests in Yemen, Tunisia and Russia while geared to material growth opportunities through its exploration portfolio in Vietnam and Mongolia. We are focused on building core production bases in low cost areas of production and concentrating exploration within areas offering significant upside to the Company.

#### Russia

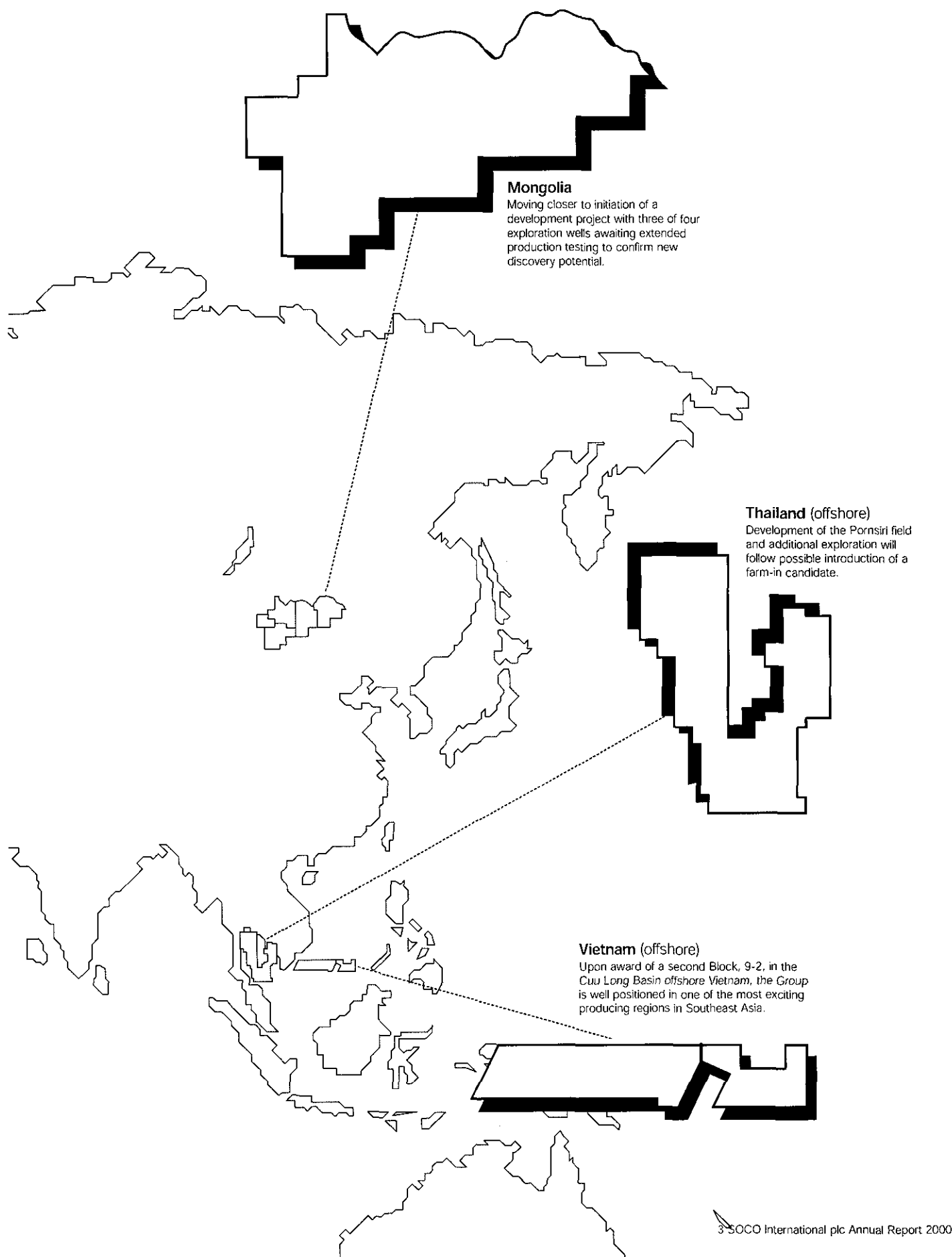
Permtex, joint-owned by SOCO and Russian partner LUKOIL Perm, is on the verge of a step change in its development programme as commissioning of the pipeline and supporting infrastructure is scheduled for the first half of 2001, thus leading to a major increase in production capability.

#### Tunisia (offshore)

The Didon field reached record production levels in 2000 with no indications of a production decline in the near term.

#### Yemen

Excellent results following completion of Phase II drilling programme as the East Shabwa Development Area hit a record gross production level exceeding 38,000 barrels of oil per day.



Even with the strength of the balance sheet, the Directors believe that in the near to intermediate term the interests of the Company's shareholders can best be served by *conserving funds to finance further growth*. Accordingly, the Board of Directors has elected not to declare a dividend.

#### **Creating value**

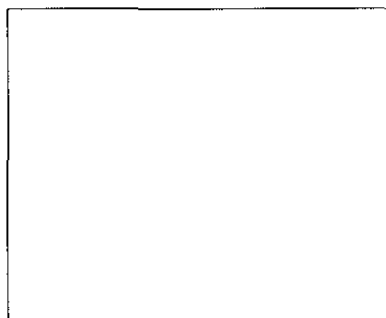
We are in a commodity business, producing and selling crude oil and natural gas; wherein the value of the commodity we sell is largely dependent on external factors. In the past two years, we have seen a significant increase in the value of this commodity and the associated benefits have accrued to the Company, thus creating value for the shareholders. While we appreciate good fortune, we do not intend to rely on it and the Company will retain the same stringent criteria for the introduction of any new project. Essentially this means that a project must be sustainable at relatively low oil prices and it must have the potential, directly or indirectly, to contribute to significant growth of the Company.

The Company has raised its profile and has positioned itself to conduct business in multiple oil producing venues where heretofore it had ambitions but no readily available means of access. A number of interesting projects and transactions that may be viable in time have been previewed by the Company. Primarily as a result of our investor group relationships, the number of financial institutions interested in SOCO, either as investors or potential sources of capital, or both, has expanded considerably.

Value creation can be not only a by-product of the Company's assets but also of its ownership. During the past two years the Company shareholder base has undergone a significant *transition, with the end result of gaining a higher free float of shares*. As reported in the 1999 Annual Report and Accounts, Cairn Energy PLC disposed of its 7.4% interest at the end of that year. In August of 2000, Santa Fe Snyder Corporation divested itself of its 11.3% shareholding. In both cases, these were shareholdings gained at the time of the listing of the Company in exchange for assets sold to SOCO and these shares were perceived as overhangs in the market. In each transaction, the Company gained either institutional shareholders with a longer term growth horizon for share appreciation, or additional retail shareholders who improved the liquidity of the shares in the market and who generally were value investors – both of which improved stability in the shareholder base.

#### **Commitment to our publics**

Throughout the business life cycle the management and Directors of SOCO affirm their commitment to our many publics – shareholders, employees and host peoples, communities and countries where we have operations.



Dear Fellow Shareholder

We will soon be coming to the second anniversary of my tenure as Chairman of SOCO International. During this period, the Company has gone from strength to strength, resulting in two years of record results not only in terms of profitability but also in terms of production. Profit before taxation equalled £24.1 million as compared to £8.3 million for the prior year. At year end 2000 cash and cash equivalents exceeded £38 million, an increase of more than 30% over balances held a year ago and the highest year end cash balance ever held by the Group, despite conducting a very active exploration and drilling programme.

Patrick Maugein Chairman

We have built on our health, safety and environmental (HSE) programmes throughout the year and have endeavoured to influence the operators in our outside operated ventures to do the same. Unfortunately, despite the progress of our HSE programme last year, there was a tragic accident at our operations in Mongolia that took the life of a young man. It serves as a grim reminder that ours is a business laden with risks in many forms – physical and economic.

We believe that the proper course is not one of risk aversion but one of control. The recent initiatives to strengthen internal control functions within public companies are welcome. It is clear that, amongst other things, successful businesses in the long run are those that manage the inherent risks of the industry in which they operate. Identification, assessment and mitigation of risk are a primary focus of the Board of Directors. We vow to continue to manage those risks for all our publics.

We seek to be responsible guests in the countries where we operate. Whether it is in the form of providing financial support to the flood victims in Southeast Asia, providing food and clothing to displaced families in Mongolia, or underwriting an open scholarship at Cambridge University for Mongolian nationals, who agree to return to Mongolia, we believe in reinvestment in the countries in which we conduct operations. We do these things in an effort to contribute back to the countries that invite us to help develop their natural resources.

#### **Board**

In the resolutions for the Annual General Meeting scheduled for May, we have included an item to allow the Board to expand to provide wider representation and to strengthen the contributions to the Company. As you know, the Board is comprised of nine members and we think that it is time to expand to recognise the increased responsibilities associated with corporate governance, internal controls and the various Committee purviews that are conducted more often than general Directors' meetings.

#### **Outlook**

My fellow investors and I made a commitment to introduce opportunities to SOCO. I can confirm that much progress has been made toward further expanding our asset base and can affirm that the realisation of such opportunities appears to be near. However, regardless of what remains to be done, I am very pleased with what has been accomplished. I am confident that the result will validate the process.

## Operations

The Group enjoyed significant gains in year on year production net to its working interest, which rose from 7,205 barrels of oil per day (BOPD) last year to 8,810 BOPD in 2000, primarily resulting from the reinvestment programme in its Yemen development project. As year end production levels reached approximately 9,400 BOPD, we have neared the maximum level from our current Yemen and Tunisia development projects but have room for considerable growth in European Russia. Our emphasis going forward is to strengthen the producing reserve base.

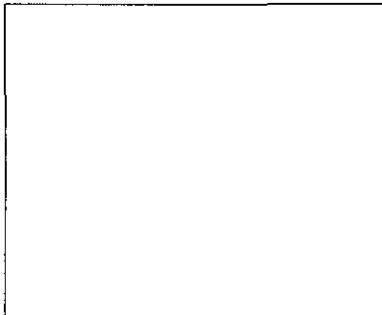
As we close on the first quarter, the Russian pipeline is nearing commissioning. The pipe has been connected and installation of pumping stations is nearing completion. Development drilling has been completed in the Logovskoye field and it is transitioning to a waterflood drive. The development programme has begun on the Ozerneye field, the field attributed with approximately 60% of our Russian reserves, with two active drilling rigs. The first well in the multi-well drilling programme spudded on 14 January 2001.

In Yemen, there was a continual drilling programme throughout the year, resulting in the addition of five new producing wells. Gross production rates for the year averaged approximately 28,600 BOPD. In February of 2001, field production reached a record level of over 38,000 BOPD.

Unlike the prior year during which there was little exploratory activity, the Group was very active in 2000 participating in the drilling of seven exploration wells and signing an additional licence offshore Vietnam on Block 9-2. In addition we conducted seismic programmes in Vietnam over Block 16-1 and in Mongolia over Contract Areas 21 and 22. Our operated exploratory programme in Mongolia is encouraging as three of the four wells drilled were fracture stimulated for production testing. Unfortunately, the production and processing facilities in Mongolia were damaged by fire in October and the outcome of production testing is awaiting the construction of new storage and processing facilities, which are expected to be operational in the second quarter of 2001.

Our Hoang Long venture in Vietnam completed an extensive joint 3D seismic programme on Block 16-1 in co-operation with the interest owners of adjacent Block 16-2. The data will be processed and interpreted in preparation for a drilling programme to commence early in 2002.

The enthusiasm generated by the Mongolian drilling programme was tempered by disappointment as the 2000 drilling programme commenced in the first quarter with two



Our focus for the year 2000 was twofold: 1) to capitalise on the strength of the oil price by maximising production as long as it did not prove detrimental to the long term value of the project, and 2) to continue to progress initiatives toward securing a significant, stable reserve base to provide a low cost source of cash flow to finance future activities. Evidence of achievement of the first goal comes from the 22% rise in production. Relative to the latter goal, the Group neared completion on its northern pipeline in Russia, thus laying the groundwork for a significant increase in production; signed an additional highly prospective block offshore Vietnam in an area of high industry interest and advanced negotiations for entry into other areas with the potential of securing development and exploitation opportunities.

Ed Story President and Chief Executive

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## Chief Executive's statement



wells in Thailand that were plugged and abandoned, as reported in last year's Annual Report, and concluded with a dry hole in Tunisia. Both programmes drilled tests to fulfil commitment programmes under the respective production sharing agreements. Fortunately, the Group drilled all of the wells at considerable savings to previous drilling programmes in the respective countries, contracting the drilling programmes before the lower service cost environment rebounded to reflect the higher crude oil prices.

As I indicated last year, the eight well Mongolia drilling programme that began in April of 2000 is a significant determinant as to the future of our project there. While we await the production test results of last year's efforts, we expect to conclude in 2001 the eight well drilling programme that began last year and continue our relationship with Huabei Oilfield Services, which will have the right to earn an approximate 10% working interest in Contract Areas 19 and 21 upon successful completion of the full drilling programme. At the conclusion of this phase, we anticipate being able to chart a specific course of development. At a minimum, we would expect to develop the reserves there in a manner not unlike that in nearby Chinese oilfield developments – concentrating on low cost completion techniques with production coming from a large number of relatively low rate wells.

As our venture in Mongolia moves forward, it must do so without the aid of Bill Penttila who died in early February 2001. He is a man whom we will always associate with the country. He was a consummate professional, widely regarded as an expert geoscientist, but a person who could, and did, connect on a personal basis at all levels. To us at SOCO and to many Mongolians, he was many things – a resource, a mentor, a steady hand – but most importantly, a friend. For his work on behalf of the Mongolian government and people, Bill was awarded a Polar Star, the highest civilian award bestowed by the government of Mongolia. Our hope is that the Company can earn, in all the places where it conducts business, the same kind of stalwart reputation as Bill's legacy in Mongolia.

#### **New ventures**

The only new venture concluded in 2000 was a significant one. In December, a majority owned Company subsidiary, as sole participant with Petrovietnam, the Vietnamese national oil company, was awarded Block 9-2 in the Cuu Long Basin offshore Vietnam. Our subsidiary's 50% interest in Block 9-2 combined with its 30% interest in Block 16-1 gives us a significant position in what is one of the most active exploration plays in Southeast Asia. The interest areas

are both contiguous to the Bach Ho field, which has an estimated ultimate recovery in excess of 900 million barrels of oil and which produces around 250,000 BOPD currently. In October, a major oil company announced an exploration discovery well, which tested in excess of 17,000 BOPD in the Cuu Long Basin.

Although we continue to progress other initiatives, none were concluded during the reporting period.

#### **Summary**

The past year has been one of steady progress with continued growth in production coupled with an expansion of our exploration portfolio. In our business, properly focused production growth ensures success throughout the cyclical variations in oil price. Exploration offers a further opportunity for exponential growth. With our core production base in areas of relatively low cost and our aim to expand in these areas, combined with our exploratory acreage position in Vietnam and Mongolia, the Company is well placed to meet the challenges of the future.

The Group undertook an active drilling programme in 2000 with very positive results overall as three of seven wells drilled were successful. The successes were all in Mongolia where three of four wells came in as discoveries. Commitment wells, in Thailand in the first quarter and in Tunisia in the fourth quarter, both proved unsuccessful, as did a follow-up well on a second prospect in Thailand. Seismic acquisition continued in Mongolia with 2D and 3D programmes conducted on Contract Areas 21 and 22 in preparation for a multi-well programme in 2001. In Vietnam, a large joint venture 3D programme was conducted over SOCO's Block 16-1 and over the adjoining Block 16-2. Additionally, a Group company acquired 50% rights to Block 9-2 offshore Vietnam, with Petrovietnam holding the remaining interest.

## Mongolia

The Group operates interests covering more than 61,000 square kilometres held through its various participations in production sharing contracts (PSCs) in Contract Areas 19, 19E, 20, 21 and 22 in the Tamtsag Basin and Contract Area 11 in the Gobi Basin of Mongolia. Although the Group has conducted a small seismic survey over Contract Area 11, all drilling activity has taken place in the Tamtsag Basin in the northeastern region of Mongolia. It holds an approximate 95% interest in all PSCs with a drilling participation option held by Huabei Oilfield Services (Huabei), a Chinese company providing the drilling services, which could reduce the Group's interest to approximately 85% in Contract Areas 19 and 21. The nature of its Mongolian operations is primarily exploratory with the exception of a pilot production programme in the southeastern quadrant of Contract Area 19.

### Review of 2000 results

SOCO drilled four wells on Contract Area 19 during the year. The exploration drilling programme began in March when the 19-9 well was spudded and continued through August with the drilling of the 19-12 well. Wells 19-9, 19-10 and 19-12 were discoveries whereas well 19-11 encountered no hydrocarbons.

The results of the 2000 drilling campaign were particularly encouraging as these were the first wells drilled based upon the 3D seismic acquired in 1999 and under the reduced cost drilling contract negotiated that year. The 19-9 well was drilled to a depth of 2,470 metres as an appraisal well to the 19-3 discovery well. It initially tested low rates from the Lower Cretaceous Tsagaantsav Formation in a 59 metre open

### Mongolia: Promising exploration results

Three out of four exploration wells drilled during 2000 were successful with final evaluation pending extended production testing. Although temporarily suspended, crude oil exports are expected to rise in 2001.

**SOCO**  
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hole interval from 2,411 metres to 2,470 metres. The well was subsequently cased and selectively perforated and fracture stimulated.

The 19-10 well tested a new structure approximately 2.5 kilometres north of the 19-3 well. It was drilled to a depth of 2,570 metres and also tested low initial rates. The test was from an open hole interval of 252 metres in sands that had not previously been encountered in the Upper Tsagaantsav section. Log analysis on the 19-10 exploratory well indicates a net productive reservoir of approximately 77 metres in a gross interval from 2,324 metres to 2,449 metres. The well was subsequently cased and selectively perforated and fracture stimulated. At the time it was shut-in, the well was pumping 220 barrels of oil per day (BOPD).

A third well, the 19-11, spudded on 2 July as an exploratory test of a structure approximately 1.5 kilometres east of the 19-3 location. It was subsequently plugged and abandoned after encountering no commercial hydrocarbons.

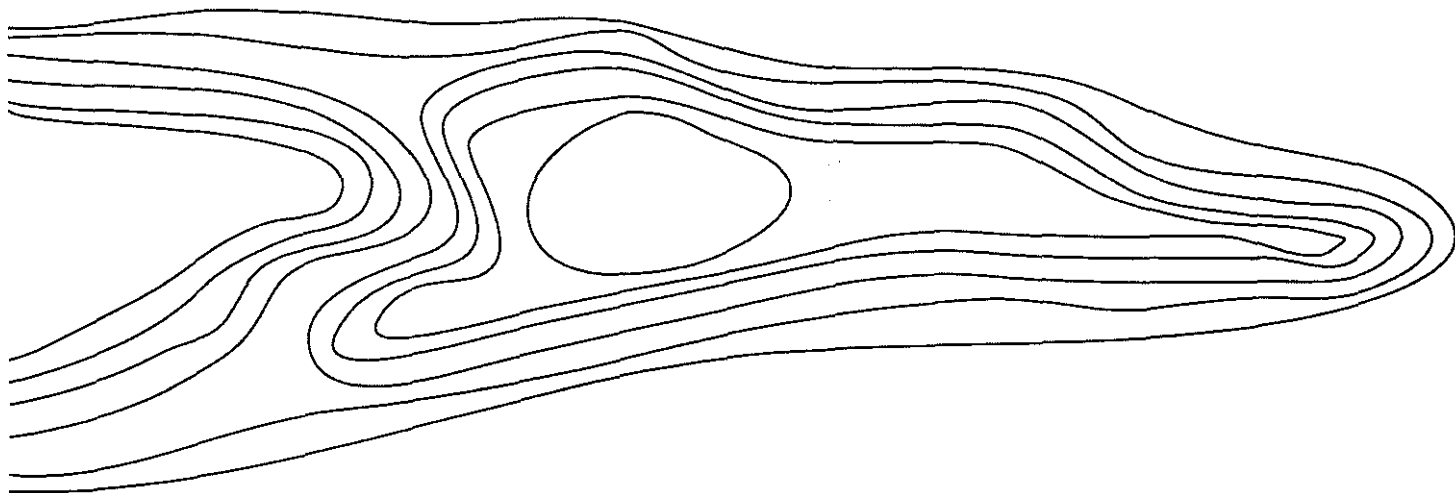
The 19-12 well was drilled to test the extent of the 19-10 discovery. It was drilled to a depth of 2,837 metres. The well was logged, cased and selectively perforated in the interval 2,278 metres to 2,379 metres in the Tsagaantsav Formation. After fracture stimulation, the well flowed clean oil at a rate of 240 BOPD at a pressure of 260 pounds per square inch.

Testing of the three successes of the four well programme was interrupted when central production and storage facilities, to which the test oil was hauled by truck from the well sites,

were damaged by fire in October. The wells remain shut-in pending construction of new facilities. Full assessment of the stabilised production capabilities of the new discoveries can only occur after completion of these facilities.

The October fire at the 19-3 production and storage facilities not only interrupted the test programme for the wells drilled during the year but it also forced suspension of the sales of crude oil to China, which had been reinitiated in July under a sales contract signed 29 June 2000 with China National United Oil Corporation. Although the volumes sold to date have not been significant from a turnover standpoint, the sales programme frees storage capacity to gather production data on the new discoveries, while allowing some recovery of costs. As with previous sales, crude oil was trucked to a pipeline in the Aershan Oilfield for further delivery to the Hohhot Refinery in the Inner Mongolia Autonomous Region of China.

Other than delaying the testing and sales programme, the fire which damaged the 19-3 facilities was not significant except for the unfortunate fact that a fatality occurred as a young man working for a contractor to SOCO was killed in the incident. As the facilities were covered by insurance, the economic loss was nominal and replacement facilities are to be constructed at the end of this winter. Recommencement of the testing and sales programme is expected to occur in May 2001.



Huabei earns the right to become a working interest owner, funding its share of future work programmes, in both Contract Areas 19 and 21, with an approximate 10% interest in each upon completion of the full eight well drilling programme, the last four of which are expected to be drilled in 2001. Petrovietnam, the Vietnamese national oil company, has a 5% working interest, carried through the exploration phase in each of SOCO's Mongolia PSCs.

Limited 3D and 2D seismic programmes were conducted over Contract Areas 21 and 22 in preparation for exploratory drilling programmes in 2001. A 100 square kilometre 3D seismic survey was conducted over Contract Area 21. Subsequently, a small 2D programme was conducted to further define identified extensions that appeared to continue into Contract Area 22.

In January, the Contract Area 20 Enlargement Area, originally added to the Group's exploration acreage portfolio in 1997, was relinquished. The prospectivity of Contract Area 20 was downgraded as the only well drilled there in 1998 encountered volcanics rather than sand reservoir indicating that the basin had less potential in the southern portion. The impact of the relinquishment is minimal, only reducing lease rental costs.

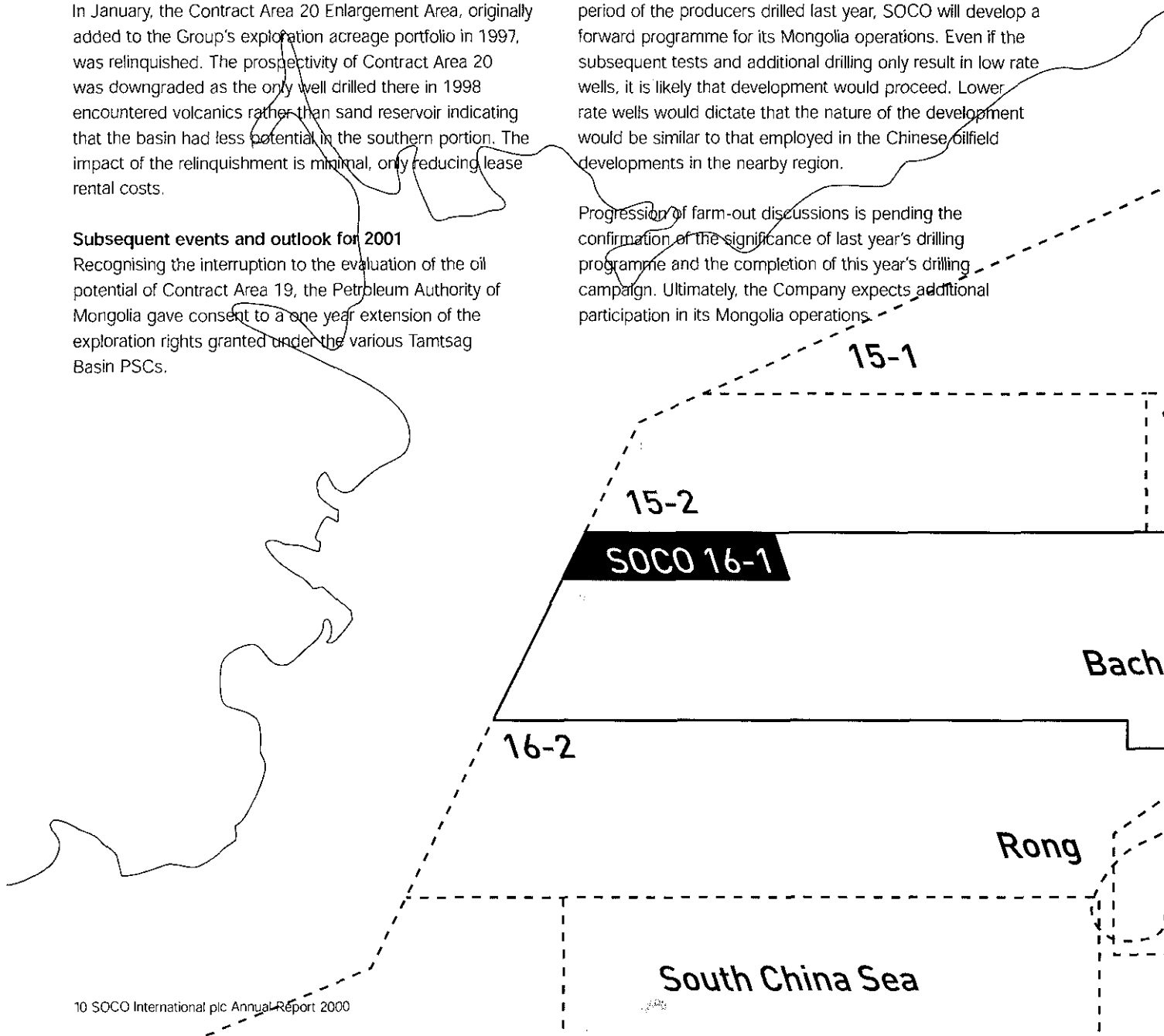
#### Subsequent events and outlook for 2001

Recognising the interruption to the evaluation of the oil potential of Contract Area 19, the Petroleum Authority of Mongolia gave consent to a one year extension of the exploration rights granted under the various Tamtsag Basin PSCs.

The fifth well of the eight well drilling contract executed with Huabei in 1999 is expected to spud in April. Well sites have been selected with the initial well, the 19-13, expected to test a new structure approximately three kilometres from the outer limits of the structure encountered with the 19-3 well, the most prolific discovery to date in the Tamtsag Basin. Further wells are expected to be drilled on Contract Area 21 where previous drilling has located extremely thick sections of high quality reservoir rock. The 21-1 and 21-2 oil discoveries, previously drilled by SOCO, were completed in more discontinuous sections of poorer quality reservoir. Should further drilling encounter source rocks juxtaposed to the very prolific reservoir rock sections, the resultant wells could establish the Tamtsag Basin as a significant producing province.

After the completion of the full drilling programme and after sufficient data have been gathered from a long production test period of the producers drilled last year, SOCO will develop a forward programme for its Mongolia operations. Even if the subsequent tests and additional drilling only result in low rate wells, it is likely that development would proceed. Lower rate wells would dictate that the nature of the development would be similar to that employed in the Chinese oilfield developments in the nearby region.

Progression of farm-out discussions is pending the confirmation of the significance of last year's drilling programme and the completion of this year's drilling campaign. Ultimately, the Company expects additional participation in its Mongolia operations.



## Vietnam

SOCO participate in Vietnam through its majority owned subsidiary, SOCO Vietnam Ltd, which holds a 30% interest in Block 16-1 and a 50% interest in Block 9-2. Both Blocks are located in the Cuu Long Basin which is a major producing area offshore southern Vietnam. Both Blocks are also contiguous to the Bach Ho field that has estimated recoverable reserves exceeding 900 million barrels of oil.

### Review of 2000 results

In May, the Group submitted its bid for Block 9-2 offshore Vietnam located to the east of the Bach Ho producing area. In contrast to the process that concluded with the successful award of Block 16-1 after more than 24 months, SOCO received initial notice of award in August, signed a Petroleum Contract in November and signed the Block 9-2 award with Petrovietnam on 16 December. With this award, the Group now enjoys an outstanding acreage position with two Blocks combined to border the Bach Ho field to the north, east and west.

Block 9-2 is situated in the central and eastern portions of the Cuu Long Basin off the coast of Vietnam in water depths ranging between 40 metres and 60 metres and covers an area of approximately 1,370 square kilometres. In addition to its proximity to the Bach Ho field that is currently producing approximately 250,000 BOPD mainly from basement, Block 9-2 is bordered to the north by the Rang Dong field, which is producing approximately 40,000 BOPD. Industry interest in the Basin was heightened with the October 2000 announcement by a major oil company of the most prolific discovery well in the Basin to date, which tested in excess of 17,000 BOPD from the Miocene and basement sections.

On Block 16-1, the Hoang Long Joint Operating Company commenced operations and awarded a seismic programme tender in July. The seismic survey, which concluded in October, was conducted as a joint 3D programme with the contracting parties of Block 16-2. The seismic programme covered several leads on Block 16-1 including the Ba Vi structure previously drilled in 1985, which tested oil in a Miocene sand at a rate of 380 BOPD, but which did not have significant basement penetration.

### Subsequent events and outlook for 2001

In February 2001, the Group paid the signature bonus on Block 9-2. Concurrent with the initial activity of setting up and staffing a joint operating company (JOC), requests for tenders were issued in February to conduct a seismic acquisition programme over prospects previously identified from existing 2D seismic data on Block 9-2.

The Hoan Vu JOC was established to manage the Petroleum Contract, which is structured as a joint venture, and defines the structure of operations and responsibilities of the participants in Block 9-2. The interests under the Petroleum Contract will be held 50% by Petrovietnam and 50% by SOCO Vietnam Ltd. The exploration period is divided into two phases, during the first of which SOCO, as the sole contracting party, are obligated to conduct seismic appraisal and to drill three wells.

It is anticipated that a back-to-back drilling programme will commence early in 2002 which will test structures on both Blocks. SOCO should be able to realise significant cost savings by combining the drilling programmes.

Rang Dong

Ho

Bach Ho

SOCO 9-2

**Vietnam: Significant position in the prolific Cuu Long Basin**  
▶ With the addition of Block 9-2 to its portfolio, which already included Block 16-1, the Group now holds the majority non-governmental interest in two Blocks adjacent to two major producing areas.

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## Thailand

The Group is operator of, and holds a 50% interest in, the approximately 4,800 square kilometres (post relinquishment) Block B8/38 located offshore in the Gulf of Thailand. As the result of a successful 1997 drilling programme and a previously drilled well that tested oil at a rate of 750 BOPD, the Group has a small field that is awaiting development.

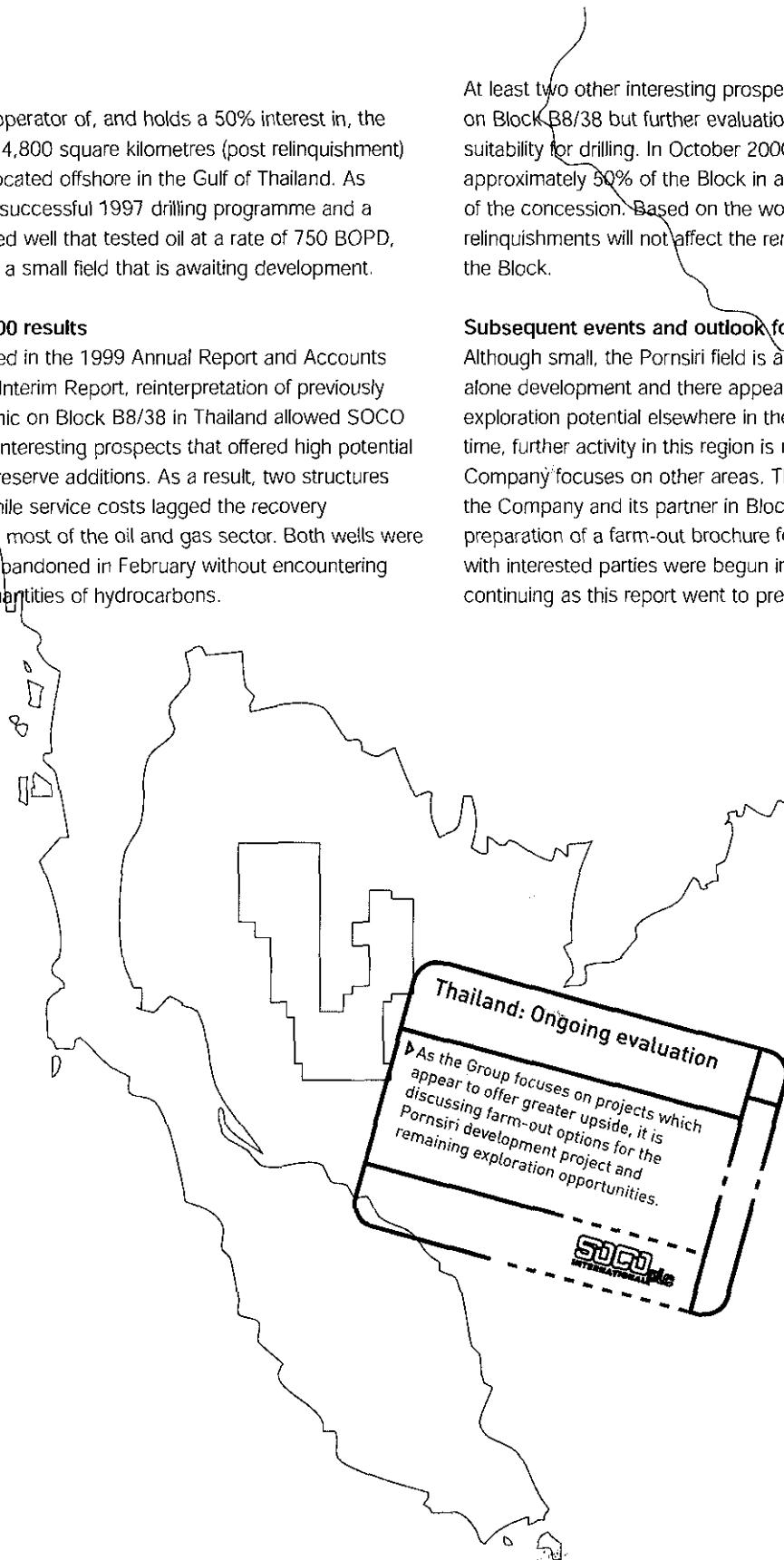
### Review of 2000 results

As was reported in the 1999 Annual Report and Accounts and the 2000 Interim Report, reinterpretation of previously acquired seismic on Block B8/38 in Thailand allowed SOCO to map some interesting prospects that offered high potential for significant reserve additions. As a result, two structures were drilled while service costs lagged the recovery experienced in most of the oil and gas sector. Both wells were plugged and abandoned in February without encountering commercial quantities of hydrocarbons.

At least two other interesting prospects have been identified on Block B8/38 but further evaluation is required to determine suitability for drilling. In October 2000, the Group relinquished approximately 50% of the Block in accordance with the terms of the concession. Based on the work performed to date, relinquishments will not affect the remaining prospectivity of the Block.

### Subsequent events and outlook for 2001

Although small, the Pornsiri field is a candidate for stand-alone development and there appears to be considerable exploration potential elsewhere in the Block. At the present time, further activity in this region is not a priority as the Company focuses on other areas. Therefore, in November, the Company and its partner in Block B8/38 initiated preparation of a farm-out brochure for the Block. Contacts with interested parties were begun in February and were continuing as this report went to press.



## North Korea

SOCO affiliate SOCO Koryo International Ltd has interests in a PSC over an approximate 9,600 square kilometres 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.

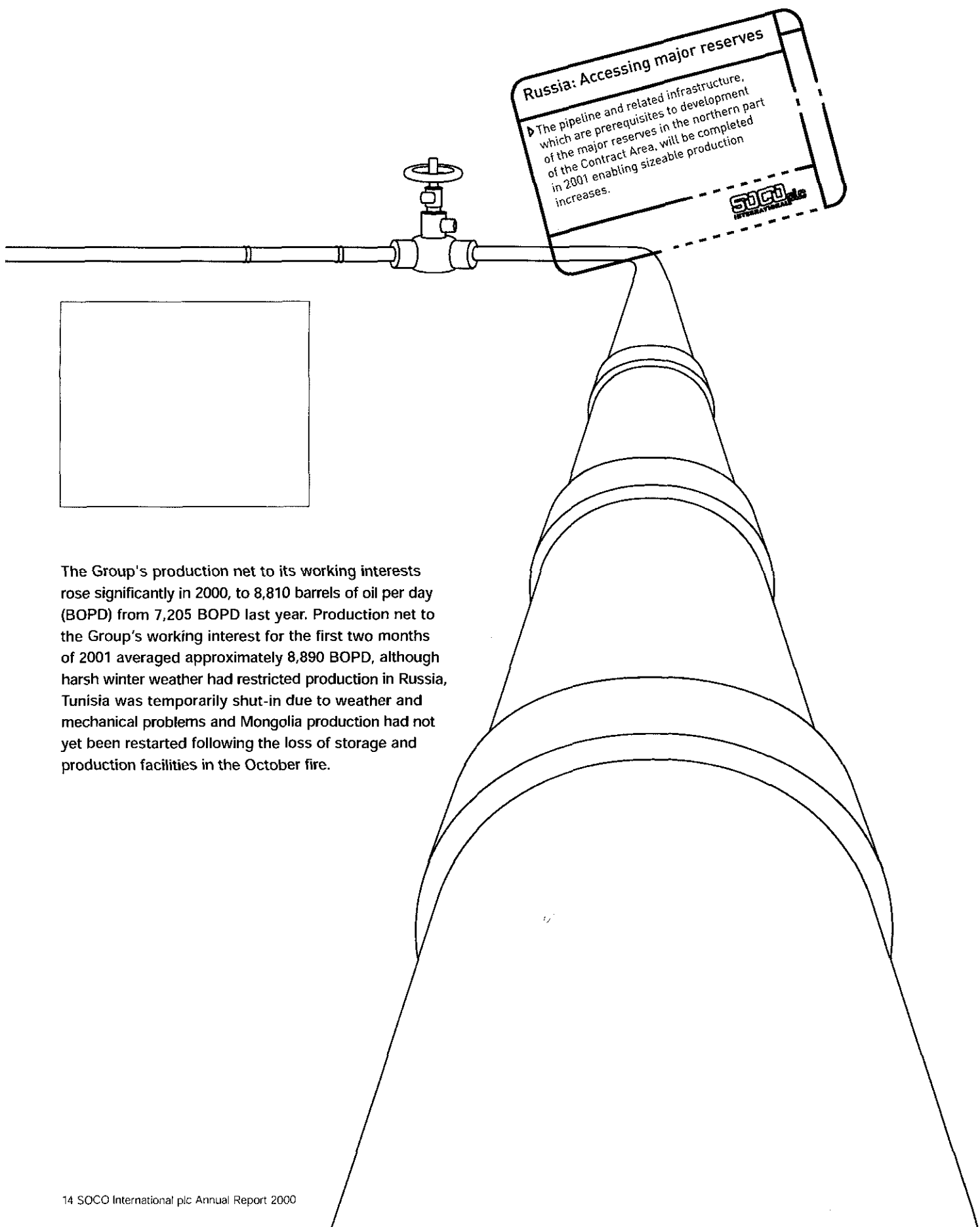
### Review of 2000 results

Although no new activity transpired on the concession during the year, the Company was successful in obtaining some additional geophysical and geological information on the concession. Even with the additional data there are no concrete conclusions based on the results of the first well. During the year the Company signed a confidentiality agreement allowing an international oil company to review the information on the concession.



### Subsequent events and outlook for 2001

The Company will continue to limit its financial exposure to the region, as its exploration potential is far less developed than that of competing prospects. The most likely scenario continues to be for the Company to retain an exposure in the area in a farm-out of the prospect. Discussions are proceeding with various interested parties.



The Group's production net to its working interests rose significantly in 2000, to 8,810 barrels of oil per day (BOPD) from 7,205 BOPD last year. Production net to the Group's working interest for the first two months of 2001 averaged approximately 8,890 BOPD, although harsh winter weather had restricted production in Russia, Tunisia was temporarily shut-in due to weather and mechanical problems and Mongolia production had not yet been restarted following the loss of storage and production facilities in the October fire.



## Russia

SOCO and an affiliate of LUKOIL each own 50% of the Russian joint venture Permtex, a Russian limited liability company. Permtex holds licences in a 306,000 acre Contract Area in the Volga-Urals region of European Russia through which it is developing reserves and producing crude oil from several previously delineated fields. From inception through February 2001, Permtex has exported substantially all crude oil produced from the Contract Area and has been paid in hard currency on a timely basis.

### Review of 2000 results

The development drilling programme in Logovskoye field, the southern most field in the Contract Area and its largest producer of crude oil, was completed in the second half of the year. Five wells were drilled during the year and two more that were in progress over the previous year end, were completed and put on production. In all there are 30 producing wells and five injector wells in the field. As the waterflood development in Logovskoye continues, the number of producer versus injector wells will fluctuate with each phase of the secondary recovery.

Developing the infrastructure to support significant production in the northern portion of the Contract Area was a priority during the year. The focus was primarily on the construction of a 35 kilometre pipeline to transport crude from the northern fields to the trunk line to the east of the Contract Area and related roads, power lines and other facilities. At year end an approximate five kilometre section of the pipeline remained incomplete primarily due to unseasonably warm weather in the early part of winter, which made construction in the marshy areas of the Contract Area impractical. The pipeline was completed during the first two months of 2001 and work continued on the pumping stations and ancillary facilities.

In the fourth quarter of 2000, the rig from Logovskoye was demobilised and moved to the Ozernoye field to begin the major drilling phase of the development project. Actual rigging up in the field began in December. Ozernoye has been producing from recompleted discovery and delineation wells with the produced crude being trucked to loading facilities on the same field trunk line to which the newly constructed field pipeline will connect.

Production increased in 2000 to 2.0 million barrels from a gross volume of 1.8 million barrels of oil in 1999. Logovskoye continues to source the bulk of production. As has been the case since project inception, sales continued to be exported outside the Russian domestic market and paid for in US dollars.

### Subsequent events and outlook for 2001

Development drilling and recompletions in the Ozernoye field will be the thrust of the 2001 programme as Permtex ramps up production. The first development well in Ozernoye spudded on 14 January 2001. Drilling in the Ozernoye field is generally more complex with most wells being highly deviated rather than primarily vertical. This coupled with the introduction of western advanced mud systems necessary to operate in the environmentally sensitive lake region means that drilling may take longer and cost more than wells drilled in the Logovskoye field. Accordingly production will build slowly during the year after the initial hook-up of prior well re-entries and field recompletions.

## 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 TOTAL Yemen.

### Review of 2000 results

A development programme was active throughout 2000 resulting in the drilling of five producing wells, one a sidetrack to a previous well, and four injector wells. The most prolific well, the Kharir 2.5, producing approximately 7,500 BOPD in January 2001, is an Upper Biyad horizontal producer located in a previously undrained portion of the reservoir. Recent wells have been completed with slotted liners to eliminate the risk of wellbore collapse as a result of high pump rates. The Kharir 3.5 well, a horizontal appraisal well to test the Sarr Formation in the Kharir field, was drilling at year end. In January 2001, the well was pumping at a rate of approximately 5,500 BOPD.

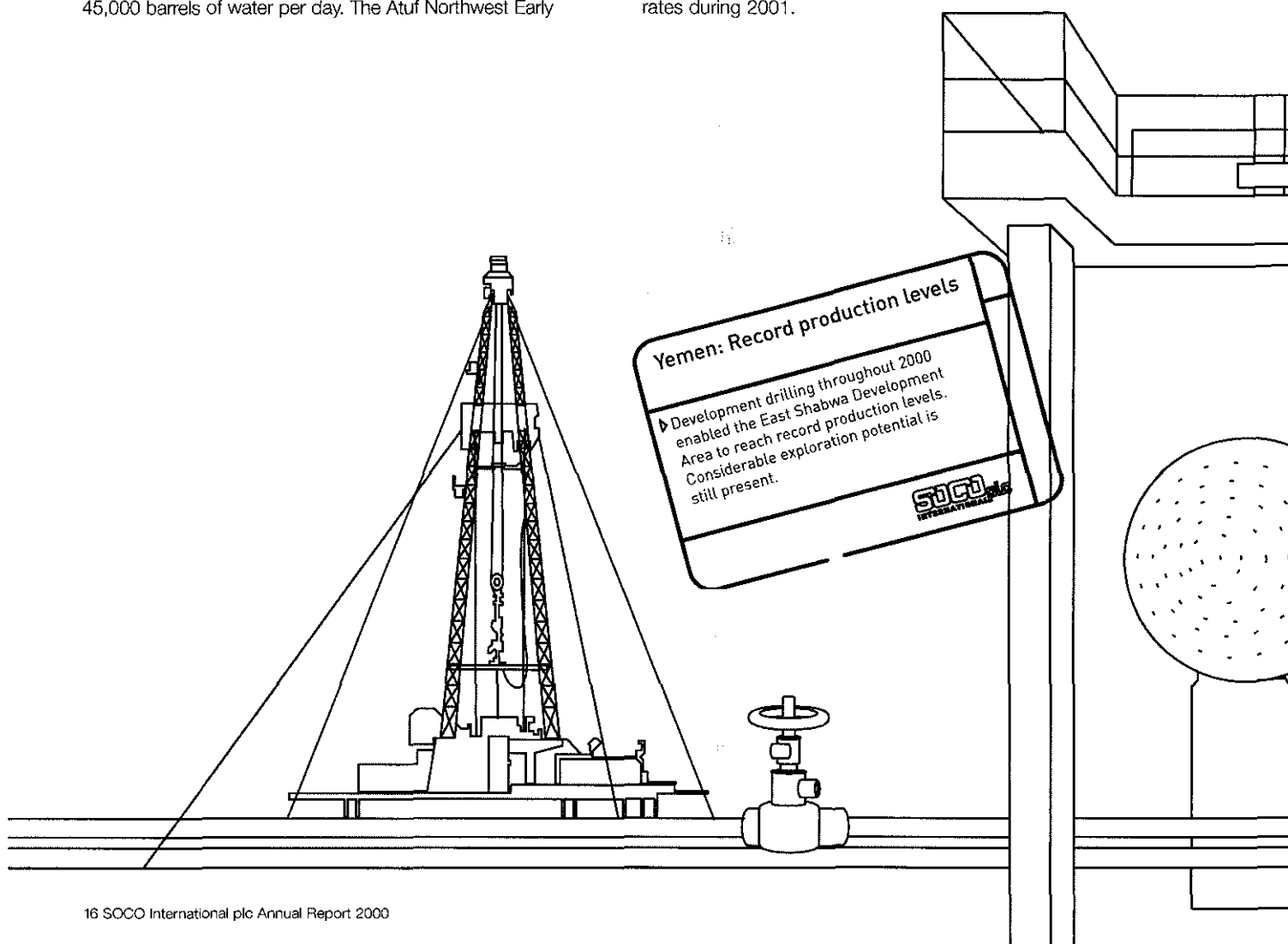
Commissioning of the expanded Kharir central crude oil processing and water treatment facility increased fluid handling capabilities at Kharir to approximately 30,000 BOPD and 45,000 barrels of water per day. The Atuf Northwest Early

Production Facility commenced operation in November at a rate of approximately 4,000 BOPD. At year end, total production capability at Atuf Northwest exceeded 8,000 BOPD. A major seismic acquisition programme began in the fourth quarter with both 2D and 3D seismic acquisitions planned to investigate further drilling opportunities in the concession.

Production from East Shabwa averaged approximately 28,600 BOPD (SOCO's working interest approximately 4,800 BOPD) from the Kharir, Atuf NW and Wadi Taribah fields. East Shabwa production is piped to crude oil transfer facilities on the neighbouring Masila Block where the oil is commingled with Masila production and transported by pipeline to the Ash Shihri export terminal on the Yemen coast. SOCO's share of the crude produced is sold into the spot market.

### Subsequent events and outlook for 2001

The seismic programme initiated in 2000 is expected to be complete in the first quarter of this year. After processing and interpretation, the East Shabwa partners expect to resume drilling late in the year. In February, gross production peaked at the highest level since development began at approximately 38,000 BOPD. A number of workover and facility optimisation projects are planned to support the increased production rates during 2001.



## Tunisia

The Group 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 currently under a 12 month contract negotiated in 2000.

### Review of 2000 results

The El Fell exploration commitment well spudded in September and drilled into late December. The well was plugged and abandoned after the prognosed formation was determined to be absent of recoverable hydrocarbons. The Zarat exploration permit was renewed for another two and one half year period after 20% of the permit was relinquished in December.

In mid year, there was a riser hose failure and the single producing horizontal well had to be shut-in for repairs. Restricted production was recommenced less than a month later after installation of a temporary substitute hose. During the year, production averaged approximately 5,800 BOPD (1,300 BOPD to the Group's working interest) compared to a daily average of 4,300 BOPD (950 BOPD to SOCO) in the previous year. The well continues to produce without any signs of pressure decline.

Throughout the year, crude produced from Didon was sold into the spot market. Sales of approximately 477,000 barrels were achieved through six off-loadings from the FPSO.

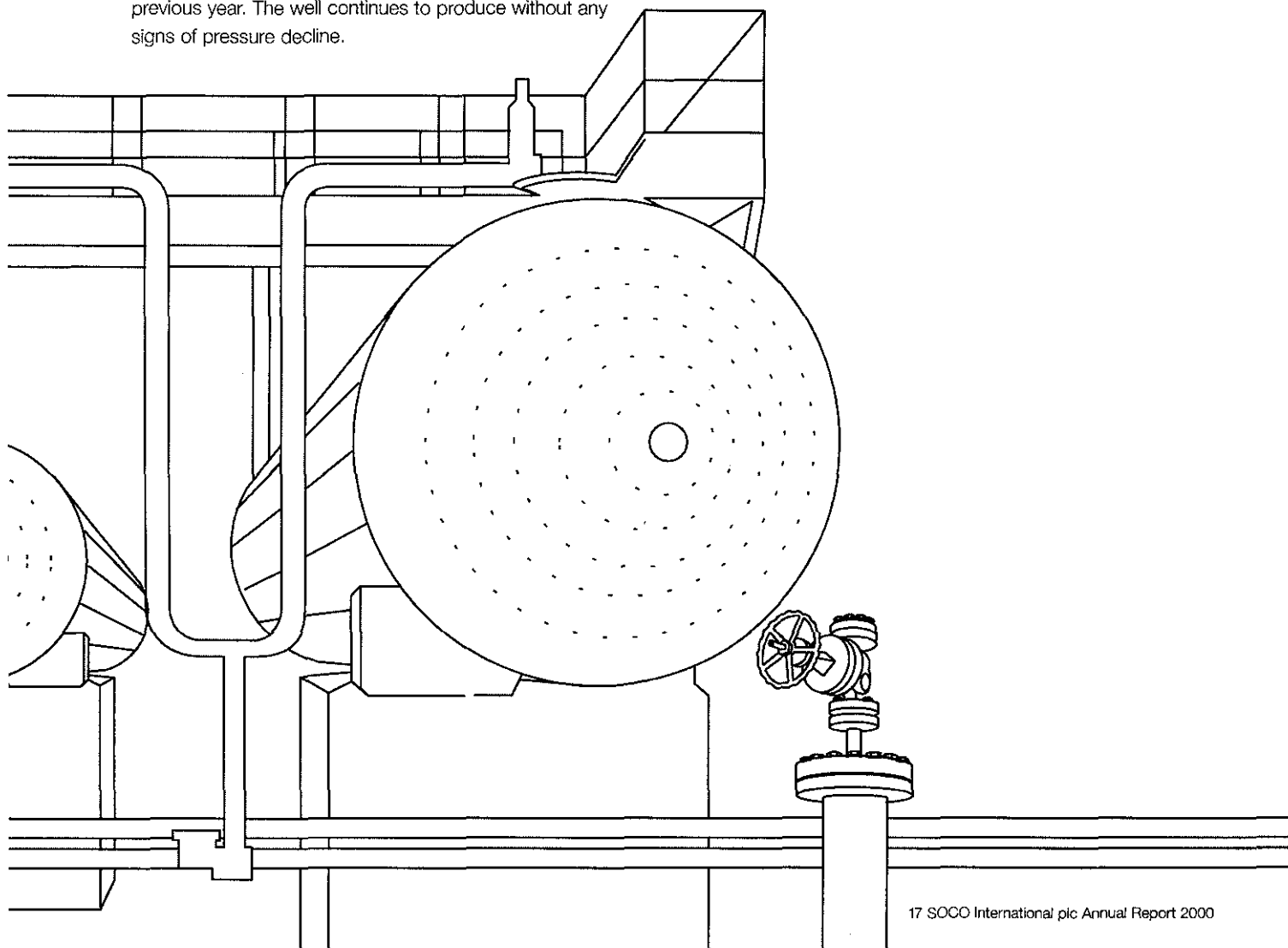
### Subsequent events and outlook for 2001

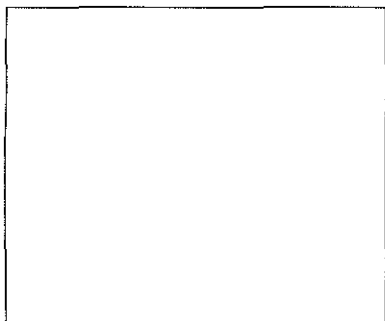
The Didon well, which has been producing since mid-1998, has performed extremely well to date. Equipment modifications planned for 2001 are expected to allow the well to reach new daily production records. Currently, a technical evaluation and re-mapping of the structure is underway to assess future development alternatives.

#### Tunisia: Production and potential

- ▶ Production from the Didon field reached the highest levels since discovery. Re-mapping of this field and investigation of remaining prospects may lead to important upside.

**SOCO**  
INTERNATIONAL plc





**Roger Cagle**

Executive Vice President, Deputy CEO and CFO

**The Company reported record production, turnover and net profit for 2000. Year end cash balances exceeded those of any other year end although the Group conducted a very active drilling campaign during the year. Operating cash flow for the year was £30.9 million, fully funding the exploration programme during the year.**

## Review of 2000 results

### Financial and operating

The Group registered a 137% increase in net profit rising to a record £17.6 million on turnover of £45.9 million compared to the previous year's then record results of a reported net profit of £7.4 million on turnover of £23.8 million. Daily average production, net to the Group's working interest, also rose to record levels with a 22% increase over last year's output rising to 8,810 barrels of oil per day (BOPD) from 7,205 BOPD despite interruptions in production due to operating problems in Tunisia and a focus on infrastructure development rather than production enhancement in Russia. The average price received per barrel of crude oil sold during the year by the Group rose to approximately US\$26.00, up 56% from US\$16.70 reported in 1999.

The Board of Directors believe that the best interests of shareholders are served by dedicating the Group's available cash resources to the growth of the Group at this time and accordingly are not recommending the payment of a dividend. Except for the £5.0 million debt associated with the European Bank for Reconstruction and Development (EBRD) loan to its 50% owned Russian joint venture, the Group remains debt free.

Capital expenditures for the year rebounded to £22.8 million from the retrenchment level of £7.6 million in 1999, as management took advantage of the lag in service cost increases as they trailed the crude oil price rise. Net proven and probable reserves, on an entitlement basis, were down 4.9 million barrels reflecting the effect of production and revisions but also reflecting the lack of sufficient production history in Yemen and Mongolia to justify adding reserves.

Operating costs, excluding depreciation, depletion and amortisation provisions (DD&A), rose to £12.9 million from £9.9 million in 1999 primarily reflecting the increase in production. On a per barrel basis, 2000 operating costs increased to US\$5.8 from US\$5.4 in 1999 with the increase in Russian operating costs more than off-setting improvements elsewhere. DD&A provisions rose from £6.4 million (US\$3.8 per barrel) in 1999 to £8.9 million (US\$4.1 per barrel) in 2000. Although the per barrel cost rose slightly, the increase in DD&A is primarily associated with the rise in production.

#### **Significant events**

In July 2000, the contracting parties of the East Shabwa Development Area in Yemen (East Shabwa) reached an agreement with the Ministry of Mineral Resources in Yemen whereby East Shabwa would revert from marginal field classification, with the attendant exemptions and limitations, to its original production sharing contract (PSC) terms. Under the marginal field classification, which was designed to stimulate development of smaller fields, certain conditions and exemptions applied which were beneficial to field economics for fields with relatively low reserves and during periods of prolonged low oil prices. Although a regular PSC was negotiated for the exploratory phase of East Shabwa, the marginal field classification was granted to the consortium shortly after the field discovery because at that time it appeared to fall under certain reserve and production limitations. Due to field performance from inception of production through the first half of 2000, it was apparent that the field was going to exceed the reserves restriction. As a result, price caps applicable to the field, possibly retroactively, and limitations on recovery of some past costs would have adversely affected the economics of the project under the marginal field classification.

With effect from 1 July 2000, the contracting parties' total net entitlements was reduced from approximately 79% to approximately 58%, consistent with the original PSC terms, without impacting the working interests. However, mitigating the entitlements reduction, the price cap was removed from crude oil sales and the opportunity for recovery of previously disallowed exploration costs was reinstated. For the Company, which holds an indirect 16.785% interest in East Shabwa, the direct entitlements effect was to reduce its share of crude oil sales from approximately 13.3% to approximately 9.7%. While the change reduced effective entitlements, the overall economic impact was favourable as the contracting parties were able to avail themselves of improved cost recoveries, recognise a larger pool of recoverable costs and capitalise from the prolonged period of high crude oil prices.

In August, Santa Fe Snyder Corporation, which at the end of 1999 and prior to its disposal was the second largest holder of SOCO shares after the concert party investor group, disposed of its 11.3% interest in the Company. The shares were taken by multiple parties, none of these claiming a notifiable interest at the time of the transaction.

#### **Subsequent events and 2001 outlook**

Throughout much of 2000 and continuing as this report goes to press, the Company has been involved in a number of substantive discussions with various companies concerning potential transactions. Rationalisation of the Group's asset portfolio is an ongoing process and may take a variety of forms. At this time, no transaction has reached the binding stage.

## 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. However, no other foreign currency instruments were used by the Group during the year.

Although the Group has minimal debt associated with the EBRD funding of its 50% owned Russian joint venture, future capital requirements to fund operations may be partially satisfied through debt financing. The Company will seek to minimise balance sheet impacts of such financing by negotiating

borrowings in matching currencies, primarily expected to be in US dollar denominations.

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

### Operational

The Group has in place a comprehensive insurance programme that includes property and casualty as well as liability coverages. Placed via an independent risk management brokerage group, the policies conform to industry best practice and provide substantial protection against typical industry operational risks. However, it is neither practical nor cost effective to obtain coverage for 100% of the potential consequences of adverse circumstances. The Company believes that an appropriate balance between exposure and coverage has been struck. During the year, the Company experienced a loss associated with its Mongolia operations as a fire severely damaged its processing and storage facilities and some nearby equipment on Contract Area 19. Primarily as a result of a tightening of the insurance market, but possibly affected by the impairment of the Company's loss history, rates paid for typical industry coverages are likely to increase when the Company renews its insurance programme during the year.

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 period 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.

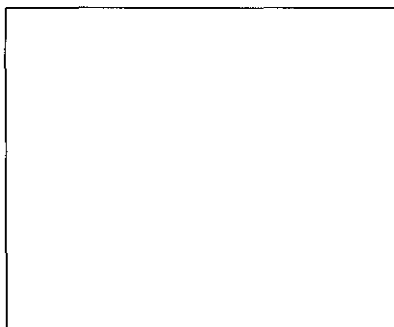
Many of the Group's projects are in developing countries or countries with emerging free market systems. There is generally a greater risk of political, economic or social instability in these environments than would be found in more established, developed economies. The Company has assessed such risks 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

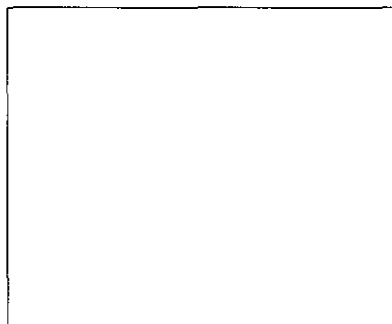
prevention and avoidance, in recognition that the potential impact is far greater than the cost to overcome a breakdown in compliance.

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.



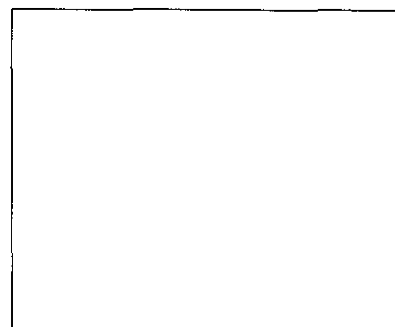
**Patrick Maugein (53)**  
**Non-Executive Chairman**

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.



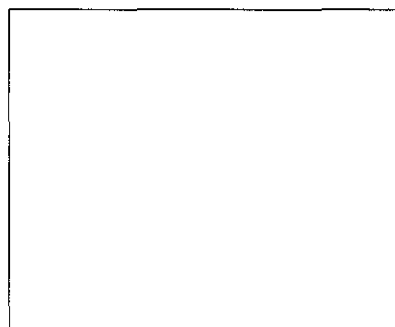
**Roger Cagle (53)**  
**Executive Vice President**  
**Deputy CEO and CFO**

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.



**Ed Story (57)**  
**President and CEO**

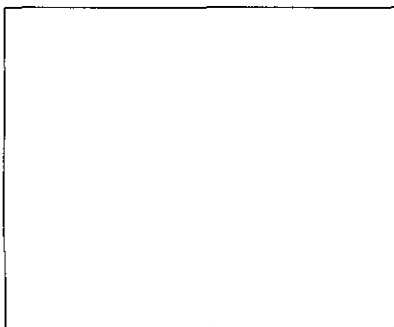
Mr Story was President of the international subsidiary of Snyder Oil Corporation, Vice Chairman of Conquest Exploration Company, Vice President and CFO of Superior Oil Company and has held various positions, including seven years resident in the Far East, with Exxon Corporation. He is currently a director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



**Peter Kingston (58)**  
**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), a director of Elf-Enterprise Petroleum Ltd and 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.

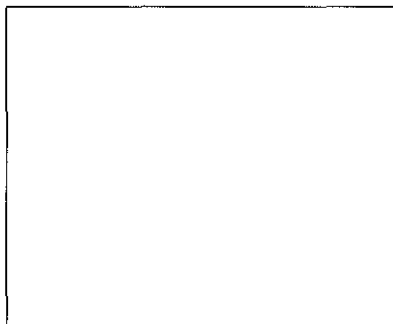




**Roger Brittain (63)**

**Non-Executive Director**

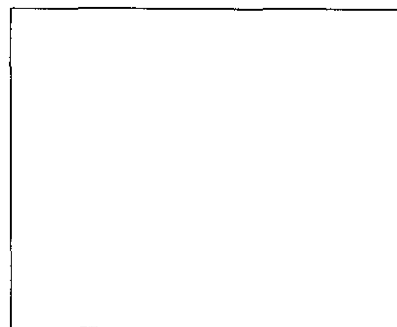
Mr Brittain joined the Board in March 1998. He is a director of Corporate Finance at Investec Henderson Crosthwaite. He is also Chairman of CanArgo Energy Corporation, a director of Transmeridien Exploration, Inc. and an advisor to Devon Energy Corporation and Sen Hong Resources Holdings Limited. Mr Brittain serves on the Audit, Remuneration and Nominations Committees.



**Rui de Sousa (45)**

**Non-Executive Director**

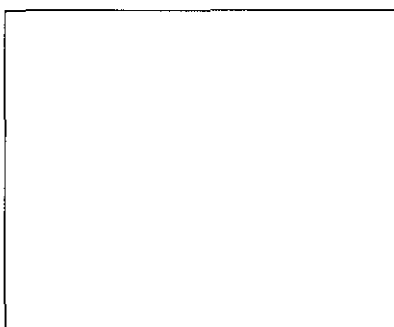
Mr de Sousa joined the Board in July 1999. Mr de Sousa has, since the 1980s, been the Chief Executive Officer of the Toro Group. He is the Chairman of Mediterranean Oil Supply and Trading Limitada, and is also a director of Quantic Limited. Mr de Sousa serves on the Nominations and Remuneration Committees.



**Olivier Barbaroux (45)**

**Non-Executive Director**

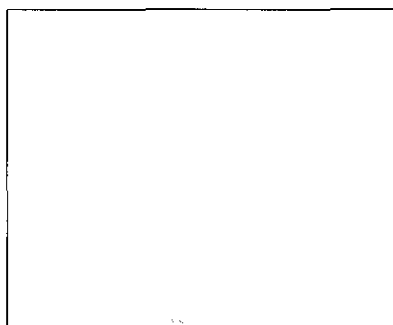
Mr Barbaroux joined the Board in July 1999. He is General Manager of Compagnie Générale des Eaux and Chief Operating Officer of Vivendi Water S.A., having formerly been head of the Energy Sector of the corporate finance department of Paribas. Between 1993 and 1996 he was Chairman and CEO of COPAREX International. Mr Barbaroux is a member of the Audit and Nominations Committees.



**John Snyder (59)**

**Non-Executive Director**

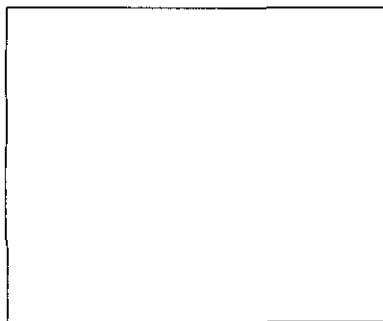
Mr Snyder joined the Board in April 1997. He was, prior to its recent merger with Devon Energy Corporation, Chairman of the Board of Santa Fe Snyder Corporation, a predecessor of which, Snyder Oil Corporation, he founded. He is a director of Texas Capital Bancshares, Dallas, Texas. He is a member of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



**John Norton (63)**

**Non-Executive Director**

Mr Norton joined the Board in April 1997. He is a Chartered Accountant and was a partner in Arthur Andersen, heading its oil and gas practice in Europe, the Middle East and Africa. He is currently a director of the Arab-British Chamber of Commerce. Mr Norton is a member of the Audit and Nominations Committees.



Cynthia Cagle

Vice President and Company Secretary

**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 2000.**

### Principal activity and business review

The Group's principal activity is oil and gas exploration and production. The Group has its headquarters in London and has oil and gas interests in Mongolia, Russia, Yemen, Thailand, Tunisia, Vietnam and North Korea. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 12 to the accounts.

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

### Results and dividends

The audited accounts for the year ended 31 December 2000 are set out on pages 30 to 45. The Group profit for the period after taxation was £17.6 million compared to £7.4 million in 1999.

The Directors intend to devote the Group's cash resources to its exploration and development activities and, accordingly, are not recommending the payment of a dividend (1999 – £nil).

### Directors

The Directors who served during the year were as follows:

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Patrick Maugein\* (Chairman)

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Peter E Kingston\* (Deputy Chairman and Senior Independent Director)

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Olivier M G Barbaroux\*

---

Roger W Brittain\*

---

Roger D Cagle

---

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.

In accordance with the Articles of Association, Roger Cagle, John Snyder and Roger Brittain will retire by rotation at the forthcoming Annual General Meeting and, each being eligible, offer themselves for reappointment. Details of executive Directors' contracts and non-executive Directors' appointment letters are included in the Remuneration report on page 28.

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 to abide by the terms of payment.

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

#### Share capital

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

At the 2000 Annual General Meeting shareholders granted authority for the Company to purchase 10,371,109 of its ordinary shares, representing up to 15% of the issued ordinary share capital, for a minimum price of the nominal value of each ordinary share and a maximum price of 105% of the average middle market quotations of the shares in the five business days prior to the purchase. The Company did not purchase any of its own shares during the period. The authority expires at the conclusion of the forthcoming Annual General Meeting and shareholders' approval for a new authority is to be sought at that Meeting.

#### Substantial shareholdings

On 20 March 2001, 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").

| Name of holder                      | Issued Shares |        | Warrants |
|-------------------------------------|---------------|--------|----------|
|                                     | Number        | % held | Number   |
| Pontoil Intertrade Ltd <sup>1</sup> | 6,480,813     | 9.24   | 447,171  |
| Chemsa Limited <sup>1</sup>         | 4,688,955     | 6.69   | 325,215  |
| Fidelity International Limited      | 4,685,800     | 6.68   | –        |
| SILF SA (Luxembourg) <sup>1</sup>   | 4,127,335     | 5.89   | 284,563  |
| Opale SA                            | 2,740,000     | 3.90   | –        |
| Quantic Ltd <sup>1</sup>            | 2,357,478     | 3.36   | 162,607  |
| Salamander Assets Ltd <sup>1</sup>  | 1,179,239     | 1.68   | 81,304   |
| Alpidorica SpA <sup>1</sup>         | 589,730       | 0.84   | 40,652   |
| New Falcon Oil Ltd <sup>1</sup>     | 589,619       | 0.84   | 40,652   |

<sup>1</sup>Each of these companies has notified the Company that it is a party to an agreement for the purposes of section 204 of the Companies Act 1985 and is therefore to be treated as interested in the shares and options held by all other parties to that agreement. The combined holdings of the parties comprise 20,013,169 ordinary shares, or 28.54% of the issued share capital, and 1,382,164 Warrants. The interests of Mr Patrick Maugein and Mr Rui de Sousa are set out in Note 7 to the accounts.

#### 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 4QU

By order of the Board  
Cynthia B Cagle  
Company Secretary  
21 March 2001



**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 comprised nine Directors of whom seven, including the Chairman, were independent non-executive Directors throughout 2000. The Board has four scheduled meetings a year and holds additional meetings as necessary.

The Board has established three Committees, as described below, each having formal terms of reference approved by the Board which comply with the Cadbury Code of Best Practice. Each Director's specific committee memberships are set out on pages 22 and 23.

#### **The Remuneration Committee**

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

#### **The Audit Committee**

The Audit Committee comprises four non-executive Directors and meets at least twice a year. The Chief Financial Officer and a representative of the external auditors are normally invited to attend meetings. At least once a year the Committee meets with the external auditors without executive Board members present. Its primary responsibilities are to review the effectiveness of the Company's and Group's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of that audit, and to review the annual and interim financial statements before they are submitted to the Board. The Audit Committee has specific responsibility for advising the full Board on compliance with the Turnbull Committee's published guidance on the implementation of the Combined Codes' 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 has introduced an internet web site wherein important information can be posted and disseminated promptly to a wide audience. Additionally, the Company can be contacted by email via the web site whereby 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 from the start of 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 the 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 Auditors' Report on page 29.

**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.

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

It is the Committee's policy to review all aspects of remuneration on an annual basis and with respect to the previous year's performance. In addition to basic salary, executive Directors are eligible to receive an annual cash bonus. The bonus is 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 performance related remuneration but shall not exceed 100% of basic salary. Bonus awards with respect to 2000 performance are reflected in Note 7 to the accounts.

Based on the 2000 annual review of remuneration and on benchmarking to market ranges conducted by independent remuneration advisors, the Committee has determined that incentive opportunities currently available to the Company's Executives are not competitive with sectoral market competitors. As a result the Directors will seek shareholder approval for adoption of a new Long Term Incentive Plan (LTIP) at the forthcoming Annual General Meeting. The LTIP, which will be operated in the context of the Company's overall remuneration policy, will provide 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 will enable a more significant proportion of executive remuneration packages to be performance-related, thereby further aligning their interests with those of the shareholders and providing keen incentives to perform at the highest levels.

LTIP awards, which it is proposed would be made to executive Directors and senior management on the recommendation of the Committee, will be subject to individual limits and will only vest over a three year period subject to demanding performance targets. Performance targets for the initial awards will be 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. 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 initial award, 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.

Given that a competitive shortfall in remuneration has been identified, the Committee has addressed this in a way that provides continuity with the introduction of the proposed LTIP through the award of a special deferred bonus, made in the form of SOCO shares, which will vest at the end of 2002 subject to the continued employment of the recipient.

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 in the future 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.

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 are 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 their share options and deferred share awards are set out in Note 7 to the accounts.

**To the Shareholders of SOCO International plc:**  
**We have audited the accounts on pages 30 to 45 which have been prepared under the historical cost convention and the accounting policies set out on pages 33 to 34.**

**Respective responsibilities of Directors and auditors**

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

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

We review whether the corporate governance statement on page 27 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and internal control procedures.

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

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2000 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Arthur Andersen*  
**Arthur Andersen**

**Chartered Accountants and Registered Auditors**

1 Surrey Street  
London WC2R 2PS  
21 March 2001

## Consolidated profit and loss account

for the year to 31 December 2000

|                                                             | Notes | 2000<br>£000's | 1999<br>£000's |
|-------------------------------------------------------------|-------|----------------|----------------|
| <b>Turnover</b>                                             | 1     |                |                |
| Continuing operations                                       |       | 45,852         | 19,800         |
| Discontinued operations                                     |       | -              | 4,002          |
|                                                             |       | <u>45,852</u>  | <u>23,802</u>  |
| Cost of sales                                               | 2     | (21,830)       | (16,310)       |
| <b>Gross profit</b>                                         | 2     | <u>24,022</u>  | <u>7,492</u>   |
| Administrative expenses                                     | 2     | (1,973)        | (1,876)        |
| <b>Operating profit (loss)</b>                              | 1     |                |                |
| Continuing operations                                       |       | 22,049         | 5,680          |
| Discontinued operations                                     |       | -              | (64)           |
|                                                             |       | <u>22,049</u>  | <u>5,616</u>   |
| Profit on sale of discontinued operations                   | 26    | -              | 1,820          |
| <b>Profit on ordinary activities before finance charges</b> |       | <u>22,049</u>  | <u>7,436</u>   |
| Investment income                                           | 3     | 2,102          | 998            |
| Interest payable and similar charges                        | 4     | (62)           | (151)          |
| <b>Profit on ordinary activities before taxation</b>        | 1,5   | <u>24,089</u>  | <u>8,283</u>   |
| Tax on profit on ordinary activities                        | 8     | (6,524)        | (869)          |
| <b>Profit for the financial year</b>                        | 23    | <u>17,565</u>  | <u>7,414</u>   |
| <b>Earnings per share</b>                                   |       |                |                |
| Basic                                                       | 10    | 25.6p          | 12.5p          |
| Diluted                                                     | 10    | 24.3p          | 12.4p          |

## Consolidated statement of total recognised gains and losses

for the year to 31 December 2000

|                                                    | Notes | 2000<br>£000's | 1999<br>£000's |
|----------------------------------------------------|-------|----------------|----------------|
| Profit for the financial year                      | 23    | 17,565         | 7,414          |
| Unrealised currency translation differences        | 23    | 7,372          | 1,951          |
| <b>Total recognised gains relating to the year</b> |       | <u>24,937</u>  | <u>9,365</u>   |

The accompanying notes are an integral part of these accounts.



# Balance sheets

as at 31 December 2000

|                                                                | Notes | Group           |                | Company        |                |
|----------------------------------------------------------------|-------|-----------------|----------------|----------------|----------------|
|                                                                |       | 2000<br>£000's  | 1999<br>£000's | 2000<br>£000's | 1999<br>£000's |
| <b>Fixed assets</b>                                            |       |                 |                |                |                |
| Tangible assets                                                | 11    | 94,064          | 70,051         | 133            | 158            |
| Investments                                                    | 12    | 368             | 368            | 49,355         | 49,355         |
|                                                                |       | <b>94,432</b>   | <b>70,419</b>  | <b>49,488</b>  | <b>49,513</b>  |
| <b>Current assets</b>                                          |       |                 |                |                |                |
| Stocks                                                         | 13    | 1,199           | 1,150          | -              | -              |
| Debtors                                                        | 14    | 7,869           | 4,834          | 229            | 927            |
| Investments                                                    | 15    | 22,252          | 20,639         | 8,977          | 9,508          |
| Cash at bank and in hand                                       |       | 15,795          | 8,152          | 2,174          | 1,116          |
|                                                                |       | <b>47,115</b>   | <b>34,775</b>  | <b>11,380</b>  | <b>11,551</b>  |
| <b>Creditors: Amounts falling due within one year</b>          | 16    | <b>(12,668)</b> | <b>(5,677)</b> | <b>(672)</b>   | <b>(512)</b>   |
| <b>Net current assets</b>                                      |       | <b>34,447</b>   | <b>29,098</b>  | <b>10,708</b>  | <b>11,039</b>  |
| <b>Total assets less current liabilities</b>                   |       | <b>128,879</b>  | <b>99,517</b>  | <b>60,196</b>  | <b>60,552</b>  |
| <b>Creditors: Amounts falling due after more than one year</b> | 17    | <b>(5,021)</b>  | <b>(1,551)</b> | -              | -              |
| <b>Provisions for liabilities and charges</b>                  | 18    | <b>(1,040)</b>  | <b>(651)</b>   | -              | -              |
| <b>Minority interests</b>                                      | 20    | -               | (175)          | -              | -              |
| <b>Net assets</b>                                              |       | <b>122,818</b>  | <b>97,140</b>  | <b>60,196</b>  | <b>60,552</b>  |
| <b>Capital and reserves</b>                                    |       |                 |                |                |                |
| Called-up equity share capital                                 | 21    | 14,026          | 13,828         | 14,026         | 13,828         |
| Share premium account                                          | 22    | 38,910          | 38,367         | 38,910         | 38,367         |
| Other reserves                                                 | 22    | 34,961          | 34,961         | -              | -              |
| Profit and loss account                                        | 22    | 34,921          | 9,984          | 7,260          | 8,357          |
| <b>Shareholders' funds</b>                                     | 23    | <b>122,818</b>  | <b>97,140</b>  | <b>60,196</b>  | <b>60,552</b>  |

The accounts on pages 30 to 45 were approved by the Board of Directors on 21 March 2001 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 2000

|                                                                        | Notes | 2000<br>£000's  | 1999<br>£000's |
|------------------------------------------------------------------------|-------|-----------------|----------------|
| <b>Net cash inflow from operating activities</b>                       | 24    | <b>30,902</b>   | <b>9,175</b>   |
| <b>Returns on investments and servicing of finance</b>                 |       |                 |                |
| Interest received                                                      |       | 1,947           | 778            |
| Interest paid and similar charges                                      |       | (290)           | (25)           |
|                                                                        |       | <b>1,657</b>    | <b>753</b>     |
| <b>Taxation paid</b>                                                   |       | <b>(6,794)</b>  | <b>(571)</b>   |
| <b>Capital expenditure and financial investment</b>                    |       |                 |                |
| Purchase of tangible fixed assets                                      |       | (22,814)        | (7,589)        |
| Sale of tangible fixed assets                                          |       | -               | 8              |
|                                                                        |       | <b>(22,814)</b> | <b>(7,581)</b> |
| <b>Acquisitions and disposals</b>                                      |       |                 |                |
| Purchase of subsidiary undertaking                                     | 25    | -               | (427)          |
| Cash acquired with subsidiary undertaking                              | 25    | -               | 8,911          |
| Sale of business                                                       | 26    | 507             | 7,681          |
|                                                                        |       | <b>507</b>      | <b>16,165</b>  |
| <b>Cash inflow before management of liquid resources and financing</b> |       | <b>3,458</b>    | <b>17,941</b>  |
| <b>Management of liquid resources</b>                                  |       |                 |                |
| Increase in cash placed on short term deposit                          | 27    | (884)           | (13,028)       |
| <b>Financing</b>                                                       |       |                 |                |
| Issue of ordinary share capital                                        | 21    | 741             | 7              |
| Issue of preference shares to minority interests                       | 20    | 8               | 12             |
| Increase in bank loan due after more than one year                     | 27    | 3,338           | 1,550          |
|                                                                        |       | <b>4,087</b>    | <b>1,569</b>   |
| <b>Increase in cash in the year</b>                                    | 27    | <b>6,661</b>    | <b>6,482</b>   |

The accompanying notes are an integral part of these accounts.

**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 is recognised on an entitlement basis and represents the sales value of the Group's share of oil and gas produced during the year.

#### **Tangible fixed assets**

##### **Oil and gas exploration and development expenditure**

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

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

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

### **Depreciation and depletion**

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

### **Impairment of value**

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

### **Other fixed assets**

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

### **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 invested 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.

## 1 Segment information

|                                                         | United Kingdom<br>£000's | Rest of Europe<br>£000's | Rest of World<br>£000's | Unallocated<br>£000's | Group<br>2000<br>£000's |
|---------------------------------------------------------|--------------------------|--------------------------|-------------------------|-----------------------|-------------------------|
| Turnover by origin                                      | –                        | 14,529                   | 31,323                  | –                     | 45,852                  |
| Operating profit (loss)                                 | –                        | 5,685                    | 18,395                  | (2,031)               | 22,049                  |
| Profit (loss) on ordinary activities<br>before taxation | –                        | 5,653                    | 18,509                  | (73)                  | 24,089                  |
| Net assets                                              | –                        | 22,564                   | 69,627                  | 30,627                | 122,818                 |

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

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

## 2 Cost of sales, gross profit and administrative expenses

|                            | Group<br>2000<br>£000's | Continuing<br>operations<br>1999<br>£000's | Discontinued<br>operations<br>1999<br>£000's | Group<br>1999<br>£000's |
|----------------------------|-------------------------|--------------------------------------------|----------------------------------------------|-------------------------|
| Operating expenses         | 12,950                  | 7,195                                      | 2,689                                        | 9,884                   |
| Depletion and depreciation | 8,880                   | 5,049                                      | 1,377                                        | 6,426                   |
| Cost of sales              | 21,830                  | 12,244                                     | 4,066                                        | 16,310                  |
| Gross profit (loss)        | 24,022                  | 7,556                                      | (64)                                         | 7,492                   |
| Administrative expenses    | 1,973                   | 1,876                                      | –                                            | 1,876                   |

### 3 Investment income

|                        | 2000<br>£000's | 1999<br>£000's |
|------------------------|----------------|----------------|
| Interest receivable    | 1,988          | 991            |
| Realised exchange gain | 114            | 7              |
|                        | <u>2,102</u>   | <u>998</u>     |

### 4 Interest payable and similar charges

|                                                 | 2000<br>£000's | 1999<br>£000's |
|-------------------------------------------------|----------------|----------------|
| Interest payable on bank loans and similar fees | 479            | 115            |
| Capitalised finance costs (see Note 17)         | (463)          | (92)           |
| Unwinding of discount on provisions             | 46             | 128            |
|                                                 | <u>62</u>      | <u>151</u>     |

No interest was capitalised prior to 1999.

### 5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

|                                           | 2000<br>£000's | 1999<br>£000's |
|-------------------------------------------|----------------|----------------|
| Depletion and depreciation                | 8,942          | 6,479          |
| Auditors' remuneration for audit services | 59             | 65             |

The amounts payable to Arthur Andersen by the Company in respect of non-audit services was £13,000 (1999 – £94,000 inclusive of its services to its former UK subsidiary).

### 6 Staff costs

The average monthly number of employees (including executive Directors but excluding contractors and local staff of overseas operations) was 14 (1999 – 38), of which 12 (1999 – 13) were administrative personnel and 2 (1999 – 25) were operating personnel. Their aggregate remuneration comprised:

|                                                  | 2000<br>£000's | 1999<br>£000's |
|--------------------------------------------------|----------------|----------------|
| Wages and salaries                               | 1,800          | 2,234          |
| Social security costs                            | 70             | 127            |
| Other pension costs under money purchase schemes | 89             | 181            |
|                                                  | <u>1,959</u>   | <u>2,542</u>   |

## 7 Directors' remuneration, interests and transactions

### Directors' emoluments

|                                | Fees/Basic<br>salary<br>£000's | Benefits<br>in kind <sup>1</sup><br>£000's | Annual<br>bonus <sup>3</sup><br>£000's | Total<br>2000<br>£000's | Total<br>1999<br>£000's |
|--------------------------------|--------------------------------|--------------------------------------------|----------------------------------------|-------------------------|-------------------------|
| <b>Executive Directors</b>     |                                |                                            |                                        |                         |                         |
| E Story                        | 259                            | 16                                         | 155                                    | 430                     | 374                     |
| R Cagle                        | 181                            | 16                                         | 108                                    | 305                     | 266                     |
| Former Directors               | —                              | —                                          | —                                      | —                       | 156                     |
| <b>Non-executive Directors</b> |                                |                                            |                                        |                         |                         |
| P Maugein                      | 55                             | —                                          | —                                      | 55                      | 27                      |
| P Kingston <sup>2</sup>        | 55                             | —                                          | —                                      | 55                      | 53                      |
| O Barbaroux                    | 25                             | —                                          | —                                      | 25                      | 12                      |
| R Brittain                     | 25                             | —                                          | —                                      | 25                      | 23                      |
| J Norton                       | 25                             | —                                          | —                                      | 25                      | 23                      |
| J Snyder                       | 25                             | —                                          | —                                      | 25                      | 23                      |
| R de Sousa                     | 25                             | —                                          | —                                      | 25                      | 12                      |
| Former Director                | —                              | —                                          | —                                      | —                       | 10                      |
| Aggregate emoluments           | 675                            | 32                                         | 263                                    | 970                     | 979                     |

<sup>1</sup> Benefits include a permanent health insurance scheme, medical insurance, life assurance cover, critical illness cover and car benefits.

<sup>2</sup> 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.

<sup>3</sup> In addition to the annual bonus awarded with respect to 2000 performance, on 22 March 2001 Mr Ed Story and Mr Roger Cagle were granted a conditional 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, to continued employment. At the date of the grant the market price of the ordinary shares was £1.065.

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

### Money purchase pension contributions

|                  | 2000<br>£000's | 1999<br>£000's |
|------------------|----------------|----------------|
| E Story          | 24             | 21             |
| R Cagle          | 24             | 21             |
| Former Directors | —              | 20             |
|                  | 48             | 62             |

## 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<br>31 December<br>1999 | Granted | As at<br>31 December<br>2000 | Exercise<br>price<br>£ | Date<br>from which<br>exercisable <sup>1</sup> | Expiry<br>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 <sup>2</sup> | 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                    |                        |                                                |                |

<sup>1</sup> 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.

<sup>2</sup> Options held as at 31 December 2000 include 1,009,520 (1999 – 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 against a comparator group.

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

The market price of the ordinary shares at 31 December 2000 was £1.26 and the range during the year to 31 December 2000 was £0.715 to £1.465.

### Directors' long term incentive scheme

The Company does not currently operate any long term incentive schemes. However, the Directors will seek shareholder approval for adoption of a new long term incentive plan at the forthcoming Annual General Meeting.

### Directors' pension entitlements

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



## 7 Directors' remuneration, interests and transactions (continued)

### Directors' interests

The interests (all of which were beneficial except as noted below) of the Directors of the Company in the ordinary shares and warrants to subscribe for the same number of ordinary shares of the Company ("Warrants") at 31 December 2000 were:

|                                | Number of Shares |           | Number of Warrants |           |
|--------------------------------|------------------|-----------|--------------------|-----------|
|                                | 2000             | 1999      | 2000               | 1999      |
| <b>Executive Directors</b>     |                  |           |                    |           |
| E Story                        | 994,456          | 994,456   | –                  | –         |
| R Cagle                        | 70,000           | 70,000    | –                  | –         |
| <b>Non-executive Directors</b> |                  |           |                    |           |
| P Maugein <sup>1</sup>         | 4,688,955        | 4,276,955 | 325,215            | 325,215   |
| P Kingston                     | 11,500           | 11,500    | –                  | –         |
| O Barbaroux                    | –                | –         | –                  | –         |
| R Brittain                     | 64,500           | 54,500    | –                  | –         |
| J Norton                       | 50,000           | 50,000    | –                  | –         |
| J Snyder                       | 25,000           | 25,000    | –                  | –         |
| R de Sousa <sup>2</sup>        | 2,947,097        | 2,673,097 | 1,930,965          | 1,930,965 |

<sup>1</sup> Mr Patrick Maugein's interest is held by Chemsal Limited, which is owned by a trust company whose potential ultimate beneficiary is the family of Mr Maugein.

<sup>2</sup> Mr Rui de Sousa's interest comprises 2,357,478 (1999 – 2,138,478) ordinary shares and 162,607 (1999 – 162,607) Warrants at a price of £0.55 each held by Quantic Limited, of which Mr de Sousa owns 50% of the issued share capital; 589,619 (1999 – 534,619) ordinary shares and 40,652 (1999 – 40,652) Warrants at a price of £0.55 each held by New Falcon Oil Limited, of which Mr de Sousa owns 100% of the issued share capital; and 621,974 (1999 – 621,974), 1,088,455 (1999 – 1,088,455) and 17,277 (1999 – 17,277) Warrants at a price of £0.65, £0.60 and £0.55 respectively held by Mantegna Consultadoria E Servicos Limitada, of which Mr de Sousa owns 100% of the issued share capital.

There have been no changes in the beneficial interests between 31 December 2000 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:

|                                           | 2000<br>£000's | 1999<br>£000's |
|-------------------------------------------|----------------|----------------|
| UK Corporation tax at 30% (1999 – 30.25%) | –              | 91             |
| Current overseas taxation                 | 6,592          | 784            |
| Deferred overseas taxation                | (68)           | (6)            |
|                                           | 6,524          | 869            |

Deferred taxation includes recognition of a net deferred tax charge of £601,000 (1999 – £230,000) in respect of the Tunisia interest and net deferred tax credits of £395,000 (1999 – £236,000) in respect of the Yemen interest and £274,000 (1999 – nil) in respect of the Russia 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 Profit (loss) attributable to SOCO International plc

The loss for the financial year dealt with in the accounts of the Company was £1,097,000 (1999 – profit of £7,919,000).

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 68,591,969 (1999 – 59,387,904) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year, excluding 600,000 (1999 – 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 72,416,560 (1999 – 59,990,023) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year including 3,275,828 outstanding share options and warrants (1999 – 4,769) that have a diluting effect on earnings per share and 600,000 (1999 – 600,000) ordinary shares of the Company held by the Group (see Note 12).

## 11 Tangible fixed assets

|                        | Group                            |                 |                 | Company         |
|------------------------|----------------------------------|-----------------|-----------------|-----------------|
|                        | Oil and gas properties<br>£000's | Other<br>£000's | Total<br>£000's | Other<br>£000's |
| <b>Cost</b>            |                                  |                 |                 |                 |
| As at 1 January 2000   | 79,497                           | 856             | 80,353          | 261             |
| Additions              | 26,657                           | 660             | 27,317          | 27              |
| Foreign exchange       | 6,486                            | 43              | 6,529           | –               |
| As at 31 December 2000 | 112,640                          | 1,559           | 114,199         | 288             |
| <b>Depreciation</b>    |                                  |                 |                 |                 |
| As at 1 January 2000   | 9,847                            | 455             | 10,302          | 103             |
| Charge for the year    | 8,619                            | 323             | 8,942           | 52              |
| Foreign exchange       | 858                              | 33              | 891             | –               |
| As at 31 December 2000 | 19,324                           | 811             | 20,135          | 155             |
| <b>Net book value</b>  |                                  |                 |                 |                 |
| As at 31 December 2000 | 93,316                           | 748             | 94,064          | 133             |
| As at 31 December 1999 | 69,650                           | 401             | 70,051          | 158             |

Included within oil and gas properties at 31 December 2000 are costs of £52.4 million (1999 – £34.8 million) comprising the Group's exploration and appraisal projects which are pending determination and are held outside depreciable pools. This includes £34.2 million in respect of the Mongolia project and £10.8 million in respect of the Vietnam project at 31 December 2000. 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        |                |
|-------------------------|----------------|----------------|----------------|----------------|
|                         | 2000<br>£000's | 1999<br>£000's | 2000<br>£000's | 1999<br>£000's |
| Subsidiary undertakings | –              | –              | 49,355         | 49,355         |
| Own shares              | 368            | 368            | –              | –              |
|                         | <b>368</b>     | <b>368</b>     | <b>49,355</b>  | <b>49,355</b>  |

Own shares held at 31 December 2000 comprise 600,000 (1999 – 600,000) ordinary shares with a nominal value of £0.20 each.

### Principal Group investments

The Company and the Group have investments in the following subsidiary undertakings which principally affected the profits or net assets of the Group, all of which are indirectly held.

|                                          | Country of<br>Incorporation | Country of<br>Operation | Principal Activity                     | Percentage<br>Holding |
|------------------------------------------|-----------------------------|-------------------------|----------------------------------------|-----------------------|
| SOCO Tamtsag Mongolia, Inc. <sup>1</sup> | USA                         | Mongolia                | Oil and gas exploration                | 100.0                 |
| SOCO Perm Russia, Inc. <sup>2</sup>      | USA                         | Russia                  | Investment holding                     | 100.0                 |
| SOCO Tunisia Pty Limited                 | Australia                   | Tunisia                 | Oil and gas exploration and production | 100.0                 |
| SOCO Yemen Pty Limited <sup>3</sup>      | Australia                   | Yemen                   | Investment holding                     | 100.0                 |
| SOCO Exploration (Thailand) Co. Ltd      | Thailand                    | Thailand                | Oil and gas exploration                | 99.9                  |
| SOCO Vietnam Limited <sup>4</sup>        | Cayman Islands              | Vietnam                 | Oil and gas exploration                | 70.0                  |

<sup>1</sup> The Group's percentage shareholding in SOCO Tamtsag Mongolia, Inc., was increased to 100% in July 2000 (see Note 20).

<sup>2</sup> The Russian interest, which is in production, is held through Permtex, a Russian limited liability company, which is 50% owned by SOCO Perm Russia, Inc.

<sup>3</sup> 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 2000.

<sup>4</sup> The 30% minority interest is carried by the Group through the exploration phase, with the carried costs plus accrued interest to be recovered from any subsequent production.

### Subsidiary undertakings

|                        | Company        |                |
|------------------------|----------------|----------------|
|                        | 2000<br>£000's | 1999<br>£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          |                |
|---------------------------|----------------|----------------|
|                           | 2000<br>£000's | 1999<br>£000's |
| Crude oil and condensate  | 419            | 463            |
| Materials and consumables | 780            | 687            |
|                           | <b>1,199</b>   | <b>1,150</b>   |

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

## 14 Debtors

|                                                     | Group          |                | Company        |                |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                     | 2000<br>£000's | 1999<br>£000's | 2000<br>£000's | 1999<br>£000's |
| <b>Amounts falling due within one year</b>          |                |                |                |                |
| Trade debtors                                       | 4,152          | 2,973          | –              | –              |
| Amounts owed by Group undertakings                  | –              | –              | –              | 12             |
| Taxation                                            | 1,060          | 236            | 17             | 43             |
| Deferred taxation                                   | 506            | 236            | –              | –              |
| Other debtors                                       | 643            | 241            | 21             | 59             |
| Prepayments and accrued income                      | 940            | 1,148          | 191            | 813            |
|                                                     | <b>7,301</b>   | <b>4,834</b>   | <b>229</b>     | <b>927</b>     |
| <b>Amounts falling due after more than one year</b> |                |                |                |                |
| Deferred taxation                                   | 568            | –              | –              | –              |
|                                                     | <b>7,869</b>   | <b>4,834</b>   | <b>229</b>     | <b>927</b>     |

## 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        |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2000<br>£000's | 1999<br>£000's | 2000<br>£000's | 1999<br>£000's |
| Trade creditors                    | 2,779          | 1,739          | –              | –              |
| Amounts owed to Group undertakings | –              | –              | 264            | 249            |
| Taxation and social security       | 600            | 200            | 26             | 17             |
| Deferred taxation                  | 962            | 230            | –              | –              |
| Other creditors                    | 345            | 371            | 42             | 16             |
| Accruals and deferred income       | 7,982          | 3,137          | 340            | 230            |
|                                    | <b>12,668</b>  | <b>5,677</b>   | <b>672</b>     | <b>512</b>     |

## 17 Creditors: Amounts falling due after more than one year

|           | Group          |                |
|-----------|----------------|----------------|
|           | 2000<br>£000's | 1999<br>£000's |
| Bank loan | 5,021          | 1,551          |

The bank loan comprises the Group's 50% share of a US\$15 million loan balance outstanding at 31 December 2000 (1999 – US\$5 million) drawn down by Permtext, the entity through which the Company's wholly owned subsidiary SOCO Perm Russia, Inc., ("SOCO Perm") holds its Russian interest, under a reserve based financing facility of up to US\$45 million, approved in May 1999, with the European Bank for Reconstruction and Development. The amount is drawn under the first of three available tranches with £0.5 million repayable between one and two years, £2.7 million repayable between two and five years and £1.8 million repayable after five years. The loan bears interest, equal to the London Interbank Offering Rate plus a variable premium, which is capitalised in accordance with the Group's accounting policy. The Group's pro rata portion of the facility is secured by its shares in SOCO Perm and by its portion of a cash collateral account ranging up to US\$1.75 million.

## 18 Provisions for liabilities and charges

|                                         | Group  |
|-----------------------------------------|--------|
|                                         | 2000   |
|                                         | £000's |
| <b>Decommissioning</b>                  |        |
| As at 1 January                         | 651    |
| New provisions and changes in estimates | 343    |
| Unwinding of discount                   | 46     |
| As at 31 December                       | 1,040  |

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 3 and 24 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 the financial assets and liabilities and their fair values.

## 20 Minority interests

|                                                      | 2000   |
|------------------------------------------------------|--------|
|                                                      | £000's |
| As at 1 January                                      | 175    |
| Issue of preference shares to minority interests     | 8      |
| Cancellation of minority interest shares (see below) | (183)  |
| As at 31 December                                    | -      |

In July 2000, all of the share capital, including both common and preferred shares, of SOCO Tamtsag Mongolia, Inc. ("SOTAMO") held by the minority shareholder was cancelled and terminated in exchange for an equivalent direct working interest in the Contract Areas held by SOTAMO. From that date SOTAMO became a wholly owned subsidiary undertaking of the Group.

## 21 Called-up equity share capital

|                                                                | 2000   | 1999   |
|----------------------------------------------------------------|--------|--------|
|                                                                | £000's | £000's |
| <b>Authorised</b>                                              |        |        |
| 100,000,000 ordinary shares of £0.20 each (1999 – 100,000,000) | 20,000 | 20,000 |
| <b>Allotted, called-up and fully-paid</b>                      |        |        |
| 70,127,709 ordinary shares of £0.20 each (1999 – 69,140,732)   | 14,026 | 13,828 |

During the year 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.

During 1999, the Company issued 17,277,058 ordinary shares of £0.20 each in connection with the acquisition of Torobex Limited, as described in Note 25, and, 40,000 ordinary shares of £0.20 each in part payment of non-executive Directors' fees.

## 21 Called-up equity share capital (continued)

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

| Exercise period     | Number of shares under option | Subscription price per share |
|---------------------|-------------------------------|------------------------------|
| 29.05.97 – 25.04.04 | 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 | 75,000                        | £0.770                       |

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                         |

## 22 Reserves

|                                      | Group                           |                          |                                   |                 |
|--------------------------------------|---------------------------------|--------------------------|-----------------------------------|-----------------|
|                                      | Share premium account<br>£000's | Other reserves<br>£000's | Profit and loss account<br>£000's | Total<br>£000's |
| As at 1 January 2000                 | 38,367                          | 34,961                   | 9,984                             | 83,312          |
| Share issues (see Note 21)           | 543                             | –                        | –                                 | 543             |
| Gain on foreign currency translation | –                               | –                        | 7,372                             | 7,372           |
| Retained profit for the year         | –                               | –                        | 17,565                            | 17,565          |
| As at 31 December 2000               | 38,910                          | 34,961                   | 34,921                            | 108,792         |

|                              | Company                         |                                   |                 |
|------------------------------|---------------------------------|-----------------------------------|-----------------|
|                              | Share premium account<br>£000's | Profit and loss account<br>£000's | Total<br>£000's |
| As at 1 January 2000         | 38,367                          | 8,357                             | 46,724          |
| Share issues (see Note 21)   | 543                             | –                                 | 543             |
| Retained profit for the year | –                               | (1,097)                           | (1,097)         |
| As at 31 December 2000       | 38,910                          | 7,260                             | 46,170          |

The addition to the share premium account arose as a result of the issue of shares upon the exercise of certain share options.  
The Group's other reserves arose in respect of merger relief.

## 23 Reconciliation of movements in Group shareholders' funds

|                                             | 2000<br>£000's | 1999<br>£000's |
|---------------------------------------------|----------------|----------------|
| Opening shareholders' funds                 | 97,140         | 79,275         |
| Profit for the financial year               | 17,565         | 7,414          |
| Unrealised currency translation differences | 7,372          | 1,951          |
| New shares issued (see Note 21)             | 741            | 8,500          |
| Closing shareholders' funds                 | 122,818        | 97,140         |

## 24 Reconciliation of operating profit to operating cash flows

|                                                      | 2000<br>£000's | 1999<br>£000's |
|------------------------------------------------------|----------------|----------------|
| Operating profit                                     | 22,049         | 5,616          |
| Depreciation and depletion charges                   | 8,942          | 6,479          |
| Movement in stocks                                   | 169            | (436)          |
| Movement in debtors                                  | (1,194)        | (2,542)        |
| Movement in creditors                                | 936            | 58             |
| Net cash inflow from operating activities            | 30,902         | 9,175          |
| Net cash inflow from operating activities comprises: |                |                |
| Continuing operating activities                      | 30,902         | 7,191          |
| Discontinued operating activities                    | -              | 1,984          |
|                                                      | 30,902         | 9,175          |

## 25 Acquisition of Torobex Limited

In July 1999 the Group acquired the entire share capital of Torobex Limited, whose net assets solely comprised US\$13.9 million (£8.9 million) cash on the date of acquisition, for consideration of 17,277,058 new ordinary shares of the Company with a nominal value of £0.20 ("Shares") and warrants to subscribe for 3,109,870 Shares, all exercisable after 12 months at a subscription price ranging from £0.55 to £0.65 per Share. Associated acquisition costs were £427,000.

## 26 Disposal of interest in SOCO UK Onshore Ltd

In October 1999 the Company sold the entire share capital of its wholly owned subsidiary SOCO UK Onshore Ltd, through which it held its interests in various exploration and production licences in Southern England, for consideration of approximately £10.6 million, comprising £8.4 million in cash and assumption of approximately £2.2 million of intergroup receivables. The sale resulted in a profit of £1.8 million and a net cash inflow after transaction costs of £8.2 million, including £0.5 million received in 2000.

## 27 Analysis and reconciliation of net funds

|                                        | As at 31<br>December 1999<br>£000's | Cash flow<br>£000's | Exchange<br>Movement<br>£000's | As at 31<br>December 2000<br>£000's |
|----------------------------------------|-------------------------------------|---------------------|--------------------------------|-------------------------------------|
| Cash at bank and in hand               | 8,152                               | 6,661               | 982                            | 15,795                              |
| Current asset investments              | 20,639                              | 884                 | 729                            | 22,252                              |
| Bank loan due after more than one year | (1,551)                             | (3,338)             | (132)                          | (5,021)                             |
| Net funds                              | 27,240                              | 4,207               | 1,579                          | 33,026                              |

Current asset investments are term deposits.

## 28 Capital commitments

At 31 December 2000 the Group had exploration licence commitments not accrued of approximately £16 million (1999 - £4 million).

## 29 Related party transactions

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

|                                                     | Year to<br>31 Dec 2000<br>£000's | Year to<br>31 Dec 1999<br>£000's | (Restated) <sup>2</sup><br>Year to<br>31 Dec 1998<br>£000's | (Restated) <sup>2</sup><br>Incorporation to<br>31 Dec 1997 <sup>1</sup><br>£000's |
|-----------------------------------------------------|----------------------------------|----------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------------------------|
| <b>Consolidated profit and loss account</b>         |                                  |                                  |                                                             |                                                                                   |
| Turnover – continuing operations                    | 45,852                           | 19,800                           | 10,648                                                      | 4,421                                                                             |
| Turnover – discontinued operations                  | –                                | 4,002                            | 4,871                                                       | 4,053                                                                             |
| Operating profit (loss) – continuing operations     | 22,049                           | 5,680                            | (765)                                                       | 484                                                                               |
| Operating profit (loss) – discontinued operations   | –                                | (64)                             | (1,025)                                                     | 642                                                                               |
| Profit (loss) on ordinary activities after taxation | 17,565                           | 7,414                            | (836)                                                       | 2,556                                                                             |

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

|                                   | Year to<br>31 Dec 2000<br>£000's | Year to<br>31 Dec 1999<br>£000's | Year to<br>31 Dec 1998<br>£000's | Incorporation to<br>31 Dec 1997<br>£000's |
|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|-------------------------------------------|
| <b>Consolidated cashflow</b>      |                                  |                                  |                                  |                                           |
| Net cash inflow from operations   | 30,902                           | 9,175                            | 4,088                            | 3,062                                     |
| <b>Other information</b>          |                                  |                                  |                                  |                                           |
| Earnings (loss) per share         | 25.6p                            | 12.5p                            | (1.7)p                           | 5.5p                                      |
| Diluted earnings (loss) per share | 24.3p                            | 12.4p                            | (1.7)p                           | 5.4p                                      |

<sup>1</sup> 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.

<sup>2</sup> 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.



### Net proven oil reserves

|                                        | Total       | Russia      | Mongolia   | Thailand   | Tunisia    | Yemen      |
|----------------------------------------|-------------|-------------|------------|------------|------------|------------|
| <b>Reserves as at 31 December 1999</b> | <b>34.1</b> | <b>27.1</b> | <b>0.6</b> | <b>2.5</b> | <b>0.8</b> | <b>3.1</b> |
| <b>Changes in the year</b>             |             |             |            |            |            |            |
| Revision to previous estimates         | 1.9         | (0.4)       | -          | -          | 0.3        | 2.0        |
| Purchase of reserves                   | -           | -           | -          | -          | -          | -          |
| Sale of reserves                       | -           | -           | -          | -          | -          | -          |
| Production                             | (2.7)       | (1.0)       | -          | -          | (0.5)      | (1.2)      |
| <b>Reserves as at 31 December 2000</b> | <b>33.3</b> | <b>25.7</b> | <b>0.6</b> | <b>2.5</b> | <b>0.6</b> | <b>3.9</b> |

### Net proven and probable oil reserves

|                                        | Total       | Russia      | Mongolia    | Thailand   | Tunisia    | Yemen      |
|----------------------------------------|-------------|-------------|-------------|------------|------------|------------|
| <b>Reserves as at 31 December 1999</b> | <b>87.1</b> | <b>54.1</b> | <b>16.8</b> | <b>9.2</b> | <b>2.1</b> | <b>4.9</b> |
| <b>Changes in the year</b>             |             |             |             |            |            |            |
| Revision to previous estimates         | (2.2)       | (3.3)       | -           | -          | 0.3        | 0.8        |
| Purchase of reserves                   | -           | -           | -           | -          | -          | -          |
| Sale of reserves                       | -           | -           | -           | -          | -          | -          |
| Production                             | (2.7)       | (1.0)       | -           | -          | (0.5)      | (1.2)      |
| <b>Reserves as at 31 December 2000</b> | <b>82.2</b> | <b>49.8</b> | <b>16.8</b> | <b>9.2</b> | <b>1.9</b> | <b>4.5</b> |

### Net proven and probable oil reserves yearly comparison

|                                   | 2000        | 1999        | 1998        | 1997        |
|-----------------------------------|-------------|-------------|-------------|-------------|
| <b>Reserves as at 1 January</b>   | <b>87.1</b> | <b>91.6</b> | <b>81.8</b> | <b>84.9</b> |
| <b>Changes in the year</b>        |             |             |             |             |
| Revision to previous estimates    | (2.2)       | 0.4         | 1.4         | (1.8)       |
| Purchase of reserves              | -           | 0.8         | 10.8        | -           |
| Sale of reserves                  | -           | (3.3)       | -           | -           |
| Production                        | (2.7)       | (2.4)       | (2.4)       | (1.3)       |
| <b>Reserves as at 31 December</b> | <b>82.2</b> | <b>87.1</b> | <b>91.6</b> | <b>81.8</b> |

Note: mmbbls denotes millions of barrels

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Cynthia B Cagle

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**Financial calendar**

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

**Designed and produced by:**

GA Design (UK) Ltd

**Printed by:**

Wace

