

# Annual Report and Accounts 2010

**SOCO**  
plc  
INTERNATIONAL



# WE ARE AN INTERNATIONAL OIL AND GAS EXPLORATION AND PRODUCTION COMPANY, LISTED ON THE LONDON STOCK EXCHANGE, EMPLOYING A STRATEGY FOR BUILDING SHAREHOLDER VALUE THROUGH A PORTFOLIO OF OIL AND GAS ASSETS.

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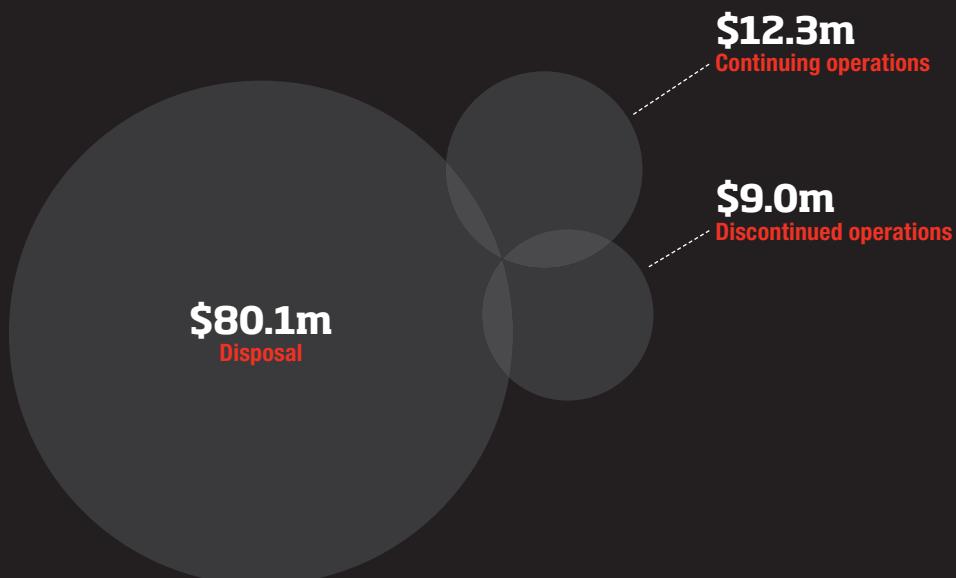
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## At a glance

## FINANCIAL HIGHLIGHTS

Components of Profit After Tax  
\$ millions



\$ millions	2010	2009	2008
Profit For The Year	<b>101.4</b>	51.1	411.1
Net Cash From Operating Activities	<b>36.7</b>	77.0	45.1
Cash, Cash Equivalents and Liquid Investments	<b>260.4</b>	307.6	303.4
Net Assets	<b>1,013.2</b>	763.3	710.4

## AROUND THE WORLD

### London

Corporate headquarters

#### Functions

- Strategic direction
- Operational support
- Financial management
- Public & investor relations



### Africa

#### Highlights

- SOCO became the first company in more than 40 years to drill onshore the Democratic Republic of Congo.
- Preparations under way for further exploration drilling on our Africa licences.
- Seismic acquisition programme resumed in Angola.

### South East Asia

#### Highlights

- Drilling offshore Vietnam helped contribute to the most active drilling programme in SOCO's history.
- Development wells drilled in the Te Giac Trang field, Block 16-1, offshore Vietnam, on target for first oil production in mid-2011.
- Completed disposal of the Thailand asset.

# OUR OPERATIONS

## Vietnam

### Block: 9-2<sup>1</sup>

**Location:**  
Cuu Long Basin, offshore south east Vietnam

**Operational phase:**  
Field development/production

**SOCO interest:**  
SOCO Vietnam (25%)

**Project partners:**  
Petrovietnam (50%),  
PTTEP (25%)

### Block: 16-1<sup>2</sup>

**Location:**  
Cuu Long Basin, offshore south east Vietnam

**Operational phase:**  
Appraisal/field development

**SOCO interest:**  
SOCO Vietnam (28.5%),  
OPECO Vietnam (2%)

**Project partners:**  
Petrovietnam (41%),  
PTTEP (28.5%)

## DR Congo (Kinshasa)

### Block: Nganzi

**Location:**  
North Congo Basin, onshore western DRC

**Operational phase:**  
Exploration

**SOCO interest:**  
SOCO E&P DRC (65% – Operator)

**Project partners:**  
INPEX (20%), Cohydro (15%)

### Block: V

**Location:**  
Albertine Graben, onshore eastern DRC

**Operational phase:**  
Block evaluation

**SOCO interest:**  
SOCO E&P DRC (38.25% – Operator)

**Project partners:**  
Dominion Petroleum (46.75%), Cohydro (15%)

## Congo (Brazzaville)

### Block: Marine XI

**Location:**  
North Congo Basin, offshore Congo (Brazzaville)

**Operational phase:**  
Exploration/appraisal

**SOCO interest:**  
SOCO EPC (29% – Operator)

**Project partners:**  
Lundin Petroleum (18.75%),  
Raffia Oil (18.75%),  
SNPC (15%), AOGC (10%),  
Petrovietnam (8.5%)

### Block: Marine XIV

**Location:**  
North Congo Basin, offshore Congo (Brazzaville)

**Operational phase:**  
Exploration

**SOCO interest:**  
SOCO EPC (29.4% – Operator)

**Project partners:**  
Lundin Petroleum (21.55%),  
Raffia Oil (21.55%), SNPC (15%),  
PA Resources Congo (12.5%)

## Angola

### Block: Cabinda Onshore North

**Location:**  
North Congo Basin, onshore western Cabinda

**SOCO interest:**  
SOCO Cabinda (17%)

**Operational phase:**  
Block evaluation/exploration

**Project partners:**  
Sonangol P&P (20% – Operator),  
China Sonangol (11%), Petropars (10%), Teikoku Oil (17%), Angola Consulting Resources (10%),  
ENI Angola (15%)

## Thailand

### Block: B8/38

**Location:**  
Western Basin, offshore Thailand

**Status:**  
Sold

**Operational phase:**  
Field development/production

1. Operated by the Hoan Vu Joint Operating Company  
2. Operated by the Hoang Long Joint Operating Company

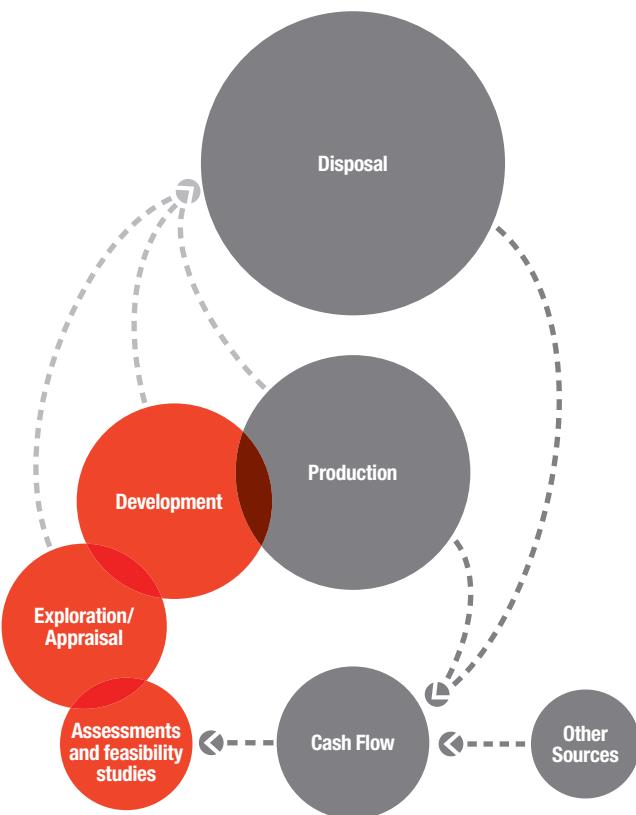
## OUR STRATEGY

### HOW EXPLORATION SUCCESS CREATES THE OPPORTUNITY FOR EXPONENTIAL GROWTH

**Reinvestment from cash inflows generated by operations and disposals creates more opportunities for exploration**

**Key**

- Expenditure
- Income
- Potential to realise value
- Cash flow



**SOCO has three core strategic objectives:**

#### **Recognising Opportunity**

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

#### **Capturing Potential**

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

#### **Realising Value**

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

Development and production operations in the Cuu Long Basin, offshore Vietnam, where SOCO holds two licences.

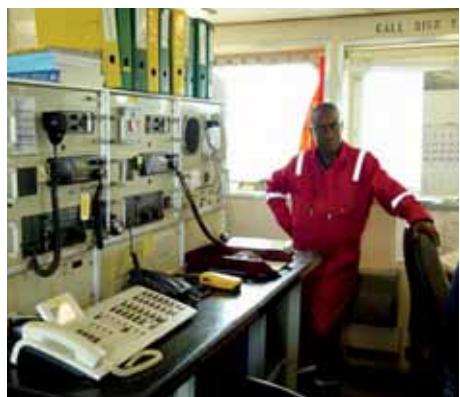


## Exploration-led growth in action

As assessment throughout a project's life cycle shows positive results, we begin the process of realising potential value from our projects. Assets can be sold at an appropriate time to realise value during exploration, development or production phases, generating cash inflow. This in turn funds further appraisal and feasibility projects, thus fuelling the growth of our business.



Exploration offshore Congo (Brazzaville) where further drilling is planned for 2011.



Production operations from the offshore TGT field are expected to begin during 2011.

## CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

### BY MAINTAINING A DIVERSE PORTFOLIO OF OPPORTUNITIES, WE HAVE POSITIONED OURSELVES WELL FOR GROWTH IN 2011



Right: Rui de Sousa, Chairman  
Left: Ed Story, President and Chief Executive Officer

#### Dear Shareholders

2010 was a year that clearly illustrated the importance of effective risk management in any exploration-led business model. Despite the fact that we had historically enjoyed an exploration success ratio upwards of 50% and despite the fact that we had a drilling programme focused on what appeared to be a very low risk appraisal well in the Te Giac Den (TGD) area in Vietnam and exploration targets in a highly coveted new basin onshore in the Democratic Republic of Congo (Kinshasa), we did not add new reserves during the year. However, the actual underlying value of the portfolio continued to be strengthened. We continued to position for a robust future: consolidating a strong financial position, progressing a major construction project towards first oil and ensuring the continuation of an active, high potential exploration campaign.

#### Financial and Operating Results

After tax profit for the year, \$101.4 million, almost doubled that of 2009 (\$51.1 million) largely on the back of the disposal of the Group's Thailand asset (gain of \$80.1 million). However, resultant after tax profit from continuing operations, the Ca Ngu Vang field (CNV) offshore Vietnam fell to \$12.3 million (2009 – \$34.8 million) primarily due to the fact that entitlement barrels associated with the Group's cost carry of Petrovietnam on the 9-2 Block had been fully recouped by the end of 2009. Production was also reduced due to being offline as the result of a pipeline inspection gauge becoming stuck in the production

line connecting the CNV platform to the Bach Ho platform and for a brief, planned shut-in during the third quarter for pressure surveying.

Total production net to the Company's working interest averaged 2,257 barrels of oil equivalent per day (BOEPD) from continuing operations, down from 2,848 BOEPD in 2009. Up to the September date of sale, production from Bualuang (Thailand) in 2010 averaged 3,331 barrels of oil per day (BOPD) net to SOCO's working interest (2009 – 3,567 BOPD).

Total cash flows from operations were \$36.7 million (2009 – \$77.0 million). Exploration activity in South East Asia and Africa and the Te Giac Trang (TGT) development in Vietnam more than doubled the total capital spend from \$73.9 million in 2009 to \$151.9 million in 2010. A May repayment of convertible bonds in the amount of \$165.9 million was offset by the proceeds of a January share placing of \$163.7 million. The Group's year end 2010 cash, cash equivalent and liquid investments position remained robust at \$260.4 million.

Due to the continuing need to finance current and future exploration, appraisal and development projects, the Board of Directors are not recommending the payment of a dividend.

#### 2010 Operations Review

##### South East Asia

###### Vietnam – Block 16-1

The Group's largest development project in its history is scheduled to come onstream in the third quarter of 2011 with peak production from this first phase of development expected to be approximately 55,000 BOPD. During 2010, following the successful installation of the platform jacket in the northern area of the field, three development wells were drilled and four were in progress over year end. Although all of the development wells are important in that they add valuable data for the interpretation of field characteristics such as continuity of oil column, the TGT-2P well was particularly important as it extended the previously defined eastward limits of the field. All development wells will be suspended to become producing wells upon start-up of production.

 Related sections and more information

- Our outlook for the coming year
- Find out more about our operations
- Meet our Board of Directors
- Read our Annual Report of the Directors

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## The Group's largest development project in its history is scheduled to come onstream in 2011

The four wells in progress over year end were completed in the first quarter of 2011. All wells to date have come in at or better than pre-drill prognosis adding to the confidence in field resources. An eighth development well was commenced at the end of February 2011 and will be completed prior to the drilling rig being removed from the platform jacket to accommodate installation of the topsides prior to hooking up the wells and initiating production.

The TGD-2X well, our third well bore penetration on the TGD appraisal area, encountered significant hydrocarbons confirming the structure has significant amounts of oil in place. However, uncertainty remains over whether it can be commercially exploited as subsequent testing revealed that the gas content, encountered by the earlier TGD-1X and TGD-1X-ST1 wells on the crest of the structure, was lacking on the oil leg encountered by the TGD-2X well on the flank, and thus the reservoir energy was insufficient to generate acceptable commercial flow rates. Although the initial application for an extension of the appraisal licence was not supported by the Ministry of Trade and Industry, we believe the scale of potential opportunity merits continued evaluation and consequently the Joint Operating Company (JOC) has reapplied to extend the exploration licence beyond its December 2010 expiry.

### Vietnam – Block 9-2

Production on the CNV field was suspended during the first month of the year due to a pipeline inspection gauge becoming stuck in the production line that connects the CNV platform to the Bach Ho production platform, but resumed

in February 2010. In April 2010, Phase II of the CNV Development Drilling Programme began with the drilling of the CNV-6P-ST1 well. This well was converted to a water injector well to provide early water flooding, which would enable plateau production to be reached and avoid gas breakthrough. Indications are that the reservoir has reacted well to the pressure maintenance. Production in 2010 from the CNV field averaged 2,257 BOEPD (2009 – 2,848 BOEPD) net to SOCO's working interest.

From the results of the first Phase II CNV development well, SOCO's technical team believe that further development drilling is required to fully exploit the field resources. The Hoan Vu JOC, operator of the field, is expected to hold technical meetings during 2011 to consider further drilling on CNV.

### Africa

#### Republic of Congo (Brazzaville)

From analysis following the results from the 2009 appraisal drilling on the Viodo field on Marine XI, it was determined that the field should qualify for marginal field designation from the Government. An application has been submitted and the partners are awaiting the determination before deciding how to proceed with the development of the field.

After receiving an extension of the production sharing agreements for both Blocks Marine XI and Marine XIV, partners plan to drill an exploration well on each during the third quarter of 2011. A rig contract was signed in the first quarter of 2011.

### Non-Financial Key Performance Indicators (Continuing and Discontinued Operations)

	2010	2009	2008
Production (BOEPD)	4,648	6,415	4,464
Total proven and probable reserve additions (mmboe)	–	3.4	25.0
Proven and probable reserves (mmboe)	132.6	142.5	144.1

See the Five Year Summary on page 92 for definitions

## Nganzi Block, DRC: ➔

Drilling operations on  
the Nganga Prospect in  
the Bas-Congo region  
of western DRC.



## Overview

# CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT CONTINUED

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**2010 clearly illustrated the importance of effective risk management in any exploration-led business model**

### Democratic Republic of Congo (Kinshasa) (DRC)

In July 2010, SOCO Exploration & Production DRC (SOCO E&P DRC) Sprl became the first company in over 40 years to drill onshore in the DRC and the first on the Nganzi Block. SOCO E&P DRC, in partnership with farminee INPEX CORPORATION, drilled three exploration wells all of which encountered oil and gas shows, reservoir sands and source rocks. Although these did not result in a commercial discovery, the information gathered will allow us to refine our interpretation and better understand the prospectivity of this high potential Block.

In June 2010, the Production Sharing Agreement for Block V in eastern DRC received the Presidential Decree, the final step in the award of the block concession. SOCO has a 38.25% working interest and is the designated operator. There is an initial five year exploration period on Block V. The environmental assessment report was submitted to the government in March 2011 and is awaiting an official response.

### Angola

A seismic acquisition programme that began in late 2009 on the onshore Cabinda North Block was suspended in January 2010 by the operator due to multiple security incidents in the region. The acquisition programme recommenced in May 2010 and is expected to continue into the third quarter of 2011. No drilling is anticipated in Cabinda during 2011.

### Corporate Shares

In January 2010, the Company successfully placed 28,937,388 new ordinary shares at a price of £3.525 (stated post share subdivision, see below) to raise gross proceeds of £102.0 million (\$166.0 million). The proceeds of the placing further bolstered the Group's balance sheet ahead of a period of significant expenditure on the TGT development, a partial put option exercise by convertible bondholders in May 2010 and exploration in Africa. Further details can be found in the Financial Review on pages 20 to 25 and in Note 25 to the financial statements.

In June, the Company's share capital was subdivided on a four for one basis, wherein every existing ordinary share of £0.20 each was subdivided into four ordinary shares of £0.05 each. Accordingly, this subdivision was reflected in the share price, which closed at £16.10 on 9 June 2010 and £3.98 on 10 June 2010.

### Bond Redemption

During 2010 the Group eliminated uncertainty over its convertible bonds when 66% of bond holders exercised the one time put option in May. The remaining bonds mature in May 2013. See the Financial Review on pages 20 to 25 and Note 23 to the financial statements for further details.

### The Board

Mr Peter Kingston and Mr Martin Roberts have officially notified the Board that they will retire at the upcoming Annual General Meeting from their roles as Non-Executive Directors. Peter, who was appointed in 1997, was instrumental in the formation and listing of SOCO, initially as the Non-Executive Chairman and subsequently as the Non-Executive Deputy Chairman and Senior Independent Director. Martin joined the Board as a Non-Executive Director in 2004. Both have been valuable contributors to the Board and its Committees. Further details can be found in the Annual Report of the Directors on pages 42 to 45 and in the Corporate Governance Report on pages 46 to 53.

### Outlook

In 2011 we look forward to commencing the first phase of production operations from the Group's TGT field offshore Vietnam, where the Phase I production plateau is anticipated at 55,000 BOPD. In Africa we will continue our exploration activity with further evaluation of drilling results from the onshore Nganzi wells drilled in 2010 and early 2011 and further drilling on our blocks offshore Congo (Brazzaville). Exploration activity is also expected to commence on our new licence in eastern DRC.

Our business model is about progressive sustainability as we aim to refresh our asset portfolio by replacing disposals with potentially high impact new projects. By its very nature exploration is a high risk and long term endeavour but with potentially high rewards. The key is having a portfolio of opportunities across the risk spectrum and mitigating the downside via various risk mitigation techniques.

The initiation of production at TGT this year assures us that the Company will have the capacity for an abundance of attractive opportunities to create significant value for shareholders.



**Rui de Sousa**  
Chairman



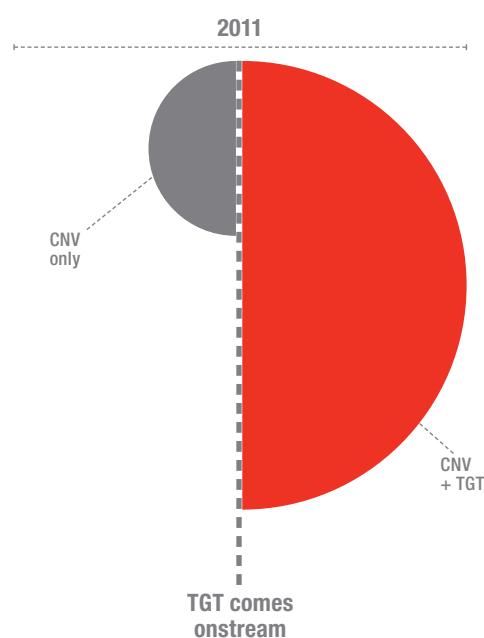
**Ed Story**  
President and Chief Executive Officer

## **OUTLOOK**

### **WE EXPECT A SIGNIFICANT CHANGE IN OUR CASH FLOW OVER THE COMING YEAR**

**Our TGT field in Vietnam will  
come onstream in mid 2011**

**Key**  
● Current  
● Projected



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We are on schedule for First Oil from the TGT field in Vietnam having undertaken the largest development project in the Company's history. At the same time we have shown our ability to conduct and fund extensive exploration opportunities.

In a matter of a few months, the dramatic financial impact of our previous investments in Vietnam will be clearly visible. Moreover, we envision other opportunities to enter into additional high impact exploration efforts in the region.

**Ed Story**  
President and Chief Executive Officer

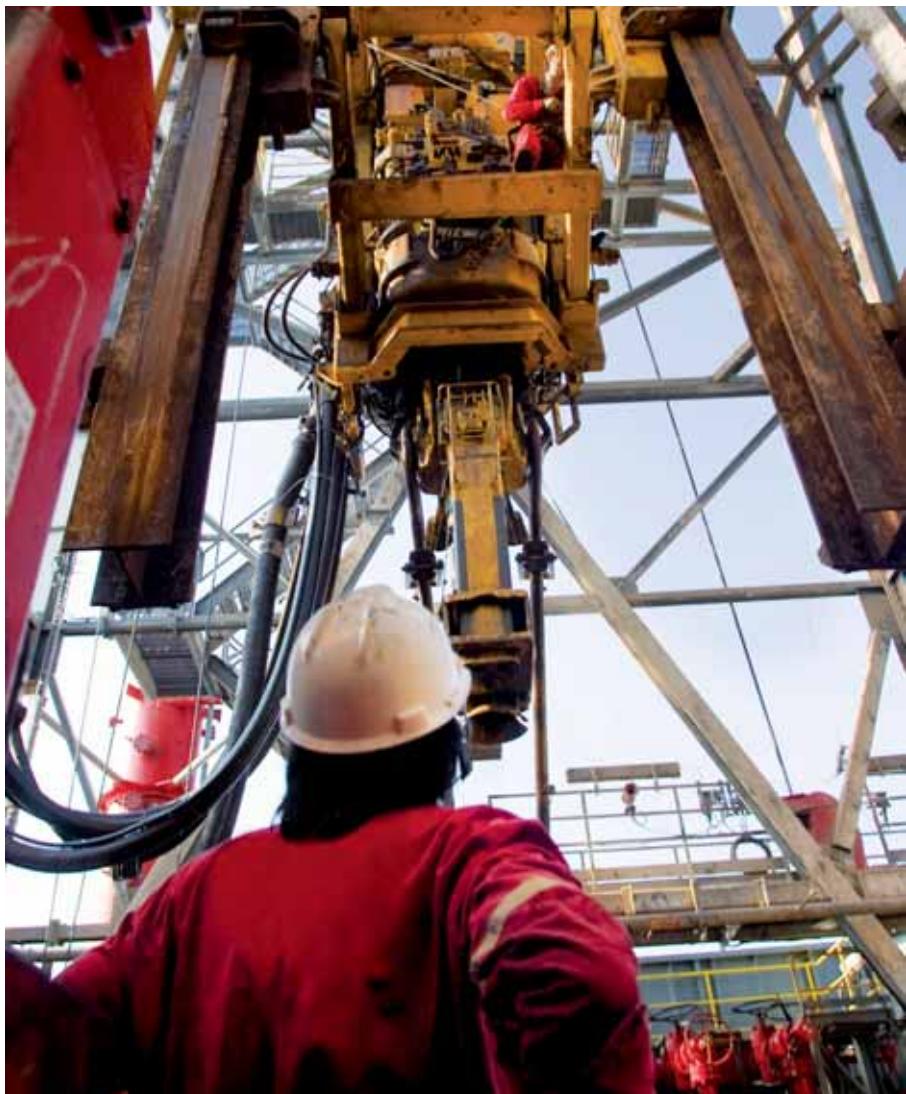
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### ► Vietnam drilling operations:

Activity in our Vietnam operations intensifies as the TGT field moves closer to production this year.

## Development brings a bright future

The Group's largest development project in its history is scheduled to come onstream in the third quarter of 2011. Phase I production is expected to be around 55,000 BOPD and marks a significant milestone in our development. Revenue from the project will fund further opportunities, securing SOCO's future over the long term.



### ► Vietnam drilling operations:

Plans to begin production in the TGT field follow a major development project by SOCO and partners.



### ► Vietnam drilling operations:

Preliminary petrophysical analysis of four wells, TGT-4 to TGT-7, indicates that the wells have confirmed the reservoir model.

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# BUSINESS REVIEW

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**Review of  
Operations**

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**Corporate  
Responsibility**

In January 2010, the Company successfully placed 28,937,388 new ordinary shares at a price of £3.525 to raise gross proceeds of £102.0 million (\$166.0 million). The proceeds of the placing further bolstered the Group's balance sheet ahead of a period of significant expenditure on the TGT development, a partial put option exercise by convertible bondholders in May 2010 and exploration in Africa.



Further details can be found in the  
Financial Review on pages 20 to 25



## REVIEW OF OPERATIONS

### A CLOSER LOOK AT OUR ACTIVITIES IN SOUTH EAST ASIA AND AFRICA



**Antony Maris**  
Vice President –  
Operations and Production

The Company continued on schedule, achieving fabrication and installation targets, to bring the largest development project in its history on stream mid-year of 2011. SOCO also continued the most active drilling programme in its history throughout 2010 with development and appraisal drilling in Vietnam and exploration drilling in the Democratic Republic of Congo (Kinshasa) (DRC).

Development drilling on the Te Giac Trang (TGT) field offshore Vietnam progressed the project towards first oil which remains targeted for August 2011. Gross production from this first phase of development is expected to be approximately 55,000 barrels of oil per day (BOPD). All seven of the development wells drilled to date have come in on or better than pre-drill prognosis.

Although the initial drilling programme onshore in the DRC did not result in any commercial discoveries, drilling results did provide significant encouragement. Oil and gas shows, reservoir sands and source rocks were encountered by the inaugural wells in the first onshore drilling campaign to be carried out in the DRC in over 40 years. The information gathered allows us to refine our interpretation and better understand the prospectivity of the high potential Nganzi Block.

Total production net to the Group's working interest during 2010 was 4,648 barrels of oil equivalent per day (BOEPD) sourced from its Vietnam and Thailand operations (up until the date of sale) compared with 6,415 BOEPD produced from these same assets in 2009.

 Related sections and more information

- Highlights of our 2010 operations p02
- Our Non-Financial Key Performance Indicators p07
- Our outlook for the coming year p10
- How we identify and mitigate risks p26

### South East Asia

#### Vietnam

SOCO's Block 16-1 and Block 9-2 projects in Vietnam are located offshore in the oil rich Cuu Long Basin, which is a shallow water, near shore area defined by several high profile producing oil fields, the largest of which, Bach Ho, is located between the two Blocks and has produced more than one billion barrels of oil to date. The projects are operated through non-profit Joint Operating Companies (JOCs) wherein each participating party owns shares equivalent to its respective interests in the Petroleum Contracts governing the projects.

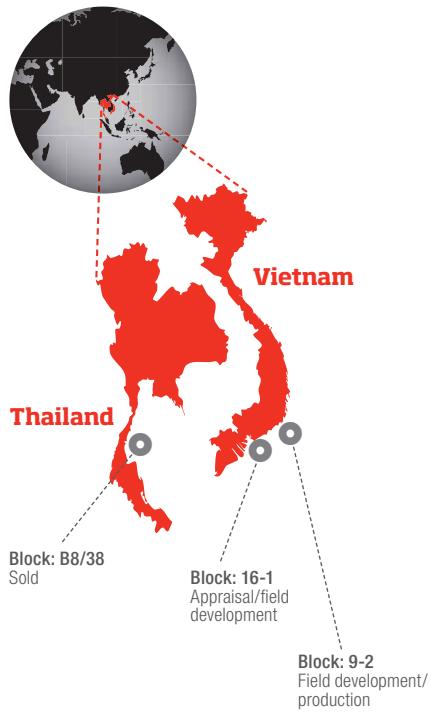
The Group's interests are held through its 80% owned subsidiary SOCO Vietnam Ltd and through its 100% ownership of OPECO, Inc. SOCO Vietnam Ltd holds a 25% working interest in Block 9-2, which is operated by the Hoan Vu JOC (HVJOC) and a 28.5% working interest in Block 16-1, which is operated by the Hoang Long JOC (HLJOC). OPECO, Inc. holds a 2% working interest in Block 16-1. SOCO's partners on both Blocks are Petrovietnam, the national oil company of Vietnam, and PTTEP, the national oil company of Thailand.

#### Development

##### Te Giac Trang (TGT) Field, Block 16-1

The TGT field extends over 15 kilometres along the north-eastern part of Block 16-1, west of Block 9-2, offshore Vietnam. First oil is targeted for mid-2011 with production from this first phase of development expected to be approximately 55,000 BOPD.

Following the successful installation of the platform jacket in the northern area of the field the first two development wells on the TGT development were completed in October. Preliminary log analysis of the first well, the TGT-H1-1P, drilled to essentially twin one of the original discovery wells, indicated that the well encountered the top of the target reservoir horizon on prognosis. The second well, the TGT-H1-2P, encountered the reservoir section approximately 10 metres higher in the section than the pre-drill prognosis which strongly supports the favourable structural reservoir analysis following the reprocessed pre-stack depth migrated seismic that the TGT field extends to the east.



The third development well, the TGT-H1-3P drilled to the north west of the field, was completed in December 2010. Preliminary log analysis indicated that the well encountered the top of the target reservoir horizon as expected, based on the reprocessed pre-stack depth migrated seismic.

Four further development wells were "batch" drilled. The initial interpretation of the results of these wells has supported the use of the pre-stack depth migrated seismic interpretation. The petrophysical analysis has also enabled refinement to the geologic model and the distribution of porosity and oil saturation across the northern area of the field. This work will enable better well placement for improving recovery once the field starts production. An eighth development well was commenced at the end of February 2011. All development wells will be suspended to become producing wells upon start-up of production in 2011.

Production from the TGT field will be delivered into a Floating Production Storage and Offloading unit (FPSO). Work on the conversion of the FPSO by BAB-VSP, a joint venture between BAB Armada and Vietsovpetro, has commenced at Keppel's shipyard in Singapore. During the year, all the necessary preparation work was completed and the installation of the production process modules commenced. The work on the vessel remains on target for a sail-away date from the yard in July 2011 to meet the production start-up target.

### Appraisal

#### Te Giac Den (TGD) Appraisal Area, Block 16-1

The TGD Appraisal Area encompasses 150 square kilometres and includes the high pressure, high temperature discovery well, TGD-1X-ST1, on Prospect "E" and the analogous "E" South Prospect. This area borders the southern boundary of the TGT Field.

In June 2010, drilling operations began on the TGD-2X appraisal well, targeting reserves in the supravolcanics interval that had been briefly tested by the TGD-1X-ST1 discovery well in 2008. Drilled on a sole risk basis, the appraisal well was drilled to demonstrate commerciality of the initial discovery.

The appraisal well reached a Total Depth of 4,669 metres at the end of August 2010 after penetrating the target hydrocarbon zone in the Oligocene "E" formation. The well encountered significant hydrocarbons in a clastics reservoir sequence at approximately 4,550 metres. Measured Depth and produced both black oil and gas. Subsequent testing, however, revealed that the gas content that had been encountered by the earlier TGD-1X and TGD-1X-ST1 wells on the crest of the structure was lacking on the oil leg encountered by the TGD-2X well on the flank, and thus the reservoir energy was insufficient to generate acceptable commercial flow rates. The well was plugged and abandoned.



### Poised for growth

**Vietnam Gross Production**  
2010 Average, BOEPD

**9,000**

**Vietnam Gross Production**  
2011 Year End Potential, BOEPD

**65,000**



## Te Giac Trang (TGT):

Construction is under way for Vietnam's offshore TGT production facilities.



## REVIEW OF OPERATIONS CONTINUED



▲ **Gordon Graham**  
Group Exploration Manager

To allow an appropriate evaluation of the TGD drilling results to date and an opportunity to acquire further seismic over the appraisal area, the HLJOC has applied to extend the exploration licence beyond its December 2010 expiry. Whilst the Company has been informed that the Ministry of Trade and Industry in Vietnam was not supportive of the initial application, the HLJOC is continuing to pursue the extension with the case that the HLJOC's level of geological knowledge of the appraisal effort offers the most expedient route to unlocking this vast potential resource and thus, provides the most immediate benefit to Vietnam.

### Production

#### Ca Ngu Vang (CNV) Field, Block 9-2

The CNV field is located in the western part of Block 9-2, offshore Vietnam. First oil commenced in 2008 and the field is currently producing at approximately 11,250 BOEPD, comprising approximately 7,825 BOPD and 20 million standard cubic feet of gas and gas liquids per day.

Production resumed in early February 2010 after a two month suspension due to a pipeline inspection gauge becoming stuck in the production line that connects the CNV platform to the Bach Ho CPP-3 production platform.

In April 2010, Phase II of the CNV Development Drilling Programme began with the drilling of the CNV-6P-ST1 well, a side-track of the CNV-6P well and targeting the western side of the field. This well was converted to a water injector well to provide early water flooding, which would enable plateau production to be reached and avoid gas breakthrough. Indications are that the reservoir has reacted well to the pressure maintenance.

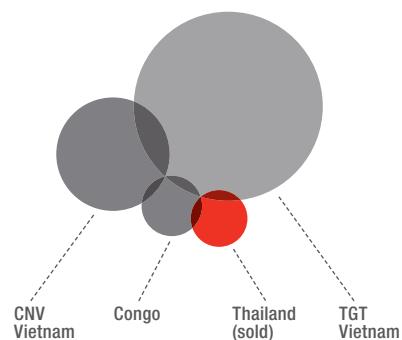
The field had a brief, planned shut-in during the third quarter for reservoir pressure surveying. Based on the survey, the consortium is considering drilling an additional producing well, which would eventually be converted to a water injector. The well is tentatively scheduled to be drilled in the second half of 2011.

### Thailand

#### Bualuang Field

In September 2010, the Company completed the disposal of its wholly owned subsidiary SOCO Thailand LLC, the entity that held the Group's 40% interest in the Bualuang field located in Block B8/38, offshore in the Gulf of Thailand for gross proceeds of \$105 million. Details of this transaction can be found in the Financial Review section of this report.

### Proved and Probable Reserves



**“**  
**SOCO continued the most active drilling programme in its history throughout 2010**

## REVIEW OF OPERATIONS

### CONTINUED



**Serge Lescaut**  
General Manager,  
Africa Region

“

**In July 2010, SOCO agreed to farm out a 20% interest in the Nganzi Block**

### Africa

#### Congo (Brazzaville)

SOCO holds a 29% interest in the Marine XI Block and a 29.4% interest in the Marine XIV Block. Marine XI is located adjacent to the coast in the Lower Congo Basin, offshore Congo (Brazzaville), in shallow waters with depths ranging up to 110 metres and covering approximately 1,400 square kilometres. Marine XIV is located also in shallow waters adjacent to Marine XI.

#### Appraisal Analysis

##### Viodo Field, Marine XI

From analysis following the results from the 2009 appraisal drilling on the Viodo field on Marine XI, it was determined that the field should qualify for marginal field designation from the Government. An application has been submitted and the partners are awaiting the determination before deciding how to proceed with the development of the field.

After receiving an extension of the Production Sharing Agreement (PSA) for the Block, a contract was agreed with Pride International to drill an exploration well on the Block during the third quarter of 2011.

#### Marine XIV

During 2010, the partners reprocessed the seismic data from the 100 kilometre multi-azimuthal 3D seismic programme completed over Marine XIV the previous year. An application was made and official notice received from the Oil Minister of a one year extension of Phase I of the PSA for this Block. An exploration well is planned for the third quarter of 2011.

#### Democratic Republic Of Congo (Kinshasa) (DRC)

SOCO holds its interests in DRC, all onshore, through its 85% owned subsidiary, SOCO Exploration & Production DRC Sprl (SOCO E&P DRC).

#### Farm-Out Agreement

In July 2010, SOCO E&P DRC entered into a farm-out agreement wherein it agreed to farm-out a 20% interest in the Nganzi Block to INPEX CORPORATION (INPEX). INPEX is a current oil producer in another area of the DRC holding a 32.28% interest in various offshore producing fields and facilities and is one of

SOCO's co-venturers in Angola. The remaining 15% interest is held by the national oil company, La Congolaise des Hydrocarbures (Cohydro).

Per the agreement, INPEX funds 40% of the cost, with half of the funding obligation subject to certain caps on cost overruns, associated with a three well exploration drilling programme. Following the initial three well programme, INPEX will fund its participating interest share of costs associated with the Block. In addition, INPEX will fund its participating interest share of the cost recoverable historical costs incurred by SOCO E&P DRC on the Nganzi Block. The assignment of interest was approved by the appropriate regulatory authorities of the Government of the DRC.

#### Exploration

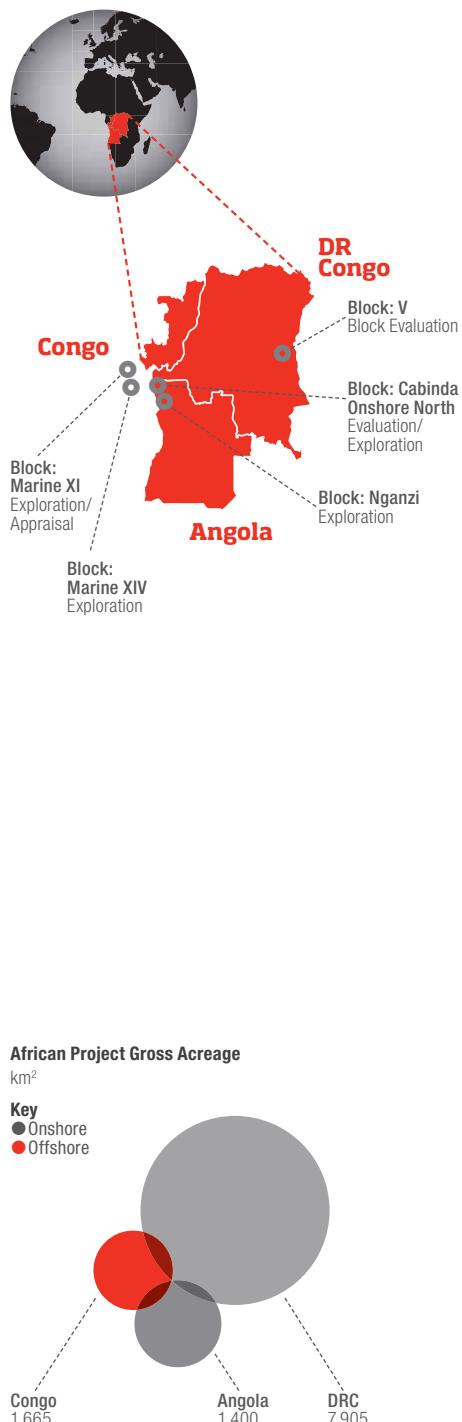
##### Nganzi Block

The Nganzi Block is situated some 50 kilometres from the west coast and is approximately 60 kilometres from an export facility located offshore in DRC waters. Following the farm-out agreement, SOCO E&P DRC holds a 65% working interest in the Block and is the designated operator.

In July 2010, SOCO E&P DRC became the first company in over 40 years to drill onshore the DRC and the first on the Nganzi Block. SOCO E&P DRC drilled three exploration wells all of which encountered oil and gas shows, reservoir sands and source rocks. Although these have not resulted in a commercial discovery to date, the information gathered allows us to refine our interpretation and better understand the prospectivity of this high potential Block.

#### Nganga Prospect, Nganzi Block

The first exploration well on the Nganzi Block was spudded on 15 July 2010 on the Nganga Prospect, previously designated as Prospect "B". The well was drilled to 2,175 metres Measured Depth reaching the Basement as prognosed. The well encountered approximately 500 metres of source rock with significant hydrocarbon shows and approximately 245 metres of good quality porous sand with an average porosity of ca. 17.5% in the primary target. However, petrophysical interpretation of the logs acquired across the reservoir interval indicated that the sands were water bearing. The predicted lateral



seal for the reservoir horizon was not present because of the change in the basin margin adjacent to the well location, which can now be seen to have provided a local sediment entry point for sands. The Nganga-1 well was plugged and abandoned and the rig was moved to the Kinganga Nyanya Prospect, previously designated as Prospect "D".

#### Kinganga Nyanya Prospect, Nganzi Block

The Kinganga Nyanya 1 (KNY-1) exploration well spudded on 1 October 2010 and was drilled to 1,164 metres Measured Depth. The well drilled good source rock shales in the Middle and Lower Bucomazi, interbedded with Lower Bucomazi sands. It also encountered the target Lucula formation sands although these were not hydrocarbon bearing. There were oil shows in the Lower Bucomazi and the Chela formations. Log analysis indicated oil pay in the secondary target Chela formation sands. Although the well bore was not ideally situated to encounter the thickest part of the Chela sands, an abbreviated test was carried out to determine the reservoir characteristic. On test the sands were found to be tight. The data will be incorporated into the area evaluation to determine if there is a possibility of a commercial accumulation of hydrocarbons up-dip of the KNY-1 well.

#### Bayingu Prospect, Nganzi Block

The wildcat exploration well, Bayingu-1 (BYU-1), spudded in December 2010 on the prospect previously designated as Prospect "H", located in the southern portion of the Nganzi Block. The well encountered oil and gas shows in both the primary and secondary reservoir targets.

The reservoir sands at the primary Lower Bucomazi target, however, were poorly developed, whilst the residual nature of the oil shows in the secondary Chela formation indicates lack of closure at this location. The well was plugged and abandoned in January 2011.

#### Block Evaluation

##### Block V

SOCO E&P DRC holds a 38.25% participating interest in and is operator of a PSA for Block V located in the southern Albertine Graben in eastern DRC, adjacent to the border with Uganda where

there have been recent discoveries in the same basin. The Block covers an area of 7,105 square kilometres and includes part of the Virunga National Park, including part of Lake Edward, but specifically excludes any habitat of the Mountain Gorilla.

In June 2010, the PSA for Block V received the Presidential Decree, the final step in the concession award of the Block. The Block V partnership consists of SOCO E&P DRC holding 38.25%, Dominion Petroleum Congo SPRL with 46.75% and Cohydro, the DRC state oil company with 15%. During the initial five year exploration period, the Block V partnership have committed to acquire 300km of seismic data and drill two exploration wells, pending governmental approval to proceed with each phase of activity. If approved, a Phase I seismic study comprising compressed air will be conducted over part of Lake Edward.

As is always the case in the areas where the Company plans operations, a base line environmental impact assessment (EIA) has been carried out. A social impact assessment will be submitted for governmental approval prior to the commencement of activity. A security assessment is additionally under way. The EIA was submitted to the government in March 2011 and is awaiting an official response. No exploration will commence without the permission of the government of DRC.

#### Angola

##### Block Evaluation and Exploration

##### Cabinda Onshore North Block

SOCO Cabinda Limited, the Company's 80% owned subsidiary, holds a 17% participating interest in the Production Sharing Agreement for the Cabinda Onshore North Block in the Angolan enclave of Cabinda. The Block, which is operated by Sonangol, covers 1,400 square kilometres and is bordered in the north by Congo (Brazzaville) and in the south and east by the DRC.

A seismic acquisition programme that began in late 2009 was suspended in January 2010 by the operator due to multiple security incidents in the region. The acquisition programme recommenced in May 2010 and is expected to continue throughout much of this year. No drilling is anticipated in Cabinda during 2011.

## FINANCIAL REVIEW

### WHY OUR STRONG FINANCIAL POSITION MEANS THAT WE CAN CAPITALISE ON THE OPPORTUNITIES AHEAD



**Roger Cagle**  
Executive Vice President,  
Deputy CEO and Chief Financial Officer

Financial results for 2010 had three major non-operating catalysts – a share placing; a put option exercise by a portion of the convertible bondholders and the disposal of one of the Company's producing assets. The Company raised gross proceeds of £102.0 million following a share placing in January 2010 and repaid \$165.9 million to convertible bondholders who exercised put options and redeemed their bonds in May. Later in the year SOCO divested itself of its interest in the production operation in the Bualuang field offshore Thailand, realising a profit on disposal of \$80.1 million. Consequently, income from continuing operations comprise the Group's remaining production asset in South East Asia, its Ca Ngu Vang (CNV) field offshore Vietnam. The net of these events is a further strengthening in the Group's financial position allowing it to fully fund existing exploration and development programmes.

#### Income Statement

##### Continuing Operations

##### Operating Results

Revenue from oil and gas production from the CNV field in Vietnam was \$48.4 million compared with \$69.3 million in 2009. This decrease is mainly because revenue in 2009 included cost recoupment entitlement barrels associated with the Group's cost carry of Petrovietnam on Block 9-2, which had been fully recouped by the end

of 2009. It further reflects the lower production during 2010 – 2,257 barrels of oil equivalent per day (BOEPD) – compared with 2,848 BOEPD in 2009 primarily due to a suspension in production early in the year because a pipeline inspection gauge became stuck in the production line and a brief, planned shut-in during the third quarter for pressure surveying. Lower production was offset by a higher realised average oil price of \$84.32 per barrel of oil sold compared with \$65.59 per barrel realised in 2009 from continuing operations.

Cost of sales on continuing operations in 2010 was \$12.4 million compared with \$10.9 million in 2009. A higher value of production was recorded to inventory in 2010 compared with 2009 with an increase of \$6.0 million relating to a lower credit to cost of sales in respect of inventory, which is recorded at market value, of \$3.8 million compared with \$9.8 million in 2009. A further increase of \$2.1 million relates to higher operating costs largely due to well intervention, maintenance and pipeline inspection costs. Offsetting those increases was a \$1.1 million saving on export duty on oil cargos sold in 2010 domestically. Finally, depreciation, depletion and decommissioning costs (DD&A) were \$5.9 million in 2010 compared with \$11.3 million in 2009, primarily due to reduced production and revenue volumes offset slightly by higher estimated future development and decommissioning costs.

#### Financial Key Performance Indicators

(Continuing and Discontinued Operations)

	2010	2009	2008
Realised oil price per barrel (\$)	<b>75.66</b>	55.70	66.62
Operating cost per barrel (\$)	<b>12.41</b>	9.82	10.30
DD&A per barrel (\$)	<b>6.68</b>	5.44	4.25
Basic earnings per share (cents)	<b>30.9</b>	17.3	143.8
Diluted earnings per share (cents)	<b>28.4</b>	15.4	124.3

See the Five Year Summary on page 92 for definitions

Related sections and more information

- Our strategy for achieving growth
- An overview of our operations
- Audited Financial Statements

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**SOCO divested itself of its interest in the production operation offshore Thailand, realising a profit on disposal of \$80.1 million**

On a per barrel basis, excluding inventory movements, DD&A and sales related duties and royalties, operating costs were approximately \$6.90 per barrel versus approximately \$2.70 per barrel in 2009, consistent with the increase in operating costs described above.

On a per barrel entitlement basis DD&A in 2010 was approximately \$7.15 per barrel, slightly up from approximately \$6.80 per barrel in 2009 due to an increase in future development and decommissioning costs.

The above factors result in an operating profit arising from the Group's continuing production operations for 2010 of \$29.1 million versus \$51.6 million for 2009.

#### Non-Operating Results

Investment income reduced from \$2.6 million in 2009 to \$1.3 million this year mainly due to lower available interest rates.

The decrease in other gains and losses in 2010 to \$0.9 million from \$1.7 million in 2009 was primarily due to a lower gain in 2010 on the change in fair value associated with the subsequent payment amount tied to future oil production from the Group's divested Mongolia interest.

Tax on continuing operations decreased from \$19.9 million in 2009 to \$18.5 million in 2010. The effective tax rate experienced in Vietnam in 2010 approximated the statutory rate of 50% compared with 34% in 2009 as, in 2009, there was a greater proportion of revenue arising from non-taxable income relating to cost recoupment from Petrovietnam.

As a result of the above factors the Group's profit after tax from continuing operations in 2010 was \$12.3 million, down from \$34.8 million in 2009. Basic and diluted earnings per share on continuing operations decreased from 11.8 cents in 2009 to 3.8 cents in 2010 and from 10.6 cents in 2009 to 3.5 cents in 2010, respectively.

#### Discontinued Operations

##### Operating Results

Group oil and gas revenues from discontinued operations in 2010 up to the date of completion

of the sale of the Group's Thailand asset in September were \$64.7 million compared with \$61.7 million in 2009. The increase in revenues was mainly due to a higher realised oil price per barrel of \$70.43 compared with \$50.67 per barrel in 2009, partially offset by lower average production up to the date of completion of 3,331 barrels of oil per day (BOPD) compared with 3,567 BOPD in 2009.

Operating profit on the Thailand asset for the period to completion was \$36.5 million versus \$38.8 million in 2009. On a pro rata basis, the reason for the increase in operating profit was mainly due to higher revenues described above offset by higher operating costs mainly caused by inventory movements and higher royalty charges associated with oil sales. Further, once the asset was classified as held for sale in July, no additional DD&A was charged.

Other gains and losses on discontinued operations mainly relate to foreign exchange gains realised on oil sales proceeds.

#### Profit on Disposal

The gain of \$80.1 million arises from the \$105.0 million cash consideration, transaction costs of \$1.8 million and financial adjustments of \$1.0 million less the carrying amount of the net assets of \$28.5 million net of amounts receivable from Group undertakings of \$6.4 million (see Note 12 to the financial statements).

#### Tax

Tax arising on discontinued operations increased from \$22.5 million in 2009 to \$28.5 million in the period to completion. The effective tax rate experienced in Thailand through to the date of completion in 2010 was 75% reflecting the statutory petroleum income tax rate of 50% and the variable special remuneratory benefit tax, compared with 58% in 2009.

#### Balance Sheet

Intangible assets increased by \$40.8 million in the year predominantly due to the Group's exploration activity in Africa and in particular its initial three well drilling campaign in the Nganzi Block, onshore the Democratic Republic of Congo (DRC) including the infrastructure costs associated with the construction of base camps, roads and bridges.



Nganzi Block, DRC:  
SOCO Exploration and  
Production DRC Sprl safely  
executed a three-well  
onshore drilling programme.

## Business Review

## FINANCIAL REVIEW

### CONTINUED

Property, plant and equipment increased by \$120.2 million mainly associated with the Group's South East Asia segment where capital expenditure included the Te Giac Trang (TGT) development and the appraisal well on the Te Giac Den prospect, both considered to be part of the same cash generating unit in Block 16-1, Vietnam. Additionally, a water injector well was drilled on the CNV field in Vietnam and three existing slant production wells were side-tracked and converted to horizontal production wells on the Bualuang field in Thailand prior to completion of its disposal. These capital additions were partially offset by DD&A charges in the year.

The year end inventory balance decreased from \$23.8 million in 2009 to \$16.4 million in 2010 due to the disposal of the Group's Thailand interest offset by a moderate increase in inventory volumes in Vietnam and a higher year end market valuation. SOCO's cash, cash equivalents and liquid investments decreased by the year end 2010 to \$260.4 million from \$307.6 million at the start of the year as the Group's exploration and development capital expenditure and convertible bond redemption exceeded cash generated from operations, disposals and the share placing.

The Group's trade and other payables increased from \$23.7 million at the end of 2009 to \$45.9 million at 31 December 2010 reflecting the ongoing exploration and development programmes in both Africa and Vietnam. Tax payables reduced from \$10.7 million last year end to \$2.0 million this year end following the disposal of the Group's Thailand interest. In Thailand tax is payable bi-annually, whereas in Vietnam tax is paid on each cargo lifted.

As at 31 December 2010 the Group's only debt was the outstanding convertible bonds with a par value of \$84.1 million. The convertible bonds were issued in 2006 at a par value of \$250.0 million. On 16 May 2010, bonds with a par value of \$165.9 million were redeemed at the option of each bondholder. The unwinding of the discount relating to the redeemed bonds was charged to finance costs in the amount of \$8.1 million and capitalised in relation to qualifying assets in accordance with the Group's accounting policy. The liability component of the bonds has been reclassified as a non-current liability on the

balance sheet as at 31 December 2010 as, if the bonds have not been previously purchased and cancelled, redeemed or converted, the remaining bonds will be redeemed at par value on 16 May 2013 (see Note 23 to the financial statements).

Long term provisions related to the Group's decommissioning obligations in South East Asia have increased from \$10.9 million at the end of 2009 to \$13.1 million despite the disposal of the Thailand interest. This is mainly due to a new provision in respect of the facilities in place at year end 2010 on the TGT field.

#### Cash Flow

The Group's operating cash flow from continuing operations decreased from \$46.5 million in 2009 to \$12.4 million in 2010 mainly due to 2009 revenue including cost recoupment entitlement barrels associated with the Group's cost carry of Petrovietnam on Block 9-2 and lower production in Vietnam as discussed above. Capital expenditures more than doubled from the previous year, up by \$78.0 million from \$73.9 million, most notably due to the development of the TGT field where production is scheduled to commence in the third quarter of 2011. Additionally, the Group's exploration activities in Africa continued during 2010 with three wells spud in DRC. Net proceeds from the disposal of the Group's Thailand interest amounted to \$85.9 million. Financing activities included \$10.5 million cash outflow in respect of cash settlement of certain share awards through the payment of tax liabilities arising on exercise, the repayment of \$165.9 million to convertible bondholders and net proceeds of \$163.7 million on the share placing (see below).

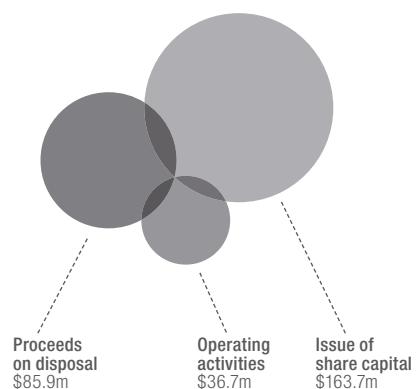
#### Dividend

Due to the continuing need to finance current and future exploration, appraisal and development projects, the Board of Directors are not recommending the payment of a dividend.

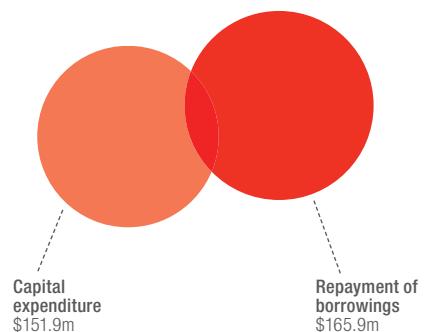
#### Key Performance Indicators

SOCO uses a number of financial and non-financial Key Performance Indicators (KPIs) against which it monitors its performance. Reference is made to KPIs in the appropriate section of this Annual Report and in the Five Year Summary on page 92 where the KPIs are defined.

#### Significant Components of Cash Inflow



#### Significant Components of Cash Outflow



## FINANCIAL REVIEW CONTINUED

### Own Shares

The SOCO Employee Benefit Trust (the Trust) was established in 2001 to administer its long term incentive awards. At the end of 2010, the Trust held 4,156,922 (2009 – restated following the share subdivision, see below, 7,010,720) of the Company's ordinary shares (Shares), representing 1.22% (2009 – 2.32%) of the issued share capital after using 2,853,798 (2009 – restated 668,000) Shares for the exercise of certain share options. As at 31 December 2010, the Company held 110,000 (2009 – restated 110,000) treasury Shares.

### Corporate Developments

#### Share Subdivision

Following approval at the Company's Annual General Meeting of shareholders, on 10 June 2010, the Company's share capital was subdivided on a four for one basis, wherein every existing ordinary share of £0.20 each was subdivided into four ordinary shares of £0.05 each. Accordingly, this subdivision was reflected in the share price, which closed at £16.10 on 9 June 2010 and £3.98 on 10 June 2010. Throughout this report, where applicable, the number of ordinary shares and their nominal value have been adjusted to reflect this subdivision.

#### Share Placing

In January 2010, the Company placed 28,937,388 new ordinary shares of £0.05 each (the Placing Shares), stated post share subdivision – see above, with institutions at a price of £3.525 per Placing Share (the Placing Price) via a cash box structure. Based on the Placing Price, the gross proceeds of the Placing were £102.0 million (\$166.0 million). No share premium has been recognised as the Company has taken advantage of section 612 of the Companies Act 2006 regarding merger relief. The Placing Shares issued represented an increase of approximately 9.6% in SOCO's existing issued ordinary share capital. Upon issue the Placing Shares were credited as fully paid and rank pari passu in all respects with the existing ordinary shares of £0.05 each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue of the Placing Shares.

### Bond Redemption

The Company redeemed at par \$165.9 million of the \$250 million convertible bonds that were issued in 2006 as just over 66% of the bond put options were exercised on 16 May 2010. The remaining bonds mature in May 2013. See above and Note 23 to the financial statements for further details.

### Disposal of Thailand Asset

In September, the Company announced the completion of the sale of its wholly owned subsidiary SOCO Thailand LLC (SOCO Thailand) to Salamander Energy plc for an initial value of \$105 million less financial adjustments of \$1.0 million in respect of cash flows arising from the effective date, plus contingent cash consideration of \$1 million, effective 1 January 2010. SOCO Thailand is a 99.9993% shareholder of SOCO Exploration (Thailand) Co. Limited, the entity that holds the Group's interest in the Bualuang field, offshore of Thailand. See Note 12 to the financial statements for further details.

### Risk Management

SOCO's Board of Directors has designated the Chief Financial Officer as the executive responsible for the Company's risk management function. The Audit Committee provides oversight while ultimate approval authority remains with the full Board. Annually, the Audit Committee undertakes a detailed risk assessment when it reviews existing risks and identifies new risks as appropriate. The likelihood and significance of each risk is considered along with associated mitigating factors and is reported to the Board. Any new, or changes to existing risks are monitored throughout the year and are considered at each Audit Committee meeting.

SOCO's business activities, its financial position, cash flows and liquidity position, together with an outlook of factors likely to affect the Group's future development, performance and position are discussed above and in the Chairman's and Chief Executive's Statement on pages 6 to 9. Further, risk management and the principal risks and uncertainties facing the Group are also discussed below and in Notes 3 and 4 to the financial statements.

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**The Company seeks to mitigate risk by maintaining a balanced portfolio of assets across the risk spectrum**

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**Cash and cash equivalents**  
31 December 2010, \$millions

**260.4**

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## Financial

The Group has a strong financial position and should be able to satisfy its debt obligations (as set out in Note 23 to the financial statements) and continue in operational existence for the foreseeable future. Consequently, the Directors believe that the Group is well placed to manage its financial and operating risks successfully despite the current economic environment and have prepared the accounts on a going concern basis as described in the Annual Report of the Directors on pages 42 to 45.

Generally, it is the Company's policy to conduct and manage its business in US dollars. Cash balances in Group subsidiaries are primarily held in US dollars, but smaller amounts may be held in GB pounds or local currencies to meet immediate operating or administrative expenses, or to comply with local currency regulations. Following the share placing in January 2010, the Group has an abnormally high balance in GB pounds. The majority of this balance will be converted to US dollars over time. In the meantime, the Company may take short term hedging positions to protect the value of any cash balances it holds in non-US dollar currencies.

The Group seeks to minimise the impact that debt financing has on its balance sheet by negotiating borrowings in matching currencies. The Group's convertible bonds are denominated in US dollars. Company cash balances are generally invested in short term, non-equity instruments or liquidity funds, not exceeding three months forward. Investments are generally confined to money market or fixed term deposits in major financial institutions.

## Operational

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

appropriate balance between exposure and coverage.

The Group does not maintain any fixed price, long term marketing contracts. Production is sold on "spot" or near term contracts, with prices fixed at the time of a transfer of custody or on the basis of an average market price. Although oil prices may fluctuate widely, it is the Group's policy not to hedge crude oil sales unless hedging is required to mitigate financial risks associated with debt financing of its assets or to meet its commitments. Accordingly, no price hedging mechanisms were in place during the year. Over time, during periods when the Group sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

As discussed in Note 4 to the financial statements, the Company uses standard recognised evaluation techniques to estimate its proven and probable oil and gas reserves. However, such techniques have inherent uncertainties in their application. As the Company has projects with booked reserves in the early stages of production or development, upward or downward revisions to reserve estimates will be made when new and relevant information becomes available. The Group's future value is materially dependent on the success or otherwise of the Group's activities, which are directed towards the search, evaluation and development of new oil and gas resources. Exploration for, and development of, hydrocarbons is speculative and involves a significant degree of risk. The Company seeks to mitigate this risk by maintaining a balanced portfolio of assets across the risk spectrum and applying the stated principles of its three core strategic objectives of recognising opportunity, capturing potential and realising value (see page 4).

The Group's international portfolio comprises oil and gas ventures in widespread, often remote locations with government and industry partners. Conduct of operations requires the delegation of a degree of decision taking to partners, contractors and locally based personnel. As operator in a project, SOCO can directly influence operations and decision making. Where SOCO is a co-venturer it seeks to maximise its influence

through active participation with management, including direct secondments, and application of internal control best practice under a procedural framework.

Many of the Group's projects are in developing countries or countries with emerging free market systems. Generally, there is a greater risk of political, economic or social instability in these countries compared with nations with more established, developed economies. Accordingly, the Group may be exposed to specific risks in relation to social and environmental factors as well as health and safety matters, including security, and attempts to mitigate such risks by actively engaging with local communities and governments, using specialist consultants and by maintaining appropriate policies and procedures. Additionally, greater risk can arise in such countries in relation to compliance with and interpretation of taxation and other regulations as well as customary practice. Some of the Group's interests are in regions identified as potentially more susceptible to business interruptions due to the consequences of possible subversive activity. The Group assesses such risks before beginning operations in any particular area and has deemed these risks commercially acceptable.

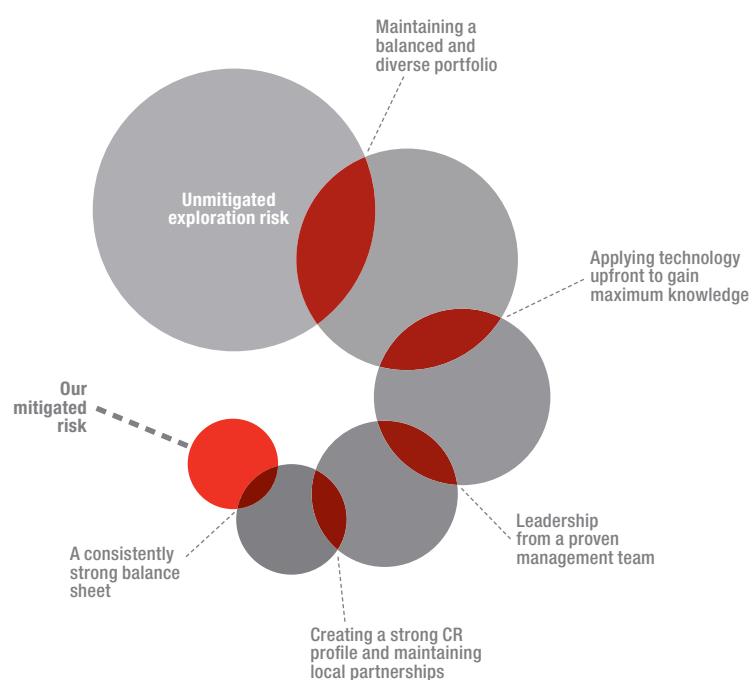
The Group operates in locations where social and environmental matters may be highly sensitive both on the ground and as perceived globally. This can potentially lead to a reputational risk which may influence various Group stakeholders. However, as described above, SOCO works closely with local communities, governments and NGOs to ensure that during operations any disturbance is minimised and that on completion of the Group's activities the local population and environment will be left in, at least, as good a state as when SOCO first arrived. See the Corporate Responsibility report on pages 28 to 35 for further information.

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

**RISK****HOW WE REDUCE EXPOSURE TO THE RISKS ASSOCIATED WITH EXPLORATION**

**We have an ongoing process to identify and mitigate the risks associated with exploration**

**Key**  
● Risk level  
● Mitigation



“

The Group's activities are directed towards the search, evaluation and development of new oil and gas resources. Exploration for, and development of, hydrocarbons is speculative and involves a significant degree of risk.

**Roger Cagle**

Executive Vice President,  
Deputy CEO and Chief Financial Officer

The Company seeks to mitigate this risk by maintaining a balanced portfolio of assets across the risk spectrum and applying the stated principles of its three core strategic objectives of recognising opportunity, capturing potential and realising value.

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SOCO is committed to providing meaningful opportunities for technical cooperation, training and capacity building.



SOCO strives to promote the social and economic wellbeing of the communities in which we operate.

## Reducing risk by engaging with our stakeholders

We are committed to conducting our business in an honest and ethical manner and ensuring that the health and safety of people and the protection of the environment remains a business priority. Our goal is to be a positive presence whereby we build sustainable value for host countries and local communities, as well as for our own shareholders.

more on p28



SOCO has drilled potable water wells for local communities, including this one in the Kiphoto area.



SOCO has committed to give preference, where possible, to host country contractors and suppliers.



# CORPORATE RESPONSIBILITY

## WE STRIVE TO PROMOTE THE SOCIAL AND ECONOMIC WELLBEING OF THE COMMUNITIES IN WHICH WE OPERATE

SOCO is a participating partner in seven oil licences in South East Asia and Africa. In each case, the host nation, through the respective national oil company, retains a major interest and is a partner in the licence. Details of our licences and partners are set out on page 3.

Our statistical reporting relating to corporate responsibility (CR) is reflective of the relatively small scale and nature of the Company's operations and the size of our organisation. SOCO's impacts and opportunities vary substantially between reporting periods, dependent on the continuously evolving mix of projects and locations in the pre-drilling, exploration, development or production stages in accordance with our business strategy. Where SOCO participates as an operating interest holder or co-venturer in a project, we can directly influence operations and decision making. Where SOCO holds a minority interest, as an investor or participant in a project, our influence is less direct. In both cases, our expectations for CR are clearly established, communicated and monitored.

### CR and Corporate Governance

The Chief Executive Officer is the Director responsible to the Board for CR performance. He delegates day-to-day responsibility for managing CR matters to the Vice President – Operations and Production, who is invited to attend all Board meetings. CR matters are reported to the full Board in an operations report and a separate agenda item at each Board meeting addresses any significant CR issues. Formal reporting to the Board is mandatory for all health, safety and environment (HSE) incidents.

Country managers report to the Board through senior management and are responsible for implementing the Company's CR strategy on a local level. The Company recognises that key managers and operations personnel have a specific role in the success of the Company's CR commitment. It is a priority consideration, therefore, that the relevant employees each have an understanding of the importance of CR and have knowledge of what constitutes best practice standards. This fosters informed decision making

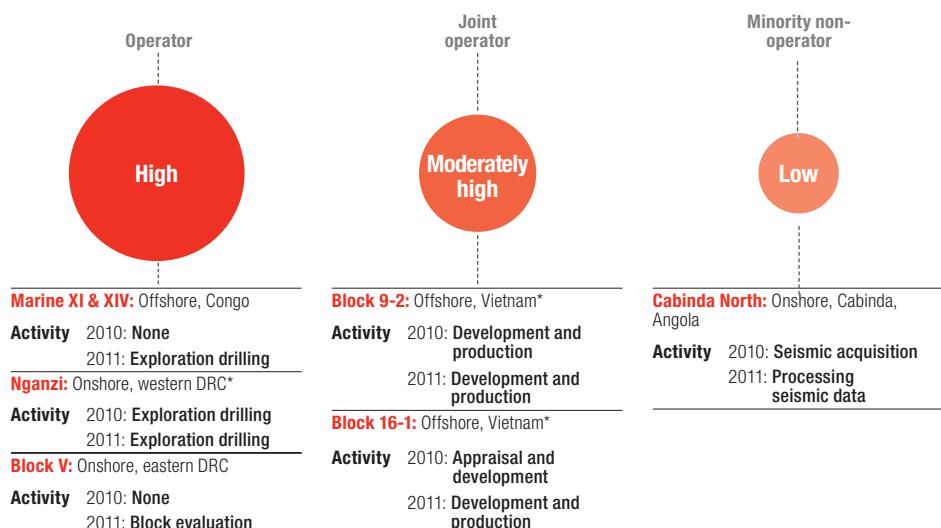
and an appreciation of the relevant business implications associated with each operation.

The Audit Committee is responsible for reviewing all areas of the Group's corporate risk management processes, including CR. The effectiveness of these processes is monitored on a continuous basis and a formal assessment is conducted at least annually. The Senior Independent Director, who has relevant experience, reviews CR performance in detail with senior managers and is kept routinely informed of any material performance issues as they arise.

### CR Policy Highlights

SOCO is committed to applying widely accepted good practice in CR. Our Health, Safety, Environmental and Social (HSES) Management System includes a framework of policy documents and procedures that is appropriate for the relatively small scale and nature of the Company's operations and size of organisation. Certain key aspects are summarised on page 30.

### SOCO's influence over CR in operations



\*Principal areas of 2010 operations, which are the primary focus of this year's project reporting

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Oil and gas companies have a central role in today's global energy supply. A successful project can transform not only a company, but also the economic and social wellbeing of a host nation once it is able to produce and supply its own natural resources. We recognise that built into the heart of this opportunity is the business imperative to act responsibly.

**Ed Story**

President and Chief Executive Officer

Here at SOCO we are committed to conducting our business in an honest and ethical manner and ensuring that the health and safety of people and the protection of the environment remains a business priority. Our goal is to be a positive presence whereby we build sustainable value for the host countries and local communities, as well as for our own shareholders.

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# **CORPORATE RESPONSIBILITY CONTINUED**

## **SOCO's Key Stakeholders**

- Shareholders and the investment community
- Our employees and contractors
- Host country national and regional governments and local authorities
- Host country local communities

## **Code of Business Conduct and Ethics**

SOCO's Code of Business Conduct and Ethics (the Code) is a dynamic policy that was approved by the Board in 2004 and is regularly reviewed. The Code encapsulates the values of the Company in its economic, social and environmental performance. The Code sets out the standards of business conduct that the Company requires of its personnel to ensure that its day-to-day business affairs are conducted in a fair, honest and ethical manner.

The Code is disseminated from the Board to senior management and to the country managers and employees. Implementation is the responsibility of all personnel of the Group, each of whom are given detailed guidelines for application. The guidelines include criteria and checklists for ethical decision making on an individual level so as to directly mitigate the risk of inappropriate and corrupt business practices.

**Our Commitment to Anti-Bribery and Corruption**  
SOCO supports the guidelines set out in the Extractive Industries Transparency Initiative (EITI) and supports its goal of strengthening governance through improved transparency and accountability. Countries with significant extractive industry sectors can commit to the EITI involving the implementation of a standardised and internationally recognised procedure for transparency in natural resource management. Companies operating in the relevant sectors in countries implementing EITI are required to disclose material payments made to the government. Two of the countries in which SOCO has licence interests, Congo and DRC, have achieved EITI Candidate status.

SOCO is responding to the UK Bribery Act 2010, which is expected to come into force later this year. Particular scrutiny will be given to implementation including relevant training, checks, monitoring, audits and disciplinary processes.

## **Stakeholder Engagement**

The Board's primary responsibility is to return value to its shareholders. As part of this, SOCO recognises that consideration of its other stakeholders' interests is core to the Company achieving its business objectives and reducing its risk profile. SOCO's corporate website serves as a platform through which stakeholders across the world and any member of the public may electronically interface with executive management on any subject.

Primary stakeholders in each of our respective projects are the governments and people of the host countries. This arises due to the vast potential for economic growth and social development that natural resources could bring to a nation.

Our relationships with our business partners, host governments, local communities, contractors and employees are highly valued. We embrace the opportunity to promote sustainable development on an economic, social and environmental level and to embed CR good practice and values into our management and corporate culture.

## **Engagement with Shareholders and the Investment Community**

SOCO maintains an open and active dialogue with its shareholders. The Company maintains a website wherein important information is posted and disseminated promptly to a wide audience. At a minimum, the Company provides three personal communication forums annually: the Annual General Meeting, the presentation of Annual Results and the presentation of Half Year Results, whereby shareholders can directly interface with Company executive management. Additionally, management maintains an active calendar of engagements with institutional stakeholders.

## **Key Aspects of other SOCO Policies**

### **Stakeholder Engagement**

- We aim to undertake meaningful consultation and engagement with all of our stakeholders.
- SOCO will provide meaningful opportunities for technical cooperation, training and capacity building within any host country in which we operate.

### **Sustainable Development within Local Communities**

- We strive to integrate our business activities with local communities as a good corporate citizen.
- We aim to create and expand local infrastructure, and create employment and training opportunities for local communities.

### **Health and Safety**

- We are committed to conducting all business activities in a responsible manner, complying with all laws and requirements where we operate or industry best practice, whichever is the more stringent.
- We strive to identify, analyse and effectively manage all health and safety risks arising from SOCO activities.
- We aim to ensure that all staff and contractors are competent to perform their duties.
- We commit to reporting and investigating all incidents and accidents.

### **Environment**

- It is our policy to incorporate environmental considerations into all project plans and provide specific training when necessary.
- We strive to identify, analyse and effectively manage all environmental risks arising from SOCO activities.
- We will continually review our objectives, metrics and targets, identifying gaps, and determining and implementing proper corrective actions.

## Engagement with Our Employees and Contractors

**Fairness and respect in the workplace**  
 SOCO promotes a workplace culture where each person is treated with fairness and respect. The Company is committed to providing our employees with a working environment that is free from harassment and discrimination and where each individual has the opportunity to develop their talents and capabilities and to fulfil their potential based on merit and ability. SOCO is committed to protecting the health and safety of all its employees and to safeguarding employee records. We endeavour to facilitate honest, timely and two-way communication and to maintain avenues for the equitable resolution of employee complaints.

### Equal opportunities

SOCO is an equal opportunity employer. Appointments to the Company and internal promotions are made solely on the individual employee's ability, skill, competence and potential. It is the Company's policy not to discriminate on grounds of racial group, gender, sexual orientation,

disability, religion or age. This policy applies not only during the course of an individual's employment but also during the selection process, be it the recruitment of external job applicants or the review of internal candidates.

### Employee retention and satisfaction

Approximately 60% of Group employees have been with SOCO for over 10 years. The Company is committed to providing a work environment where our employees can grow both personally and professionally. We conduct 180-degree performance appraisals at least annually during which business and training objectives are established for the coming year. The size of the corporate organisation facilitates everyday, direct interaction and multi-disciplinary dialogue amongst personnel. This is enhanced further by informal lunch meetings several times a year, attended by at least one of the Executive Directors, which provides a forum for corporate updates and feedback.

### Engagement within Host Countries

Reporting into the Board through the senior

managers, SOCO's country managers are responsible for the local channels of communication in our host countries both with government/regulators and with the wider local population. In Vietnam, communications and engagement are additionally conducted by the joint operating company, which includes SOCO representation both within the operating company and on its management committee. In the Africa region, project updates are disseminated in the form of a newsletter which highlights employment and contractor opportunities arising from direct operations as well as a broad range of indirect socio-economic activities.

In western DRC, the local communities of the Bas-Congo province, particularly in the region of Kipholo, were impacted by SOCO's activities that began in 2008 relating to the Nganzi Block. Consultation meetings were held with the Governor of Bas-Congo and with community leaders. The development initiatives were overseen by SOCO DRC Exploration & Production's Assistant Director, who is a DRC national. The consultation resulted in support from the local population for SOCO's presence and increased interest from other stakeholders to invest in the region.

## Sustainable Development within Local Communities

SOCO is committed to conducting and stimulating development on a sustainable basis. Our operational success is highly dependent on the support of the communities in which we operate. Maximised local involvement is our policy in all the operations we control, providing potential for positive, economic and social benefits, both on a local and national level. We have a strong commitment to build and utilise skills among local communities through the creation and expansion of local infrastructure, the creation of jobs, exposure to training of a high international standard and support for technical cooperation and capacity building.

### Providing Sustainable Infrastructure Nganzi

In preparation for the commencement of the 2010 Nganzi drilling campaign, SOCO has invested in

By planning and conducting our operations responsibly and by engaging constructively and transparently with our key stakeholders, our aim is to be a positive presence in each region that we operate.

## Block V, Eastern DRC and Virunga National Park (ViNP)

Block V was designated for oil exploration by the Government of DRC (DRC), and awarded to SOCO in 2010. DRC retains a 15% interest in the Block which is of high interest to stakeholders as it encompasses a section of ViNP, including principally Lake Edward and the savannah area to its south, but specifically excluding the entirety of the Mountain Gorilla habitat. Impacts of war and civil conflict remain a primary threat

to ViNP and classify it as a site in danger. We believe that responsibly conducted commercial activities can join the conservation community in concerted efforts to reduce these threats. We are performing environmental and social impact assessments in collaboration with local authorities and other concerned stakeholders. Any activity approved by DRC and ultimately conducted must be designed to minimise any effects on the species and habitats of the specific area that may be impacted. No operations have commenced and no drilling has been planned at the time of writing. Our website contains a section dedicated to Block V and will be regularly updated.

## CORPORATE RESPONSIBILITY CONTINUED

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**We are committed  
to engaging  
transparently  
and constructively  
with our key  
stakeholders**

transportation infrastructure across the area. This included the building of a new airstrip with related infrastructure at Kipholo, the upgrade of bridges over the Lukunga, Lubuzi and Lemba rivers and the improvement of 130km of existing roads. Potable water wells, hospital/clinic and school buildings were also constructed and/or upgraded and power generators provided.

These building initiatives are providing lasting infrastructure for the local populace and have led to indirect socio-economic benefits by opening up rural areas to increased trade and other stakeholder interest, including the building of a medical clinic by a non-governmental organisation.

### Vietnam

The CNV Field offshore Vietnam utilises an unmanned platform that is tied back to the Bach Ho central processing platform and is the first project in the Vietnam petroleum industry to use existing facilities. By doing so we are able to maximise the life of existing infrastructure, minimise the investment costs and reduce the environmental impact of our operations.

### Capacity Building

SOCO is committed to providing meaningful opportunities for technical cooperation, training and capacity building within each host country in which we operate. Whilst SOCO sources personnel for its

licence operations from both the international oil industry workforce and the host nation, the majority of personnel throughout its operations are nationals of the host country. During 2010, the percentage of nationals working on SOCO projects within their home country was, for Vietnam 80%, Congo 83% and DRC 89%. Professional development provided during 2010 included vocational training at internationally recognised technical training centres and language training.

SOCO has committed to give preference, where possible, to host country contractors, materials, equipment and services. SOCO's use of local sub-contractors on its Nganzi project indirectly stimulated the local job market as the DRC company which conducted its civil engineering recruited over 100 local people and a Congo-based drilling company recruited approximately 50 local people.

### Staff Representation

A formal staff representative body has been established at both of our subsidiary offices in Pointe Noire and Kinshasa, in accordance with local regulation, and was operational throughout 2010. Its formation involved the election, under the supervision of a state official from the Ministry of Labour from the respective countries, of two workers to act as staff representatives. The representatives are allotted 10 hours per month to perform their duties and are assigned to record feedback from staff, to meet with management on a monthly basis and present any suggestions or complaints, to advise their colleagues as to their rights and duties and to have access to the country's Labour Inspectorate. Feedback to the staff is provided through meetings and posters.

### Supporting Local Communities

SOCO and its partners have committed to support local communities through social projects aimed at meeting the needs of the local communities and to provide infrastructure and development on a sustainable basis. Where SOCO acts as operator, its policy is to have direct involvement in how its social projects are carried out. For 2010, the respective budgets and a summary of projects are set out below. Additionally, charitable donations totalling \$45,000 were given by SOCO to local causes

in West Africa, before and after which donation integrity tests were performed.

### Health and Safety

The safety of our workforce is a primary objective. Our HSES Management System includes procedures and guidelines to secure a planned approach for identifying, analysing and managing occupational risks and ensuring that our personnel have the appropriate competency for the task at hand. HSE objectives are incorporated into new project activities along with specific HSE training to ensure that HSE disciplines are assimilated into day-to-day activities.

### Operations

#### Vietnam operations

Block 16-1 and Block 9-2 operations were conducted on three offshore drilling rigs, an onshore supply base and office facilities. A total of 5.4 million man-hours were performed during 2010 with no Lost Time Injuries (LTIs) and only five incidents of Non-Lost Time Injuries (NLTIs) requiring first aid or medical attention, which were investigated extensively and followed up with remedial action to prevent reoccurrence. Production operations have been carried out on the Ca Ngu Vang (CNV) field for two years with no LTIs.

### Performance

Health and safety achievements during 2010 that contributed to the safe working environment were:

- Implementation of the Drilling 2010 HSE Plan
- Monthly HSE meetings with all contractors and service providers
- Weekly HSE awards on-rig
- HSE inspections/audits and management visits to key contractors and service providers
- HSE legal registration updated
- HSE procedures reviewed and updated
- HSE procedures translated into Vietnamese
- Emergency Response Plan reviewed and updated
- Work environment monitoring surveys carried out onshore. Offshore surveys were postponed due to poor weather
- HSE inductions for all rig crew prior to each drilling campaign
- Training/drills including first aid, emergency response, escape and survival

## Nganzi Operations, DRC and Congo (Brazzaville)

Operations in DRC during 2010 comprised three drilling sites, an operations base camp (opened in April 2010), an airstrip and office facilities relating to our activities in Nganzi.

At the operational base, 0.2 million man-hours were carried out with no LTIs. At the drilling site, 0.3 million man-hours were carried out during which two LTIs occurred. LTIs plus any NLTIs assessed as high potential incidents were investigated extensively with follow up remedial action to prevent reoccurrence.

In Congo, no offshore activities were conducted on our Congo licences during 2010, although Nganzi logistical operations were carried out at a supply base at the Pointe Noire port facility. During 2010, eight minor road traffic accidents occurred and as such SOCO has joined a collaborative campaign with other oil companies in Pointe Noire to increase road safety.

### Performance

Health and safety achievements during 2010 that contributed to the safe working environment were:

- Implementation of SOCO HSE policies and procedures
- Vigorous internal HSE auditing and inspection with remedial action
- On-base Daily Toolbox Meetings and Weekly Safety Meetings
- Focused training for new inductees into the local workforce
- Implementation of the 2010 HSE Plan
- Regular inspection of cargo handling and inspection of vehicles
- Inspections extended to include loading at service company/contractor facilities to ensure that vehicles and loads were fit for purpose

### Security of Our People and Infrastructure

The security of our personnel is a key priority. Our HSES Management System includes procedures and guidelines for incident prevention, reporting and mitigation. Where security risks are known to exist, specific risk assessments have been conducted and monitoring and preventative processes have been implemented.

## Summary of Social Projects Undertaken in 2010

### Local Communities

- Provision of water wells and generators for 6 villages in Bas-Congo, DRC
- Donation of medical equipment for a clinic in Bas-Congo, DRC
- Funding of a community radio station in DRC
- Construction of a clinic and accommodation for nurses in Angola
- Funding support for rural road construction in Vietnam
- Funding support for community culture centres in Hai Phuong, Dien Chau Nghe An and Quang Tri provinces, Vietnam
- Relief assistance for flood victims in Vietnam
- Donation towards construction of a medical station in Quang Binh province, Vietnam

### Women

- Purchase of a generator for a maternity hospital in Congo
- Construction of a water well for a maternity hospital in Congo
- Construction of sanitary facilities for a maternity hospital in Congo
- Purchase of medical equipment for a maternity hospital in Congo
- Financial assistance for a women's centre in DRC

### Children

- Construction of a school in Congo
- Financial assistance to construct a school in Kinshasa, DRC
- Construction of a school and accommodation for teachers in Angola
- Donation of school equipment and computers in DRC
- Donation for reinforcement of school safety and security measures in DRC
- Water and power supply for a school in DRC
- Donation of school supplies to a charity for the benefit of children orphaned by AIDS in Congo
- Financial support for a seminar for girls in Congo
- Charitable donation for repairs at an orphanage in Congo
- Sponsorship of local charity fundraising events in Vietnam
- Donation of equipment to a kindergarten in Vietnam

### Disabled and Elderly

- Financial support to the elderly in DRC
- Purchase of a minibus for a charity benefiting the elderly in Congo
- Financial support for a charity benefiting the elderly in Congo
- Financial assistance for a charity benefiting the disabled in Congo
- Financial support and participation with the Heart Foundation, Congo

### Social project budgets (at 100% interest) 2010

Country	Amount
Vietnam	\$192,000
Congo/DRC	\$640,000
Angola	\$1,000,000

## CORPORATE RESPONSIBILITY CONTINUED

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**Our Logistics Coordinator who is from the Bas-Congo received training locally and in Pointe Noire and has become one of our key personnel on the Nganzi project**

Through 2010, SOCO did not experience any security incidents in Vietnam or on its operated projects in Africa. We believe that the support we have received from local communities as a result of our commitment to local involvement and engagement has been a contributory factor in incident prevention and has thus reduced the Company's overall security risk profile.

### Block V, DRC

In June 2010, the Production Sharing Agreement for Block V in eastern DRC received the Presidential Decree, the final step in the concession award of the Block. As operator, SOCO has initiated a presence in this region through a security contractor focusing on an area assessment, establishing communications with local stakeholders and conducting environmental and social impact assessments (ESIA). It is clear this area has a significantly greater risk profile. A number of security incidents have been reported which were unrelated to SOCO or its presence in the area, but highlight the elevated risk. In February 2011, an employee of the security contractor was taken captive following an attack on a vehicle, and released unharmed after two days. A detailed debrief was carried out after the incident to establish procedures to prevent reoccurrence. A tailored set of specific security procedures and processes for this area is being prepared, which will be in place prior to the conduct of any exploration activities. Based on experience gained from SOCO's prior projects, it is expected that our operations on Block V can assist in increasing the stability and security in the region, along with local prosperity through economic development.

### Environment

SOCO is committed to conducting all business activities in a responsible manner to ensure the protection of the environment. Relative to our industry sector, our environmental impact is comparatively low, due to our small scale of operations and corporate organisation. Our objective is for the impact to remain low through continuous monitoring and responsive action. Five of our licences are currently in the preliminary stages of exploration, one is pre-production appraisal and development

and one is in the early stages of production. This positions us to implement best practice at the beginning of each project. This also explains the lack of year-on-year data comparison tables.

### Emissions

Scope 1 direct emissions from our operations remain minimal as the only licence in the production phase is Block 9-2 in Vietnam. Fugitive emissions from this production are maintained at negligible amounts through a contained process in which hydrocarbons produced are transported via subsea pipeline to the Bach Ho processing platform. The separated wet gas is transported via pipeline to an onshore gas facility for further distribution and crude oil is stored on a floating storage and offloading vessel prior to sale.

Indirect emissions through energy consumption within our business are kept low, through energy saving measures, such as lighting controlled by movement sensors. Our corporate office in London uses less energy than the qualifying threshold for the CRC Energy Efficiency Scheme in the UK. Consequential emissions resulting from our activities but occurring outside of the business are difficult to measure but we endeavour to keep these to a minimum. For example, corporate travel is carried out only as essential. We utilise services to recycle office equipment, furniture, stationery and packaging.

### Unplanned Discharges

There were no unplanned discharges during 2010. However, the possible occurrence of an oil or chemical spillage poses a potentially significant risk to the environment. Our HSE Management System includes procedures and guidelines for incident prevention, reporting and mitigation. In preparation for the onset of production from the TGT field offshore Vietnam scheduled for August 2011, a specific oil spill response plan was prepared by HLJOC and approved in August 2010 by the national oil company, Petrovietnam, and the provincial government of Ba Ria-Vung Tau.

### Blow out prevention

Our Te Giac Den (TGD) appraisal area in Vietnam includes a high pressure/high temperature zone. This zone was first encountered in 2007 by the

### Case study

#### A regional focus for the Nganzi project

Keeping a regional focus was a high priority when assembling the workforce for SOCO's operations on the Nganzi Block in the Bas-Congo region of the DRC. As a result, 18 out of 31 Congolese personnel working at the operational base at Kipholo are from the local area.

TGD-1X well when drilling had to be halted after penetrating only 22 metres of the sequence. Drilling was later temporarily suspended to source appropriate high pressure well control equipment, including a 15,000 psi blow out preventer. During 2010, a rig suitable for drilling in high pressure/high temperature environments was used to drill the TGD-2X well with no blow out incidents.

### Waste Management

#### Vietnam

In Vietnam, all wastewater and sewage is treated prior to discharge. Solid waste is collected, segregated and transported to shore by supply boats in compliance with the Vietnamese Hazardous Waste Management legislation. On arrival ashore, an authorised contractor for waste disposal services segregates for further recycling (i.e. plastics, papers, wood, etc.) or disposal under an arrangement with public services of Vung Tau City. Hazardous waste is stored in a designated area before transportation to waste disposal facilities in compliance with Hazardous Waste Management local regulations.

#### Nganzi

An effective system of waste management was integral to the objective of keeping our

### Lost Time Injuries (LTIS) and Frequency (LTIF) for 2010

	LTIS	Man-hours ('000)	LTIF
<b>Vietnam</b>	–	5,384	0.000
<b>Nganzi</b>	2	349	0.005

See Five Year Summary on p92 for definitions

environmental impact low at the start-up operations site on the Nganzi Block. An Environmental and Waste Management Programme was successfully executed and involved procedures for storage and onward disposal or recycling. The programme achieved international standards and exceeded all DRC regulatory commitments.

### Environmental Impact Assessments (EIAs)

EIAs are carried out at all locations prior to initiating exploration activities. Accordingly, EIAs were carried out over the Nganzi Block, onshore DRC and over Marine XIV offshore Congo (Brazzaville) during 2010. An EIA has been carried out over Block V, onshore DRC, in early 2011.

### Key Statistics from our Continuing Operations

	2010	2009
<b>Vietnam</b>		
BOEPD (net)	<b>2,257</b>	2,848
Wells drilled (number)	<b>9</b>	1
Emissions (tonnes)	<b>Negl</b>	Negl
Gas flared (mmscfe/day)	<b>1.3</b>	1.2
Spillages (cubic metres)	–	–
Oil produced in water	–	–
Environmental near-misses	–	–
<b>Congo</b>	<b>2010</b>	2009
BOEPD	–	–
Wells drilled (number)	–	2
Emissions (tonnes)	<b>Negl</b>	Negl
Gas flared (mmscfe/day)	–	–
Spillages (cubic metres)	–	–
Oil produced in water	–	–
Environmental near-misses	–	–
<b>DRC</b>	<b>2010</b>	2009
BOEPD	–	–
Wells drilled (number)	<b>3</b>	–
Emissions (tonnes)	<b>Negl</b>	Negl
Gas flared (mmscfe/day)	–	–
Spillages (cubic metres)	–	–
Oil produced in water	–	–
Environmental near-misses	–	–
Negl: Negligible	<b>Note:</b> Data is not included for our Angola interest as this project is non-operated	

### Key Environmental Milestones for Vietnam and Nganzi Operations

Location	Achieved 2010	Target 2011
<b>Vietnam</b>	Operations offshore Ca Ngu Vang field development project received ISO 14000 Environmental Certification issued by the Vietnam Government's Ministry of Natural Resources and Environment on 24 May 2010	Complete the submission for ISO 14000 Environmental Certification for the TGT field.
<b>Nganzi</b>	Environmental and Waste Management Programme fully executed on Nganzi Block operations, achieving international standards and exceeding all DRC regulatory commitments	Full restoration of the Nganzi drilling sites, with engagement with local communities and authorities regarding their final use.

# GOVERNANCE

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Report





OPERATED VALVE MODULE  
SDV-8310

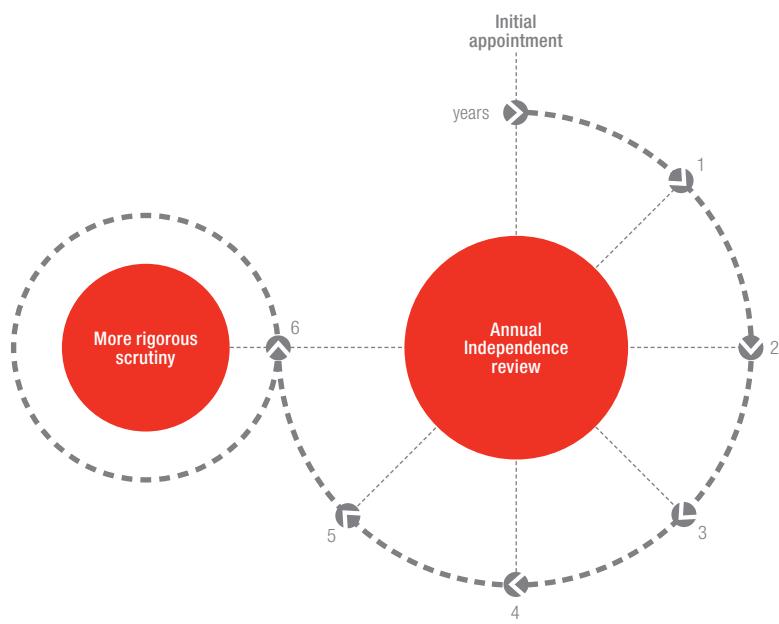
SDV HYD. PRESSURE

# GOVERNANCE

## THE STRENGTH OF OUR BOARD AND MANAGEMENT TEAM IS KEY TO ENSURING OUR SUCCESS

## Our approach to maintaining the independence, freshness and objectivity of our Board

- Key
  - Code guidance
  - Annual reappointment
  - Time elapsed during tenure



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The Board embraces the underlying principles of the Code provisions regarding tenure and refreshing of the Board, and seeks to strike an appropriate balance between continuity of experience and succession. The Company manages a portfolio of long term, complex projects and benefits from long-serving Directors with detailed knowledge of the Company's operations and with

the proven commitment, experience and competence to effectively advise and oversee the Company's management on behalf of shareholders. The Company seeks to ensure its Directors are focused on a long term approach, and does not impose fixed term limits as this would assure loss of experience and knowledge without assurance of increased independence.

**Cynthia Cagle**  
Vice President - Finance and Company Secretary

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◀ SOCO senior management visit  
SOCO's sites in Pointe Noire, Congo  
▼ (Brazzaville) and Kipholo, DRC.



We aim to maximise  
local involvement in  
all our operations. ▶



### A well-managed and sustainable business

Our business model is about progressive sustainability and the Board of Directors is a driving force in its execution. While maintaining independence and objectivity is key, so is maintaining the relationships we have with host countries, communities and contractors. Exploration is a long term endeavour, and a stable management team is crucial to ensuring the longevity of the Company.

more  
on p48

## BOARD OF DIRECTORS

### INTRODUCING OUR DIRECTORS, WHO BRING A RANGE OF SKILLS, KNOWLEDGE AND EXPERTISE, WHICH IS CRITICAL TO SUCCESS



#### 1 Rui de Sousa

**Title, age:** Non-Executive Chairman, 55

**Appointment date:** July 1999

**Committee membership:** Nominations Committee (Chairman)

**Background and relevant experience:** Rui de Sousa has approximately 30 years' experience in the energy sector. He is currently a director of Quantic Limited, a director of Gazprombank-Invest (Lebanon) SAL and the President of Quantic Mining.

#### 2 Peter Kingston

**Title, age:** Non-Executive Deputy Chairman and Senior Independent Director, 68

**Appointment date:** April 1997

**Committee membership:** Remuneration Committee (Chairman) and Audit Committee (Chairman)

**Background and relevant experience:** Peter Kingston is currently the Executive Chairman of Tower Resources plc. He is a Petroleum Engineer by profession and has more than 40 years of experience in technical, executive and advisory roles. He was formerly a founding director and Managing Director (Technical) of Enterprise Oil plc and a director of Elf Enterprise Petroleum Ltd. Peter is also currently a director of Plexus Energy Limited, a corporate governance, social and environmental advisory network.

#### 3 Ed Story

**Title, age:** President and Chief Executive Officer, 67

**Appointment date:** April 1997

**Committee membership:** Nominations Committee

**Background and relevant experience:** Ed Story has over 40 years' experience in the oil and gas industry, beginning with Exxon Corporation, where he held various positions including seven years resident in the Far East. He was formerly the Vice President and CFO of Superior Oil Company, a co-founder and Vice Chairman of Conquest Exploration Company and a co-founder and President of Snyder Oil Corporation's international subsidiary. Ed was a non-executive director of Cairn Energy PLC until 2008 and is currently a non-executive director of Cairn India Limited.

**4 Roger Cagle**

**Title, age:** Executive Vice President, Deputy CEO and Chief Financial Officer, 63

**Appointment date:** April 1997

**Committee membership:** None

**Background and relevant experience:** Roger Cagle has over 35 years of experience in the oil and gas industry including succeeding positions of responsibility with Exxon Corporation and senior management roles with Superior Oil Company. He was formerly the Chief Financial Officer of Conquest Exploration Company and the Chief Financial Officer of Snyder Oil Corporation's international subsidiary. Roger is currently also the Non-Executive Chairman of Dominion Petroleum Ltd and a non-executive director of Vostok Energy Limited.

**5 Olivier Barbaroux**

**Title, age:** Non-Executive Director, 55

**Appointment date:** July 1999

**Committee membership:** Remuneration and Nominations Committees

**Background and relevant experience:** Olivier Barbaroux has over 20 years' experience in the energy and utilities sector. He is currently the Chairman and Chief Executive Officer of Dalkia and a member of the Executive Committee of Veolia Environment. He was formerly the Managing Director of Compagnie Générale des Eaux, President and Chief Operating Officer of Vivendi Water S.A., the Head of the Energy Sector of Paribas and the Chief Executive Officer of the oil and gas production and exploration company Coparex International.

**6 Robert Cathery**

**Title, age:** Non-Executive Director, 66

**Appointment date:** June 2001

**Committee membership:** Remuneration and Nominations Committees

**Background and relevant experience:** Robert Cathery has over 40 years of City experience. He was formerly the Managing Director and Head of Oil and Gas at Canaccord Capital (Europe) Limited, Head of Corporate Sales at SG Securities (London) Ltd., director of Vickers da Costa and director of Schroders Securities. Robert is also currently a non-executive director of Vostok Energy Limited, Salamander Energy PLC and Central Asia Metals Limited.

**7 Ettore Contini**

**Title, age:** Non-Executive Director, 36

**Appointment date:** December 2001

**Committee membership:** None

**Background and relevant experience:** Ettore Contini was formerly a director of Energia E Servizi SpA and an asset manager in the private banking division of Banca del Gottardo. Ettore is currently also a director of Eurowatt-Commerce.

**8 Ambassador António Monteiro**

**Title, age:** Non-Executive Director, 67

**Appointment date:** June 2009

**Committee membership:** Audit and Remuneration Committees

**Background and relevant experience:**

Ambassador António Monteiro has over 40 years of experience with the Portuguese Ministry of Foreign Affairs, including as Foreign Minister of Portugal, and with international organisations, including as UN High Representative for Elections in Côte d'Ivoire and currently as a member of the UN Secretary-General's Panel on the Referenda in the Sudan. He was formerly the Ambassador of Portugal to France and the Permanent Representative of Portugal to the United Nations, where posts included being President of the Security Council and of the Security Council's Committee established by Resolution 661 (1990).

António is currently also a member of the Board of the Angolan Bank BPA (Banco Privado do Atlântico), a member of the Supervisory Board of the Portuguese Bank BCP (Banco Comercial Português) Millennium, President of the Luso-Brazilian Foundation Curator's Council and a member of the Faculty of Human and Social Sciences' General Council of the Universidade Nova de Lisboa.

**9 John Norton**

**Title, age:** Non-Executive Director, 73

**Appointment date:** April 1997

**Committee membership:** Audit and Nominations Committees

**Background and relevant experience:** John Norton is a Chartered Accountant by profession and was a partner at Arthur Andersen, heading the oil and gas practice in Europe, the Middle East and Africa, until his retirement in 1995. John was formerly also a member of the Oil Industry Accounting Committee and a director of the Arab-British Chamber of Commerce.

**10 Martin Roberts**

**Title, age:** Non-Executive Director, 67

**Appointment date:** September 2004

**Committee membership:** Audit and Remuneration Committees

**Background and relevant experience:** Martin Roberts is a solicitor by profession and was a partner at Slaughter and May, where he specialised in oil and gas projects, until his retirement in 2002.

**11 Dr Mike Watts**

**Title, age:** Non-Executive Director, 55

**Appointment date:** August 2009

**Committee membership:** Audit and Nominations Committees

**Background and relevant experience:**

Dr Mike Watts is currently the Deputy Chief Executive of Cairn Energy PLC and has over 30 years' experience in the oil and gas industry. He was formerly the CEO and Managing Director of the Amsterdam listed Holland Sea Search, which was acquired by Cairn Energy PLC in 1995, and has held senior technical and management roles with Premier, Burmah and Shell.

# ANNUAL REPORT OF THE DIRECTORS

## HOW THE DIRECTORS ENSURE THE COMPANY OPERATES TO THE HIGHEST STANDARDS



▲ **Cynthia Cagle**  
Vice President –  
Finance and  
Company Secretary

The Directors present their annual report, along with the audited financial statements of the Group for the year ended 31 December 2010. The Corporate Governance Report on pages 46 to 53 forms part of this report.

### Principal Activity and Business Review

The Group's principal activity is oil and gas exploration and production. The Group has its headquarters in London and has oil and gas interests in Vietnam, Congo (Brazzaville), the Democratic Republic of Congo (Kinshasa) and Angola. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 17 to the financial statements.

Information fulfilling the requirements of section 417 of the Companies Act 2006 (the 2006 Act) and paragraph 4.1.8 of the Disclosure and Transparency Rules of the Financial Services Authority (DTRs) can be found within the reports described below, which are incorporated into this report by reference. A review of the performance and development of the Group's business during the year, its position at the end of the year and its future prospects is contained in the Chairman and Chief Executive's Statement on pages 6 to 9; the Review of Operations on pages 14 to 19; and the Financial Review on pages 20 to 25. The principal risks and uncertainties facing the Group are set out in the Financial Review on pages 24 and 25 and, in respect of the principal financial risks and uncertainties, in Notes 3 and 4 to the financial statements. As set out in the Corporate Responsibility Report on pages 28 to 35, which also forms part of this report, SOCO is committed to high standards of corporate responsibility. The financial and non-financial key performance indicators (KPIs) used by management are set out on pages 7 and 20, and are summarised along with pertinent definitions in the Five Year Summary on page 92. The KPIs adopted in respect of personnel, health, safety and environmental measures reflect the small staff size and relatively small size and scope of projects directly operated by the Company. Additional KPIs will be developed for reporting on these areas at an appropriate time in the evolution of SOCO's operations. Information about the use of financial instruments by the Company and the Group is included in Note 2(n) and Note 23 to the financial statements.

### Results and Dividends

The audited financial statements for the year ended 31 December 2010 are set out on pages 66 to 90. 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 (2009 – £nil).

### Directors

The Directors, all of whom held office throughout the year, and the dates of their current service contracts or letters of appointment, which are available for inspection, are listed in the table (opposite). Relevant details of the Directors, which include their Committee memberships, are set out on pages 40 to 41. Further details of Directors, their interests in the shares of the Company, their interests in any contracts relating to the Company's business and Directors' contracts are included in the Directors' Remuneration Report on pages 54 to 61.

Directors of the Company are appointed either by the Board or by shareholders under the terms of the Company's Articles of Association. The business of the Company is managed by the Directors who may exercise all powers of the Company subject to the Articles of Association and law.

In accordance with the Company's Articles of Association, Directors are subject to reappointment at least every three years. Notwithstanding this, the Company will voluntarily submit all Directors, offering themselves for reappointment, for re-election at the forthcoming Annual General Meeting of Shareholders (AGM). Mr Peter Kingston will retire at the 2011 AGM to devote additional time to his other business interests. Further, Mr Martin Roberts, having found it necessary to reduce his business interests generally, will retire at the forthcoming AGM. The other Directors will retire at the AGM and offer themselves for re-election, being eligible and having been recommended for reappointment by the Nominations Committee.

The re-election of those Directors offering themselves for reappointment is recommended by the Board in consideration of the results of individual evaluation and demonstrated continued satisfactory performance, commitment and

 Related sections and more information

- Chairman's and Chief Executive's Statement
- The Directors' Remuneration Report

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effectiveness. The Nominations Committee carefully considered its recommendations regarding these reappointments with regard to the policies and processes set out in more detail in the Corporate Governance Report on pages 46 to 53, and in particular in respect of each Director's continued independence and the relevance of tenure. The Board has given full consideration to the balance of skills, knowledge and unique breadth of experience on the Board and the manner in which each of the retiring Directors contributes to that balance. In particular, the Board has considered the value of continuity of leadership, and these factors have been weighed in consideration of succession planning and the need to refresh Board and Committee membership. In accordance with the Combined Code, the Chairman, having given consideration to the results of the Board's formal evaluation process and other relevant factors, is satisfied that the retiring Non-Executive Directors offering themselves for reappointment continue to demonstrate the commitment level appropriate to the effective fulfilment of the responsibilities of the role.

The Non-Executive Directors' fees, and SOCO's process for setting those fees, are set out in the Directors' Remuneration Report on pages 54 to 61. In consideration of increasing demands placed on Non-Executive Directors generally and market data indicating increasing fee levels, a resolution will be placed before the AGM to increase the maximum aggregate annual amount of Directors' fees to be paid out for their services as Directors from £650,000 to £800,000. Although there is no current intent to utilise the increased aggregate in the short term, it is intended to provide adequate headroom to ensure the Company is able to attract high calibre candidates to the Board, maintain a market competitive fee structure and retain the flexibility to appoint additional Non-Executive Directors if it would be in the best interests of the Company to do so.

SOCO provides liability insurance for its Directors and officers. The annual cost of the cover is not material to the Group. The Company's Articles of Association allow it to provide an indemnity for the benefit of its Directors, which is a qualifying indemnity provision for the purpose of section 233 of the 2006 Act.

### Directors Holding Office during 2010

Director	Date of Contract
<b>Rui C de Sousa</b> Chairman	<b>12.07.99</b>
<b>Peter E Kingston*</b> Dep Chairman & Senior Independent Director	<b>14.05.97</b>
<b>Olivier M G Barbaroux*</b>	<b>12.07.99</b>
<b>Roger D Cagle</b>	<b>14.05.97</b>
<b>Robert M Cathery*</b>	<b>19.06.01</b>
<b>Ettore P M Contini</b>	<b>11.12.01</b>
<b>António V Monteiro*</b>	<b>10.06.09</b>
<b>John C Norton*</b>	<b>14.05.97</b>
<b>Martin J D Roberts*</b>	<b>06.09.04</b>
<b>Edward T Story</b>	<b>14.05.97</b>
<b>Michael J Watts*</b>	<b>21.09.09</b>

\* Denotes those determined by the Board to be independent Non-Executive Directors as described in the Corporate Governance Report on pages 46 to 53.

### Supplier Payment Policy

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

### Contributions

Information regarding the Company's global charitable programmes, which are principally carried out in the countries where the Group has operations, is contained in the Corporate Responsibility Report on pages 28 to 35. The Company's policies prohibit political donations.

### Long Term Incentive Plan

Due to upcoming expiry of the SOCO International plc Long Term Incentive Plan (LTIP) in May 2011, the Board has recommended the introduction of a new plan which will be submitted for shareholder approval at the 2011 AGM (the New LTIP). The New LTIP is intended to provide a continued mechanism for motivating and retaining Directors and senior staff members in a way that is aligned with shareholders' interests. The New LTIP is substantially similar to the LTIP it is replacing, incorporating certain best practice features which have evolved since adoption of the LTIP. Further details of the proposals are included in the circular to shareholders accompanying this Annual Report and Accounts. Details of outstanding incentive awards are set out in Note 27 to the financial statements.

### Share Capital

Details of changes to share capital in the period are set out in Note 25 to the financial statements. The Company currently has one class of share in issue, ordinary shares of £0.05 (2009 – £0.20) each, all of which are fully paid up, and reflecting a resolution passed at the 2010 AGM to approve the subdivision of each of the Company's former ordinary shares of £0.20 each into four new ordinary shares of £0.05 each. Each ordinary share in issue carries equal rights including one vote per share on a poll at general meetings of the Company, subject to the terms of the Company's Articles of Association and law. Shares held in treasury carry no such rights for so long as they

## ANNUAL REPORT OF THE DIRECTORS CONTINUED

are held in treasury. Votes may be exercised by shareholders attending or otherwise duly represented at general meetings. Deadlines for the exercise of voting rights by proxy on a poll at a general meeting are detailed in the notice of meeting and proxy cards issued in connection with the relevant meeting. Voting rights relating to the shares held by the SOCO Employee Benefit Trust are not exercised. The Company's Articles of Association may only be amended by a resolution of the shareholders.

No shareholder, unless the Board decides otherwise, is entitled to attend or to vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or she or any person with an interest in shares has been sent a notice under section 793 of the 2006 Act (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or she or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is earlier. The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in shares of that class from taking place on an open or proper basis. The Directors may likewise refuse any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of ordinary shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws); and pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require approval of the Company to deal in the Company's shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights. Resolutions will be proposed at the 2011 AGM, as is customary, to authorise the Directors to exercise all powers to allot shares and approve a limited disapplication of pre-emption rights. Further information regarding these resolutions is set out in the circular to shareholders accompanying this Annual Report and Accounts.

A resolution will also be proposed at the 2011 AGM, as is also customary, to renew the Directors' existing authority to make market purchases of the Company's ordinary share capital, and to limit such authority to purchases of up to 34,030,940 ordinary shares of £0.05 each, representing up to approximately ten per cent of the Company's issued ordinary share capital (excluding treasury shares) at 22 March 2011. Shares purchased under this authority may either be cancelled or held as treasury shares.

### **Substantial Shareholdings**

As at 22 March 2011, the Company had been notified, in accordance with the DTRs, of the interests in the issued share capital of the Company as set out in the table opposite.

### **Auditors**

A resolution to reappoint Deloitte LLP (Deloitte) as the Company's auditors will be proposed by the Directors at the forthcoming AGM. Deloitte also provide non-audit services to the Group which are set out in Note 9 to the financial statements. The Directors are currently satisfied, and will continue to ensure, that this range of services is delivered in compliance with the relevant ethical guidance of the accountancy profession and does not impair the judgement or independence of the auditors. Each of the Directors at the date of approval of this report confirms that, so far as he is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Each Director has taken all steps that he ought to have taken, having made such enquiries of his fellow Directors and the auditors and taken such other steps as are required under his duties as a Director, to make himself aware

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**The Board has given full consideration to the balance of skills, knowledge and unique breadth of experience on the Board and the manner in which each of the retiring Directors contributes to that balance**

of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the 2006 Act.

### Going Concern

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events which are inherently uncertain. Nevertheless, at the time of preparation of these accounts and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, and taking into consideration the additional factors in the Financial Review on page 20, they continue to adopt the going concern basis in preparing the accounts.

### Directors' Responsibilities for the Financial Statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union both for the Group and the Company.

The Directors are required to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company and of the Group and the financial

performance and cash flows of the Group for that period. In preparing those accounts the Directors are required to select suitable accounting policies and then apply them consistently; present information and accounting policies in a manner that provides relevant, reliable and comparable information; and state that the Company and the Group have complied with applicable accounting standards, subject to any material departures disclosed and explained in the accounts.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' Responsibility Statement

The Directors confirm that, to the best of each person's knowledge:

- (a) the financial statements set out on pages 66 to 90, which have been prepared in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and
- (b) the management report, which is incorporated into this report, includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board  
22 March 2011

**Cynthia Cagle**  
**Company Secretary**

### Substantial Shareholdings

Name of Holder	Number	Issued Shares % Held
Pontoil Intertrade Limited	80,644,255	23.70
BlackRock, Inc.	34,022,486	10.00
Chemsa Ltd	24,378,600	7.16
Edward T Story	12,856,794	3.78
Legal & General Group Plc	11,892,856	3.49

# CORPORATE GOVERNANCE

## HOW WE FULFIL OUR COMMITMENT TO THE COMBINED CODE ON CORPORATE GOVERNANCE

The Company is committed to the principles contained in the Combined Code on Corporate Governance that was issued in 2008 by the Financial Reporting Council (the Combined Code or the Code) for which the Board is accountable to shareholders in this report; and the UK Corporate Governance Code (the Code 2010) issued in 2010 which will replace the Combined Code 2008 for the Company's future accounting periods.

The Company has applied the principles set out in section 1 of the Code, as described below and, in connection with Directors' remuneration, in the Directors' Remuneration Report.

### Statement of Compliance with the Combined Code

Throughout the year ended 31 December 2010, the Company has complied with the provisions set out in section 1 of the Combined Code.

### Summary of our approach to Corporate Governance

#### 1 Board of Directors

The Board provides entrepreneurial leadership and develops strategy, values and standards while maintaining prudent and effective controls to assess and manage risk.

#### A Chairman and Chief Executive

While their roles are clearly separated, together the Chairman and the Chief Executive are responsible for promoting the highest standards of integrity and probity.

#### B Executive and Non-Executive Directors

The Executive Directors are responsible for implementing strategy and the Non-Executive Directors fulfil a supervisory role and contribute to the development of strategy.

#### C Company Secretary

The Company Secretary is responsible for facilitating the communications and processes of the Board.

#### D Board Balance and Independence

The independence of each Non-Executive Director is assessed at least annually with particular scrutiny applied to tenure.

#### E Reappointment

Recommendations for reappointment are made in consideration of the results of evaluation, the Board's composition and the need for refreshment.

#### F Succession and Appointments

The Company has an ongoing process for assessing the specific competencies required on the Board.

#### 2 Board Structure and Process

The Board typically meets four times a year and operates under a formal framework.

#### 3 Conflicts of Interest

Directors are required to notify the Company of any conflicts of interest or potential conflicts of interest.

#### 4 Accountability and Audit

##### A Directors' and Auditors' Responsibilities

Directors' and Auditors' Responsibilities are set out elsewhere in the Annual Report and Accounts.

##### B Going Concern

The Group's financial statements have been prepared on a going concern basis.

##### C Risk Management and Internal Control

The Directors are responsible for a sound system of internal control. The Board is responsible for identifying and managing major business risks.

##### D Internal Audit Function

The Company does not currently have an internal audit function; however Directors review at least annually the need to establish such a function.

##### E Relations with Shareholders

The Executive Directors are responsible for ensuring effective communication is maintained with key stakeholders and partners.

#### 5 Committees

##### A Audit Committee

Primary responsibilities include reviewing the effectiveness of the Company's and the Group's systems of internal control and risk management, overseeing the selection of and relationship with external auditors and the review and monitoring of the integrity of financial statements.

##### B Nominations Committee

Primary responsibilities include making recommendations to the Board regarding the appointment and reappointment of Directors and Committee memberships.

##### C Remuneration Committee

This Committee is responsible for recommending for approval by the full Board the remuneration of the Chairman, the Executive Directors and the Company Secretary.

## 1 Board of Directors

The Board's role is to provide entrepreneurial leadership and develop strategy, values and standards while maintaining prudent and effective controls to assess and manage risk. The Board is responsible for ensuring that the Company meets its obligations to stakeholders and has adequate resources to meet its strategic objectives.

The Board of Directors, whose names and biographical details are set out on pages 40 to 41, comprises ten Directors in addition to the Chairman. After an assessment process set out in more detail below, seven of these ten, including the Senior Independent Director, have been identified in the Annual Report of the Directors on page 43 as independent in character and judgement giving full consideration to those circumstances that the Code states may appear relevant. Notwithstanding this, the Board is satisfied that each of the Company's Directors strictly abides by their legal and ethical duties owed to the Company to act objectively and in the best interests of the Company and its shareholders as a whole.

### A Chairman and Chief Executive

The roles of the Chairman and Chief Executive Officer are separated and their responsibilities are clearly established, set out in writing and agreed by the Board. The Chairman and the Chief Executive collectively are responsible for the leadership of the Company. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chief Executive is responsible for leading the executives and ensuring their effectiveness in the running of the Company's business and implementing strategy and policy. Together the Chairman and Chief Executive Officer are responsible for promoting the highest standards of integrity and probity.

### B Executive and Non-Executive Directors

Executive Directors are responsible for implementing the Board's agreed strategy through the development of an appropriate business plan and for executing actions approved by the Board in accordance with relevant authorities. The division of responsibilities between the Executive Directors is set by the Board.

The Executive Directors provide the leadership of the senior managers in the day-to-day running of the Group's business and manage the Group's risk programmes including the environmental, health and safety performance of the business. They must ensure the Company has adequate financial and human resources to meet its objectives. They are responsible for reporting the performance and strategic direction of the Group to the Board and for providing accurate, timely and clear information to enable the Board to make sound decisions.

The Non-Executive Directors, who undertake a supervisory role, contribute to the development of strategic proposals through constructive probing based on review and analysis that brings to bear the unique skills, experience and knowledge each brings to the Board. The Non-Executive Directors review management's performance and ensure that the systems in place provide adequate and effective financial, operational and compliance controls and risk management. They must be satisfied that they have sufficient information for the discharge of their duties, which may be achieved through dialogue with management, training where appropriate to update their knowledge or skills and consultation with independent professional advisors as required.

### C Company Secretary

The Company Secretary, who is appointed by the Board, is responsible for facilitating the communications and processes of the Board, both within the Board and its committees and with management, in compliance with Board procedures and governance guidelines. The Secretary facilitates an induction programme on appointment that is tailored to a new Director's individual qualifications and experience. The Secretary provides advice and service as may be required in the ongoing discharge of the Directors' duties, including ensuring that the Company provides the necessary resources for access to independent advice and any individual professional training and development needs agreed with each Director. Additionally, briefing sessions are provided in the course of regular Board meetings and Committee meetings on relevant issues as deemed appropriate, including in relation to corporate governance and social responsibility as well as new and evolving statutory and other compliance matters.

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**The Board's role is to develop strategy, values and standards while maintaining prudent controls to manage risk**

### D Board Balance and Independence

The Board embraces the underlying principles of the Code provisions regarding tenure and refreshing of the Board, and seeks to strike an appropriate balance between continuity of experience and succession. The Board recognises that an individual's independence cannot be determined arbitrarily on the basis of a set period of time, or by a set period of concurrent tenure with an Executive Director. Each of the Non-Executive Directors tenure has run concurrently with the Company's Executive Directors, both of whom have been in office from the Company's initial listing. The Company manages a portfolio of long term, complex projects and benefits from long serving Directors with detailed knowledge of the Company's operations and with the proven commitment, experience and competence to effectively advise and oversee the Company's management on behalf of shareholders. The Company seeks to ensure its Directors are focused on a long term approach, and does not impose fixed term limits as this would assure a loss of experience and knowledge without assurance of increased independence. Accordingly, the Board's assessment of independence is of prime importance to ensure that retention of experience does not result in a failure to retain a sufficient contingent of independent Directors.

The independence of each Non-Executive Director is assessed at least annually. To be identified as independent a Director must be determined

## CORPORATE GOVERNANCE CONTINUED

independent in character and judgement and free from any relationships or circumstances which are likely to affect, or could appear to affect, their judgement including in particular those set out in the Code. Particular scrutiny is applied in assessing the continued independence of Directors having served over nine years, with attention to ensuring that interactions with Executive Directors have not in any way eroded their independence and that their allegiance remains clearly aligned with shareholders. Board refreshment and tenure are considered together, and weighed for relevant benefit in the foreseeable circumstances, given further that the Board should not be enlarged to a size that is unwieldy.

In conducting its current assessment the Board referred to guidance setting out criteria deemed relevant to determining whether a Director continues to exhibit those qualities and behaviours it considers essential to be considered independent. A specific set of focused criteria was applied to the assessment of long tenured Directors. Consideration was also given to the results of individual evaluation and continued satisfactory performance. Following assessment, Ambassador António Monteiro and Mr Martin Roberts were determined to be independent. Mr Robert Cathery and Dr Mike Watts were determined to be independent despite former roles as a director of a former Company advisor and as a cross-director with the Chief Executive, respectively. These relationships have ceased and are not relevant to the determination of independence under the Code. Any current outside links to other Directors are not considered significant and in particular do not result in reciprocal influence.

After particular scrutiny, Mr Peter Kingston, Mr John Norton and Mr Olivier Barbaroux, each having served on the Board for more than nine years, were determined to be independent. Each of these Directors continues to display an appropriate independence from Executive Directors. They each continue to express their individual viewpoints, debate issues and objectively scrutinise and challenge management. Each seeks clarification and amplification as deemed required, including through direct access to the Group's employees and external advisors. After careful consideration of the relevant factors, the Board has determined that the tenure of these Directors has not

affected their independence or their ability to bring judgement to bear in the discharge of their duties as Board and Committee members. The Board considers that the varied and relevant experience of its independent Directors combined to provide an exceptional balance of skills and experience required for the business.

### **E Reappointment**

In accordance with the Company's Articles of Association, Directors are subject to reappointment at least every three years. Notwithstanding this, in consideration of Code 2010 provisions the Company will voluntarily submit all Directors, offering themselves for reappointment, for re-election at the forthcoming Annual General Meeting of Shareholders (AGM). Reappointment is recommended in consideration of the results of individual evaluation and demonstrated continued satisfactory performance, commitment and effectiveness. Consideration is given to the broad capabilities represented on the Board and the ability of these to meet the unique challenges facing the Company. Consideration is additionally given to the balance of the Board's composition and the need for refreshment. A Non-Executive Director term exceeding six years is subject to particularly rigorous review. The process for considering reappointments is described more fully in the Nominations Committee section below. Following this process the Board recommends the reappointment of those retiring Directors who have offered themselves for reappointment.

### **F Succession and Appointments**

The Company has an ongoing process for assessing the specific competencies required on the Board. Due to the nature of its business, the Company's expectation of a Non-Executive Director's most appropriate term of office is generally longer than that envisioned in Code guidelines. The Company undertakes projects requiring long term cycles from licence negotiation to first production, requiring Directors to be focused on long term objectives and benefiting from continuity of experience throughout the process. In South East Asia, a large, complex development project of major significance to the Company is under way in Vietnam, is scheduled to commence production in 2011 and will require several additional years to fully complete. Additionally, the Company is advancing its Africa portfolio further through the exploration phase, designing its future

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**SOCO maintains  
an open and active  
dialogue with  
shareholders**

programme on the basis of experience and information derived from the past programme.

After assessment of the competencies required on the Board, the current Non-Executive Directors comprise an appropriate balance of skills and experience. Those Non-Executive Directors reappointed in 2010 included two Directors newly appointed in 2009, along with three longstanding Directors who have acquired, over a number of years, a sound and detailed knowledge of the Company's business and are uniquely qualified to contribute to the Company's leadership. The Company believes this succession allowed a balanced benefit from both refreshment and continuity. As stated in the 2009 Annual Report and Accounts, the Company planned a period of induction and assimilation to be followed by a continued phased succession, again seeking to benefit from refreshment while maximising continuity of experience.

In accordance with this plan, following a dedicated and productive contribution to the Board, Mr Peter Kingston will retire at the 2011 AGM to devote additional time to his other business interests. An additional vacancy arising upon the retirement of Mr Martin Roberts, having found it necessary to reduce his business interests generally, is being assimilated into the Board's planning. As described in the Nominations Committee section below, the Company is undertaking a process to identify independent Non-Executive Director candidates who could add value to the Board through complementary qualifications. Board roles, including Committee membership and chairmanship, are additionally under review as part of this process.

## 2 Board Structure and Process

The Board typically has four scheduled meetings a year and holds additional meetings as necessary. During 2010, the Board held five scheduled meetings as deemed required for the effective discharge of its duties during the period. Attendance of Directors at scheduled Board meetings and attendance of members at the Audit, Remuneration and Nominations Committees is set out in the table on page 53.

The Board determines the Company's business strategy and provides the entrepreneurial leadership required to ensure its strategic aims

can be achieved. The Board operates within a formal framework of decision making designed to reserve matters of establishing the strategy, business plan and nature or scope of the Company's business to the Board. Under this framework, authority for implementing the strategy and decisions taken by the Board is largely delegated to the Executive Directors and management within a system of internal controls designed to enable the risks of the Group to be managed effectively. Additionally, the Board has established clear expectations for the Company's economic, social and environmental conduct to promote the highest level of integrity and honesty in meeting its obligations to its stakeholders.

SOCO's Board membership comprises a broad range of skills, knowledge and experience, which is critical to the success of the Company. The Board functions as a unitary body, within which Directors assume certain roles to ensure the Board as a whole fulfils its responsibilities. These roles, including Committee memberships, are designed to maximise the effective contribution of each of the Non-Executive Directors to the Board, its Committees and to the Executive Directors, while ensuring an appropriate balance is maintained. The composition of the Board and its Committees is in accordance with Code guidelines. No Director serves on more than two committees. At least annually, the Non-Executive Directors meet without the Executives present and, led by the Senior Independent Director, meet without the Chairman present. Such meetings are conducted in the spirit of good governance and process, and are intended to ensure a forum for open dialogue without disruption of Board unity.

## 3 Conflicts of Interest

Directors have power to authorise, where appropriate, a situation where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. Such authority is in accordance with section 175 of the 2006 Companies Act. Procedures are in place for ensuring that the Board's powers of authorisation are operated effectively. Directors are required to notify the Company of any conflicts of interest or potential conflicts of interest that may arise, before they arise either in relation to the Director concerned or his

connected persons. The decision to authorise each situation is considered separately on its particular facts. Only Directors who have no interest in the matter are able to take the relevant decision, and must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will impose such limits or conditions as they deem appropriate when giving authorisation or when an actual conflict arises. These may include provisions relating to confidential information, attendance at Board meetings and availability of Board papers, along with other measures as determined appropriate. The Board reviews its conflict authorisations at least annually.

## 4 Accountability and Audit

### A Directors' and Auditors' Responsibilities

The responsibilities of the Directors and auditors are set out in the Annual Report of the Directors on pages 42 to 45 and in the Independent Auditors' Report on page 65.

### B Going Concern

The Group's financial statements have been prepared on a going concern basis as described in the Financial Review on page 20 and the Annual Report of the Directors on page 42.

### C Risk Management and 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.

## CORPORATE GOVERNANCE CONTINUED

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

The Board has the primary responsibility for identifying the major business risks facing the Company and Group and developing appropriate policies to manage those risks. The risk management approach is used to focus attention on the Group's most significant areas of risk and to determine key control objectives. The Board has applied Principle C.2 of the Combined Code, by establishing a continuous process, which has been in place throughout the year to the date of this report and which is in accordance with revised guidance on internal control published by the Financial Reporting Council in October 2005, for identifying, evaluating and managing the significant risks the Group faces.

The Board regularly reviews the process, which is constantly evolving to meet the demands of a dynamic environment.

In compliance with Provision C.2.1 of the Combined Code, the effectiveness of the Group's system of internal control, including financial, operational and compliance controls and risk management, is regularly reviewed by the Directors. The review is based principally on discussions with management and on reviewing reports provided by management to consider whether significant risks are identified, evaluated, managed and controlled, but also may include independent interaction with employees or third parties. Particular scrutiny is applied to the review of controls applicable to new or evolving areas of risks as they are identified.

The Board considers whether appropriate actions are taken promptly to correct any significant weaknesses identified, and if more extensive monitoring may be required. The Board confirms that such actions as deemed necessary and appropriate have been or are being taken to remedy any significant failings or weaknesses identified in its review. The Board seeks to ensure that internal control and risk management processes, including dealing with any identified areas of improvement, are embedded within the business.

The Board has performed a specific assessment for the purpose of this Annual Report and Accounts, which considers all significant aspects of internal control arising during the period, and is satisfied with the process employed and the results thereof. The Audit Committee spearheads the Board in discharging its review responsibilities. Audit Committee membership comprises highly experienced professionals with complementary areas of expertise in the oil and gas sector and each Committee member makes an important contribution to the assurance process. Each member undertakes specific review processes in their areas of financial and audit, technical and operating, diplomatic and commercial and legal expertise and reports the results of their work to the full Committee and to the Board.

### D Internal Audit Function

Although the Company does not currently have an internal audit function, the Directors review at least annually the need to establish such a function. The Company's current staff size limits the ability to form an effective internal audit function and, accordingly, the Company outsources any internal audit requirements.

### E Relations with Shareholders

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

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

taken on a show of hands. Directors including the Chairmen of the Audit, Remuneration and Nominations Committees are available to answer shareholder questions and to respond to any specific queries.

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

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

## 5 Committees

The Board has established three Committees, as described below, each having formal terms of reference (TOR) approved by the Board which set out its delegated role and authority. The TORs, which are available for inspection, are set in consideration of the provisions of the Combined Code and are reviewed from time to time in the context of evolving guidance. Each Director's specific Committee memberships, including as Chairmen, are set out on pages 40 and 41. Whilst only Committee members are entitled to attend meetings, other Directors are invited to attend from time to time to ensure the Committees'

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**The Board seeks to ensure that internal control and risk management processes are embedded within the business**

responsibilities are undertaken with access to the Board's full breadth of knowledge and experience. The Company Secretary ensures that the Company additionally provides such resources as the Committees require in the discharge of their duties.

#### **A Audit Committee**

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

#### **Composition of the Audit Committee**

The Audit Committee is chaired by Mr Peter Kingston, the Senior Independent Non-Executive Director, and additionally comprises Mr John Norton, Mr Martin Roberts, Ambassador António Monteiro and Dr Mike Watts who are independent Non-Executive Directors. The qualifications of each of the members are set out on pages 40 and 41. The Board is satisfied that the collective experience of the members includes relevant and recent financial experience and provides the complement of skills required for the Committee to discharge its functions effectively. In particular, Mr Norton is a Chartered Accountant and former member of the Oil Industry Accounting Committee.

#### **Meetings**

The Audit Committee meets at least three times a year. The Chief Financial Officer and a representative of the external auditors are normally invited to attend meetings. Other Directors are invited to attend as determined appropriate or beneficial. At least once a year the Committee meets with the external auditors without executive Board members present.

The Committee held three meetings in 2010 and has conducted one meeting to date in 2011, all of

which were attended by executive management and external auditors. A private session, without executives present, was held during two of these meetings. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members, external auditors and the Company's executives and employees.

#### **Overview of Activities**

The Committee reviewed and approved the terms and scope of the audit engagement, the audit plan and the results of the audit with the external auditors, including the scope of services associated with audit related regulatory reporting services. An assessment of the effectiveness of the audit process was made, giving consideration to reports from the auditors on their internal quality procedures. Additionally, auditor independence and objectivity were assessed, giving consideration to the auditors' confirmation that their independence is not impaired, the overall extent of non-audit services provided by the external auditors (as described further below) and the past service of the auditors who were first appointed in 2002. The Committee also considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditors. The Board concurred with the Committee's recommendation for the reappointment of Deloitte LLP as the Company's auditors for 2011.

The Committee undertook a detailed risk assessment whereby it reviewed existing risks and identified new risks as appropriate. The likelihood and significance of each risk was considered along with associated mitigating factors and was reported to the Board. Any new, or changes to existing risks were monitored throughout the year and considered at each Audit Committee meeting.

The Committee has reviewed, and is satisfied with, the Company's arrangements whereby staff may raise concerns regarding improprieties in confidence, which would be addressed with appropriate follow-up action. On behalf of the Board, the Committee has reviewed the effectiveness of the Company's internal controls and risk management systems, including consideration of an internal audit function, which is more fully described in the Risk Management and Internal Control section of this report.

## CORPORATE GOVERNANCE CONTINUED

The Committee has reviewed and approved the related compliance statements set out therein.

The Committee has additionally reviewed and approved the statements regarding compliance with the Combined Code. The Committee reviewed and discussed with management and the auditors the Company's relevant financial information prior to recommendation for Board approval. This included in particular the financial statements and other material information presented in the annual and half year reports. The Committee considered the significant financial reporting issues, accounting policies and judgements impacting the financial statements, and the clarity of disclosures. The Committee conducted a review of its TOR for continued appropriateness.

### External Auditors – Non-Audit Services

During 2010, the Audit Committee adopted a new policy on the provision of non-audit services which sets out those services which the external auditors may provide and those which are prohibited. The external auditors are appointed primarily to carry out the statutory audit, and their continued independence and objectivity is fundamental to that role. In view of their knowledge of the business, there may be occasions when the external auditors are best placed to undertake other services on behalf of the Group. However, they are precluded from providing any service that would impair their independence or objectivity.

The Audit Committee's policy is to pre-approve all non-audit services provided by the external auditors. Before approving a non-audit service, consideration is given to whether the materiality of the fees, the nature of the service, or the level of reliance to be placed on it by SOCO would create, or appear to create, a threat to independence. If it is determined that such a threat might arise, approval will not be granted unless the Audit Committee is satisfied that appropriate safeguards are applied to ensure independence and objectivity are not impaired. The auditor is prohibited from providing any services which result in certain circumstances that have been deemed to present such a threat, including auditing their own work, taking management decisions for the Group or creating either a mutuality or conflict of interest.

Additionally, the Committee closely monitors the

terms on which the Remuneration Committee, with approval of the Audit Committee, has independently appointed the Company's auditors as advisors. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence and the scope and value of services to the Group is under continuous review.

The Committee approved the non-audit services provided by the external auditors in 2010, having concluded such services were compatible with auditor independence and were consistent with relevant ethical guidance. In particular, the external auditors provided services associated with the disposal of the Group's Thailand interest, which was determined cost effective due to their knowledge of the Group without posing a threat to independence. Details of non-audit services are set out in Note 9 to the financial statements.

### B Nominations Committee

The Nominations Committee is chaired by Mr Rui de Sousa, the Non-Executive Chairman of the Company. It additionally comprises Mr Ed Story, the Chief Executive Officer, and Mr Olivier Barbaroux, Mr John Norton, Mr Robert Cathery and Dr Mike Watts, who are independent Non-Executive Directors. The Committee meets at least once a year. Its primary responsibilities include making recommendations to the Board regarding the appointment and reappointment of Directors and Committee memberships. It is responsible for review and recommendations regarding overall Board structure and composition, succession planning and establishing an ongoing process for evaluating the Board and its members.

The Committee held two meetings in 2010 and has conducted one meeting to date in 2011. Other Non-Executive Directors were in attendance at a portion of these meetings by invitation. Certain Committee functions were delegated to a sub-committee, which acted on behalf of the Committee after an appropriate dialogue among Committee members to ensure a consensus of views. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members and the Company's executives and employees.

During the year the Committee reviewed Board structure, size and composition, including a profile of the skills, knowledge and experience represented on the Board, which was utilised to facilitate the Board's review of Director independence, including tenure in particular. The Committee made recommendations to the Board concerning plans for succession reflecting the need for refreshment while taking into account the skills and experience needed on the Board to meet the specific challenges and opportunities facing the Company. The results of these reviews were in turn utilised in developing the Committee's recommendations regarding potential Board appointments as well as for continuation in office and reappointment of retiring Directors.

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

### Process for Board Appointments

The Committee has a process in place for identifying and nominating candidates to fill vacancies which may arise from time to time, including ensuring Board membership is sufficiently refreshed and retains an appropriate balance of skills and experience. The Committee develops an appropriate description of the role, estimated time commitment and the capabilities which would complement the composition of the Board and its Committees. The Committee would expect to utilise an independent external advisor to facilitate any search. A diverse list of candidates is compiled and a rigorous review process undertaken, involving other Board members as deemed appropriate. Committee recommendations, which are to be made on merit, against objective criteria and with due regard for the benefits of diversity, are submitted for full Board approval. The Company Secretary facilitates induction upon appointment. The Committee is currently conducting a search utilising this process to identify successful candidates who are independent, present complementary skills and will provide refreshment to the Board and its Committees.

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## The Board plans to utilise an external facilitator in its 2011 evaluation of its performance

### Performance Evaluation

During 2010, the Committee led the Board in evaluating its own performance and that of its Committees and individual Directors. The Company Secretary facilitated compilation of the results. The Senior Independent Director facilitated relevant discussions regarding the role of the Chairman. The process was undertaken for the purpose of adding value to the quality of the Board and its procedures through identifying and addressing strengths and weaknesses. The process was utilised to assess Director effectiveness and the time commitments of Non-Executive Directors. Additionally, it was utilised to assess training and development needs of each Director, which were reviewed by the Chairman in accordance with Code 2010. Actions for improvement were undertaken as deemed appropriate. The Committee performed a review of its TOR as part of this process.

In accordance with Code 2010, wherein an externally facilitated evaluation of the Board should

be conducted at least every three years, the Committee plans to utilise an external facilitator in its 2011 evaluation of the Board's performance.

### Remuneration Committee

The Remuneration Committee is chaired by Mr Peter Kingston, the Senior Independent Non-Executive Director, and additionally comprises Mr Olivier Barbaroux, Mr Martin Roberts, Mr Robert Cathery and Ambassador António Monteiro, who are independent Non-Executive Directors. The names and qualifications of each of the members are set out on pages 40 and 41. The Committee is responsible for recommending for approval by the full Board the remuneration of the Chairman, the Executive Directors and the Company Secretary. During 2010, the Committee conducted a review of its TOR for continued effectiveness. Details of the Committee's policies and objectives are set out in the Directors' Remuneration Report on pages 54 to 61.

### Meeting Attendance by Directors and Committee Members

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nominations Committee Meeting
R de Sousa	●●●●●			●●
P Kingston	●●●●●	●●●	●●	
O Barbaroux	●●○●●		●●	●●
R Cagle	●●●●●			
R Cathery	●●●●●		●●	●●
E Contini	●●●●●			
A Monteiro	●●●●●	●○●	●●	
J Norton	●●●●●	●●●		●●
M Roberts	●●●●●	●●●	●●	
E Story	●●●●●			●●
M Watts	●●●●●	●●○		●●

● Denotes a scheduled meeting attended

○ Denotes a scheduled meeting not attended

## DIRECTORS' REMUNERATION REPORT

### HOW WE REWARD OUR SENIOR MANAGEMENT AND BOARD OF DIRECTORS

#### Dear Shareholders

On behalf of the Board, I am pleased to present the remuneration report for the financial year ended 31 December 2010.

The Remuneration Committee regularly reviews executive remuneration arrangements to ensure that they remain aligned with the interests of shareholders and the overall business strategy. During 2010, the Committee concluded that the current arrangements continued to be effective in achieving these aims. Key decisions during the year were as follows:

- **No salary increases.** Executive directors' salaries will be frozen for the year ending 31 December 2011.
- **Scaled back bonus awards.** Despite a well executed executive performance, bonuses were awarded below target, recognising that the year's exploration drilling did not add value for shareholders through the addition of new reserves.
- **No increase in annual or long term incentive opportunity.** The Committee believes it has an appropriate mix between fixed and variable remuneration, and that the annual and long term incentive maxima also remain appropriate.
- **Renewal of our long term incentive plan.** Our current LTIP will terminate in May 2011. A new LTIP will be submitted for shareholder approval at our 2011 AGM. This new LTIP is substantially similar to the current LTIP and incorporates a number of best practice features which have evolved since adoption of the original plan. Full details are set out in the 2011 AGM Notice.

The Committee continues to monitor corporate governance and best practice developments in the executive remuneration environment and will incorporate further best practice features as appropriate. The Committee also takes an active interest in shareholder views and the voting on the remuneration report, and hopes to receive your support at the upcoming AGM.

**Peter Kingston**  
Remuneration Committee Chairman

The Directors' Remuneration Report has been prepared in accordance with Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Services Authority. The disclosures contained in this report that are specified for audit by the regulations and are covered in the scope of the Independent Auditors' Report on page 65, are separately identified below and (where relevant) are presented in US dollars consistent with the Group's audited financial statements. A resolution to approve the report will be proposed at the forthcoming Annual General Meeting (AGM).

The Company has complied throughout the period with the provisions relating to Directors' remuneration set out in the Combined Code on Corporate Governance (the Code), issued by the Financial Reporting Council (FRC) in 2008. Additionally, the Company's processes are already in line with the UK Corporate Governance Code issued by the FRC in 2010, which takes effect in future accounting periods. The Company has applied the principles set out in Code provisions and in Schedule A to the Code as described below.

#### Remuneration Committee

The independent Non-Executive Directors who serve on the Remuneration Committee are set out on page 53. The Board is keenly aware of its duty to ensure, on behalf of shareholders, that the Committee is wholly independent. All members are independent of management and free from any conflicts of interest arising from cross-directorships or day-to-day involvement in running the Company's business. No member has any personal financial interest, other than as shareholders, in the matters delegated to the Committee. No Director plays a role in deciding his own remuneration.

The Company's process for assessing independence and balancing the Board's and Committees' requirements for retention of experience with succession and refreshment are set out in the Corporate Governance Report on pages 46 to 53. The Board applies a specific set of focused criteria in the assessment of long tenured Directors, in particular, in consideration of concurrent tenure with Executive Directors. After careful consideration, the Board has determined

that the tenure of Mr Peter Kingston and Mr Olivier Barbaroux has not affected their independence or their ability to bring independent judgement to bear in the discharge of their duties, and we believe that each of these Directors continues to display an appropriate independence from Executive Directors. In 2009, Committee membership was refreshed with the addition of two independent Non-Executive Directors and 2010 has been a period of induction and assimilation. Being satisfied of his continued independence, the Board considers that Mr Kingston's chairmanship has continued to be in the best interest of the Company, and that his extensive relevant experience and continued attention to evolving market practice best positioned him to provide the independent leadership and guidance required by the Committee and, in particular, its new members. Mr Kingston will retire at the 2011 AGM, and the Board is undergoing a review of its Committee Chairmanships as part of its recruitment process, as described more fully in the Corporate Governance Report on pages 46 to 53.

The Board will continue to apply rigorous scrutiny in its assessment to ensure independence remains evident in the Committee's policies and proposals, and in the qualities and behaviours of its members. Evidence of adherence to best practice in terms of corporate governance guidelines and the advice of independent advisors are factors considered in the assessment. Additional information regarding the Committee is contained in the Corporate Governance Report on pages 46 to 53.

The Committee is responsible for determining and agreeing with the full Board a Company-wide remuneration policy that is aligned with the Company's business strategy and ultimately the creation of shareholder value. Within the context of that policy, the Committee is responsible for setting the total remuneration packages of the Executive Directors and the Company Secretary. The Committee also monitors the remuneration practices and trends throughout the Group's internationally based workforce, including senior staff who contribute most significantly to achieving the Company's strategic aims. Additionally, the Committee is responsible for setting the remuneration of the Non-Executive Chairman. The Committee's recommendations

and decisions are developed in full consideration of the Code, institutional guidelines and evolving market practice, with particular attention being given to the challenges represented by the current economic environment.

In discharging its duties during the year, the Committee consulted with the other Non-Executive Directors, and its proposals were approved by the full Board. In particular, the Committee has sought advice as it considers appropriate from Mr Rui de Sousa. As a significant shareholder, he provides the Committee with a valuable insight into likely shareholder concerns around executive remuneration. The Committee consulted with the Chief Executive on its proposals for the other Executive Director and senior management, and received administrative assistance from the Company Secretary. The Audit Committee is consulted as deemed appropriate in setting and assessing the fulfilment of targets based on financial terms.

Deloitte LLP (Deloitte), who have voluntarily signed up to the Remuneration Consultants' Code of Conduct, were independently retained by the Committee as advisors and provided advice on executive remuneration in terms of relevant current market practice and developments in best practice guidance, and in particular on the testing and setting of performance criteria for incentive plans. The original appointment of advisors resulted from a tender process and alternate advisors are considered from time to time. Deloitte also provided audit services to the Group, as set out in Note 9 to the financial statements and described more fully in the Corporate Governance Report on pages 46 to 53. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence, and the scope and value of services to the Group is under continuous review. Advice is developed with use of established methodologies and the advisors are not involved in the decision making process. Advisory partners and staff have no involvement in audit, and are not involved in the preparation of audited information.

#### Remuneration Policy

The policies described in this report have been applied throughout 2010. The Committee monitors remuneration policies on an ongoing basis,

including its arrangements for performance based pay against evolving market practice and relevant guidance and with due regard to the current economic climate. Any proposed change which is material is only implemented following a full review and approval process deemed appropriate to such change. Where appropriate, shareholders would also be consulted about any change in remuneration policy.

The Directors believe that a uniquely qualified and motivated executive management is vital to the effective management of the Company's international portfolio and the successful execution of the Company's stated strategy for building shareholder value. It is the Committee's objective to attract, motivate and retain high calibre executives through market competitive remuneration that is appropriate to those individuals' positions, experience and value to the Company.

The Committee aims to design remuneration packages with significant performance related elements linking appropriate, but significantly greater, rewards for greater achievements. The Committee seeks to ensure performance based pay is linked to its business strategy. To achieve this, shorter term performance is monitored against targets based on the Company's strategic plan. In the longer term, performance targets are more closely linked to share price performance as an indicator of the Company's success in building shareholder value. Within this broad framework, the Committee takes particular care to ensure that remuneration is designed to promote the long term success of the Company and does not reward excessive risk taking or failure.

#### Executive Directors

The Committee reviews all aspects of remuneration on an annual basis and with respect to individual and corporate performance during the year. These reviews are normally conducted in December. The projected value and structure of the Executive Directors' remuneration packages are periodically benchmarked against competitive market ranges. During this exercise, the Group's size and complexity and relative positioning within those ranges are taken into account in the context of the Executive Directors' critical value to the Company and demonstrated performance over time.

Results of benchmarking exercises are monitored for indications of potential unwarranted upward ratcheting. Pay conditions elsewhere in the Company are taken into account to ensure the relationship between the pay of the Company's Directors and its employees remains appropriate. Similar benchmarking techniques are applied to non-Board employees and the Committee monitors senior staff remuneration packages during the review of Executive Directors' remuneration packages.

#### Package Components

Executive remuneration comprises a fixed basic salary and eligibility to receive an annual performance based cash bonus. Individuals may also be eligible to receive awards under long term incentive plans designed to provide reward linked to the longer term performance of the Company.

At target performance the Executive Directors' packages are structured to deliver 60% of the total package in variable remuneration. At exceptional performance levels this increases to 80% of the total package.

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

#### Basic Salary

Basic salaries for the Executive Directors (who are both US citizens) are denominated in US dollars, consistent with the Group's reporting currency and the primary currency of Group operations. Basic salary is fixed at appointment or in relation to changes in responsibility, and is reviewed annually. Particular care is given in fixing the appropriate salary level considering that cash bonus and incentive plan awards are generally set as a fraction or multiple of basic salary. Basic salary is the only element of a Director's pay which is pensionable. Annual reviews take into consideration advice from remuneration consultants regarding relevant current market practice for salary levels and salary increases, as well as demonstrated performance. Following the annual review conducted in December 2010, it was determined that basic salary levels would remain unchanged for 2011.

## DIRECTORS' REMUNERATION REPORT CONTINUED

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**The performance measures for 2011 are intended to focus behaviour and activity required to grow the business over the longer term**

### Bonus

Bonus awards are considered in two levels, wherein expected performance will result in awards in a target range of up to 50% of salary, with a stretch level providing a maximum annual cash bonus opportunity of up to 100% of salary. The Remuneration Committee, however, reserves the right to exercise its discretion and award a bonus above this maximum amount in the event of truly exceptional performance in the year.

The annual cash bonus is awarded based on individual and corporate achievements during the year towards goals based on the Company's strategic plan. Goals are set annually for each portion of the Company's portfolio aimed at achieving the specific challenges the Company faces in meeting its strategic objectives. The monitored measures for particular projects may include specified timetables for seismic, drilling and construction programmes, drilling success ratios, discovery targets, reserve levels and production targets. Portfolio objectives are set regarding progress towards potential non-core asset divestitures and new ventures. Corporate goals, safety and environmental measures and financial measures against budgeted levels are additionally established as deemed appropriate.

The performance measures for 2011, including both financial and non-financial measures, are intended

to focus behaviour and activity towards deploying the Company's strategy of progressing projects, capturing their potential and realising value for shareholders at an appropriate stage. This emphasises achievements required to grow the business over the longer term rather than short term revenues, and avoids promoting excess risk taking to achieve a short term bonus opportunity. The actual achievement of each goal is ranked against a scale of expectations. The Committee retains discretion over the amount of bonus paid out to ensure that appropriate consideration is given to the relative importance of the achievements in the year and the actual contribution of these towards furthering the Company's strategic plan. The specific targets set against these measures are considered to be commercially sensitive and are therefore not set out herein. However, we can broadly indicate that performance measures in 2011 will include goals associated with the Vietnam development project, which is of major significance to the Company. Goals targeting appropriate stewardship of the Company's resources in the current economic environment will continue to be emphasised. Additionally, objectives over safety and environmental measures will remain a priority in consideration of expanded operations in Africa, and in particular the security and environmental matters relevant to activities in eastern Democratic Republic of Congo (Kinshasa) (DRC).

The corporate and operational goals for 2010 were well executed, indicating a solid Executive performance. The Te Giac Trang (TGT) project is the largest development project in SOCO's history and is of major significance to the Company. Benchmark targets critical to progressing the accelerated development programme on schedule for a 2011 start-up were met. Measurement is based on the achievement of key milestones and the comparison of actual versus planned progress on the overall construction programme as well as certain specific critical components. The sale of the Group's non-core Thailand asset was completed, realising a profit on disposal of \$80.1 million. The Company successfully attracted a strategic partner to farm into the Nganzi Block in western DRC and participate in the Block's 2010 exploration drilling programme. Corporate goals focused on protecting a strong financial standing and ensuring

appropriate funding for the Group's programmes. The measure of performance is evidenced by the year end cash position of over \$260 million, reflecting cash flows from operations, the successful January 2010 share placing and the sale of the Thailand asset, which provided the flexibility to comfortably repay \$165.9 million of convertible bonds and fund the most active capital expenditure programme in the Company's history. The Group's 2010 programmes were efficiently executed, meeting financial measures as well as non-financial measures associated with health, safety and environmental matters. The TGT drilling programme has been successfully executed with all wells coming in at or better than pre-drill prognosis. However, although exploration is inherently risky and exploration drilling success statistically unlikely, the Executive goals included creating shareholder value by adding new oil reserves through success in the 2010 exploration drilling programme. This goal was not achieved, and was given particular weighting in the year's assessment. Accordingly, bonuses of 25% of salary were awarded to Mr Ed Story and Mr Roger Cagle, reflecting a below target level.

### Long Term Incentive Plans

The SOCO International plc Long Term Incentive Plan (LTIP) will terminate in May 2011 without prejudice to the subsisting participants. The Board has recommended the introduction of a new plan which will be submitted for shareholder approval at the 2011 AGM (the New LTIP). The New LTIP is intended to provide a continued mechanism for motivating and retaining Directors and senior staff members in a way that is aligned with shareholders' interests. The New LTIP is substantially similar to the LTIP it is replacing, however incorporating certain best practice features which have evolved since adoption of the original LTIP. Further details of the New LTIP are set out in the Annual Report of the Directors on pages 42 to 45, and in the notice of the 2011 AGM.

Participation in the Company's LTIP is discretionary and determined in consideration of corporate and individual performance. Awards are subject to limits on individual participation whereby the market value, as measured at the date of grant, of shares subject to awards made in any financial year will not exceed 200% of the executive's

total earnings in that year, except in exceptional circumstances on appointment. The Committee, however, has a policy of operating within the more restrictive annual limit of 200% of the executive's base salary.

An employee benefit trust currently holds sufficient SOCO shares to satisfy all shares conditionally awarded under the LTIP, as more fully described in Note 26 to the financial statements. Decisions governing acquisitions of shares into the trust are considered and approved by the full Board. In line with corporate governance guidelines, the aggregate number of new issue shares which may be subject to awards under all relevant executive share schemes shall not exceed 5% of the ordinary share capital of the Company in any rolling ten year period. Accordingly, at 31 December 2010, 17.0 million new issue shares (2009 – 15.1 million) may be subject to awards, of which there is available capacity remaining of 11.4 million shares (2009 – 7.7 million).

At the date of grant of an award, the Committee sets appropriate performance criteria and measures these accordingly on the third anniversary of the date of grant to determine the portion of the award vesting. LTIP awards are considered in the course of the annual review in December, which is intended to put in place an opportunity for regular annual vesting based on performance targets achieved over successive three year periods. When setting award levels, the stretch of performance targets is taken into account to ensure that projected total compensation opportunity at assumed levels of share price growth is market competitive. Once the Committee determines performance criteria have been met, there may additionally be a requirement that awards be held for a specified retention period prior to exercise or receipt.

The Remuneration Committee's selection of performance criteria is kept under review to ensure these measures remain appropriate to SOCO's circumstances and strategy, and most effectively support the delivery of value creation over time. While the Committee has taken into account the potential impact of market volatility on a relative total shareholder return (TSR) measure, it continues to provide the primary

basis for determining the value generated for shareholders over the longer term. Furthermore, it is the primary indicator of the Company's overall corporate performance. The Committee also believes that underpinning TSR results by reference to the Group's oil and gas reserves, a key business metric, provides an appropriate complement for considering that relative TSR is a genuine reflection of underlying performance. Accordingly, no change to the performance measure is proposed, as the Company's long term goals remain unchanged and the Committee considers it will continue to most closely align the executives' interests to those of shareholders. Performance targets for awards to date have been set with reference to the Company's relative TSR performance over a three year period against a range of comparator companies in the oil exploration and production sector. Prior to the vesting of an award, the achievement of actual underlying financial and operational performance of the Company will also be considered by the Committee. For awards to date, this 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.

In consideration of corporate and individual performance, along with the intent to retain and motivate with an appropriate level of reward clearly focused on long term stability, discretionary awards in 2010 were granted over shares with a market value of 190% of base salary. The TSR comparator group for awards made in respect of the periods between 2008 and 2010 is set out below:

Afren\*, Bowleven, Cairn Energy, Coastal Energy\*, Dana Petroleum, DNO International\*, Gulfsands Petroleum\*, Hardy Oil and Gas\*, Heritage Oil\*, JJKX Oil and Gas, Lundin Petroleum\*, Maurel & Prom\*, Newfield Exploration\*, Nexen\*, Niko Resources\*, Oil Search\*, Premier Oil, Regal Petroleum, ROC Oil, Salamander Energy, Santos\*, SOCO, Sterling Energy, Talisman Energy\*, Tullow Oil.

\*The 2008 comparator group did not include these companies, which were added as comparators for the 2009 awards, and originally included Aminex, and additionally included First Calgary and Venture Production who have subsequently been de-listed.

Measurement of the Company's performance criteria is carried out with reference to external data sources provided by the Committee's remuneration advisors to ensure its independence. No award will vest if the TSR ranking is below the median. If ranking exceeds the median, 30% of the award will become capable of vesting, with full vesting only for performance in the top 16 percentile. The actual vesting percentage will be calculated on a pro rata basis between ranking positions to more closely reflect SOCO's actual TSR performance relative to the next highest and lowest comparators.

Following measurement of the Company's performance against the comparator group for awards granted in 2007, 34% of the awards have been declared vested. The Committee is satisfied that the performance criteria measurement has resulted in a vesting level appropriate to the underlying performance of the Company over the performance period. Those awards not declared vested have lapsed.

Further details of incentive share awards are set out in the table on page 60 and in Note 27 to the financial statements. Charges which have been reflected in the Group's income statement in respect of incentive schemes are set out in Note 27 to the financial statements.

### Share Option Plan

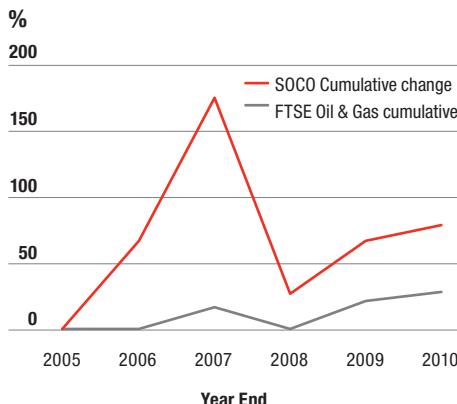
The SOCO 2009 Discretionary Share Option Plan (the Plan) is intended to provide flexibility in motivating and retaining senior staff members. No awards have been granted under the Plan. There is no current intention for Executive Directors to participate.

### Pension Contributions

In respect of the Executive Directors, who are both American citizens, the company contributes 15% of salary each year into a money purchase pension scheme or other arrangements. In 2009 contributions were made to two money purchase schemes. Since the termination of one of these plans, contributions are made to the remaining money purchase plan up to the scheme limit and the balance delivered in a form determined by the Committee, which can include a cash supplement or a contribution to a trust or retirement benefit

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Total Shareholder return



scheme. It is anticipated that in future the remainder will be delivered as a cash supplement. No changes in contribution levels are currently contemplated.

### Other Policies

With prior approval of the Board, Executive Directors are allowed to accept non-executive appointments on other boards and to retain the associated directors' fees. Under this policy Mr Ed Story serves on the board of Cairn India Limited for which he retained associated fees for 2010 in the amount of \$1,200. Mr Roger Cagle serves on the boards of Vostok Energy Limited and Dominion Petroleum Limited and retained associated fees for 2010 in the amount of £40,000.

The Executive Directors have held, and continue to build, a meaningful shareholding since founding the Company in 1997. Accordingly, and giving due respect to the Executives' demonstrated actions, the Board has not set this requirement out in policy. An appropriate policy regarding shareholding targets will be given consideration upon any prospective Executive Director appointment.

### Non-Executive Directors

The remuneration of the Non-Executive Chairman is set by the Committee and approved by the Board. The remuneration for other Non-Executive Directors is recommended by the Chief Executive and the Chairman and determined by the Board as a whole. Remuneration levels are set based on outside advice and the review of current practices

in other companies, giving consideration to the time commitment and responsibilities of the role. In consideration of increasing demands and fee levels in recent years generally, SOCO has given particular attention to benchmarking data to ensure its fees remain appropriate. Based on these factors, the annual fees payable to the Chairman were set at £180,000 with effect from 1 January 2011. Annual fees for services payable to the Non-Executive Directors remain unchanged from those rates reflected in the table opposite. The fees have been set within the aggregate limits set out in the Company's Articles of Association and approved by shareholders. Non-Executive Directors are not eligible for participation in the Company's incentive schemes or pension schemes.

### Directors' Contracts

Executive Directors' contracts are for an indefinite period and are terminable by either party on giving one year's notice which may be satisfied with a payment in lieu of notice. The contracts do not contain specific termination provisions. The Committee has a duty to prevent the requirement to make payments that are not strictly merited, and endorses the principle of mitigation of damages on early termination of a service contract. Any payment on early termination will be assessed on the basis of the particular circumstances, but in any event will not be in respect of any period beyond the one year specified by contract. The Non-Executive Directors' appointments are terminable at the will of the parties but are envisaged to establish an initial term of three years after which they will be reviewed annually. The dates of the Directors' service contracts or letters of appointment, which may not coincide with their initial date of appointment, are set out in the Annual Report of the Directors on page 43.

### 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 \$1,000.

In March 2008, the Company, through its Group subsidiary, entered into a production sharing contract over Block V, located in eastern DRC. Mr Roger Cagle is the Non-Executive Chairman of Dominion Petroleum Limited, one of the co-venturers.

Under the terms of an acquisition approved by shareholders in 1999, the Company and its strategic shareholder group (Investor Group), including Quantic Limited (Quantic) in which Mr Rui de Sousa has a non-notifiable share interest, jointly participate in certain regions in which the Investor Group utilises its long established industry and government relationships to negotiate and secure commercial rights in oil and gas projects. In the 2004 Annual Report and Accounts the form of participation to be utilised was set out to be through equity shareholdings in which the Investor Group holds a minority interest in special purpose entities created to hold such projects. The shareholding terms have been modelled after the SOCO Vietnam Ltd arrangement which was negotiated with third parties. Quantic's minority holdings in the subsidiary undertakings, which principally affected the profits or net assets of the Group, are shown in Note 17 of the financial statements. The Group has entered into a consulting agreement, which is terminable by either party on thirty days written notice, wherein Quantic is entitled to a consulting fee in the amount of \$50,000 per month in respect of such services as are required to review, assess and progress the realisation of oil and gas exploration and production opportunities in certain areas.

Warrants to subscribe for the same number of ordinary shares in the Company, which were acquired under the terms of the 1999 transaction described above, were exercised during the period by a connected party to Mr Rui de Sousa over 6,036,804 ordinary shares at a weighted average market price of £3.99, resulting in a gain of £23.2 million on exercise.

Director's Emoluments (Audited)	Fees/basic salary \$000's	Benefits in kind <sup>1</sup> \$000's	Annual bonus \$000's	Total 2010 \$000's	Total 2009 \$000's
<b>Executive Directors</b>					
E Story	838	54	210	1,102	1,269
R Cagle <sup>2</sup>	629	90	157	876	963
<b>Non-executive Directors<sup>3</sup></b>					
R de Sousa	232	—	—	232	236
P Kingston <sup>4</sup>	100	—	—	100	102
O Barbaroux	62	—	—	62	63
R Cathery	62	—	—	62	63
E Contini	62	—	—	62	63
A Monteiro	62	—	—	62	35
J Norton	62	—	—	62	63
M Roberts	62	—	—	62	63
J Snyder	—	—	—	—	28
M Watts	62	—	—	62	24
Aggregate emoluments	2,233	144	367	2,744	2,972

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

<sup>2</sup> \$0.5 million of Mr Roger Cagle's basic salary was paid as an employer contribution to a retirement benefit plan.

<sup>3</sup> Non-executive Directors' fees are set in GB pounds and have been reported in US dollars at the annual average exchange rate.

<sup>4</sup> Emoluments receivable by Mr Peter Kingston are paid to Peter Kingston & Associates.

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

#### Directors' Pension Entitlements (Audited)

Money purchase contributions or cash supplements where appropriate in respect of the Executive Directors were as follows:

	2010 \$000's	2009 \$000's
E Story	126	122
R Cagle <sup>5</sup>	94	92
	220	214

<sup>5</sup> As noted above, in addition to this, \$0.5 million of Mr Roger Cagle's basic salary was paid as an employer contribution to a retirement benefit plan.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Directors' Incentive Share Awards (Audited)

Details of Directors' options or rights to acquire ordinary shares in the Company (which have been restated to reflect the share subdivision described in Note 25 to the financial statements) are as follows:

	As at 1 Jan 2010	Granted/ Awarded	Exercised	Lapsed	At 31 Dec 2010	Date potentially exercisable <sup>2</sup>	Expiry date
<b>E Story</b>							
Deferred Bonus	640,000	–	640,000	–	–	01.01.03	21.03.11
LTIP <sup>1</sup>	700,560	–	700,560	–	–	24.05.04	23.05.11
	615,360	–	615,360	–	–	10.12.01	09.12.11
	131,216	–	131,216	–	–	18.12.09	–
	150,800	–	51,272	99,528	–	12.12.10	–
	257,600	–	–	–	257,600	07.01.12	–
	288,800	–	–	–	288,800	17.12.12	–
	–	277,600	–	–	277,600	10.12.13	–
<b>R Cagle</b>							
Deferred Bonus	448,000	–	448,000	–	–	01.01.03	21.03.11
LTIP <sup>1</sup>	490,320	–	490,320	–	–	24.05.04	23.05.11
	430,800	–	430,800	–	–	10.12.01	09.12.11
	98,412	–	98,412	–	–	18.12.09	–
	113,200	–	38,488	74,712	–	12.12.10	–
	193,200	–	–	–	193,200	07.01.12	–
	216,400	–	–	–	216,400	17.12.12	–
	–	208,200	–	–	208,200	10.12.13	–

<sup>1</sup> Additional details regarding the LTIP are set out within this report.

LTIPs were exercised during the period by Mr Ed Story and Mr Roger Cagle over ordinary shares at a weighted average market price of £3.65 and £4.06, respectively, resulting in a gain of £7.8 million and £6.1 million on exercise, respectively.

Those awards set out as exercisable prior to 1 January 2008 are in the form of nil price options to acquire ordinary shares. Awards exercisable subsequently are in the form of contingent rights to acquire ordinary shares at no cost. Vesting of the awards set out as exercisable after 1 January 2011 and delivery of ordinary shares remains conditional upon performance criteria and consideration of Model Code restrictions.

<sup>2</sup> Options may not be exercised without appropriate Board consents, the Board having given consideration to any requirements on participants to maintain a specified minimum number of ordinary shares under option (or equivalent shareholding requirements).

The market price of the ordinary shares at 31 December 2010 was £3.696 and the range during the year to 31 December 2010 was £2.92 to £4.842.

### Directors' Interests

The Directors who held office at 31 December 2010 had the following interests (all of which were beneficial except as noted below) in the ordinary shares in the Company, warrants to subscribe for the same number of ordinary shares (Warrants) and contingent rights or options to acquire ordinary shares (Options) at 31 December 2010 (which have been restated to reflect the share subdivision described in Note 25 to the financial statements):

	Number of Shares		Number of Options <sup>1</sup>		Number of Warrants	
	2010	2009	2010	2009	2010	2009
<b>Executive Director</b>						
E Story	<b>12,856,794</b>	11,497,836	<b>824,000</b>	2,784,336	–	–
R Cagle <sup>2</sup>	<b>8,617,916</b>	7,123,076	<b>1,039,000</b>	3,305,596	–	–
<b>Non-Executive Director</b>						
R Sousa <sup>3</sup>	<b>8,908,820</b>	3,080,304	–	–	–	6,036,804
P Kingston	<b>16,000</b>	16,000	–	–	–	–
O Barbaroux	<b>88,000</b>	80,000	–	–	–	–
R Cathery	<b>400,000</b>	400,000	–	–	–	–
E Contini	<b>220,000</b>	220,000	–	–	–	–
A Monteiro	–	–	–	–	–	–
J Norton	<b>460,000</b>	460,000	–	–	–	–
M Roberts	<b>20,000</b>	20,000	–	–	–	–
M Watts	<b>72,670</b>	24,080	–	–	–	–

<sup>1</sup> Details of Options granted to or held by the Directors in respect of their services as a director, including any relevant conditions of exercise, are set out in the table of Directors' Incentive Share Awards.

<sup>2</sup> At 31 December 2010, Mr Roger Cagle's interests included 3,139,439 ordinary shares (2009 – 2,548,212) and 421,200 Options (2009 – 1,315,264) held by Ms Cynthia Cagle, the Options having been granted to her in respect to her services to the Group.

<sup>3</sup> 200,000 ordinary shares (2009 – 194,608) are held by Mr Rui de Sousa personally. 8,708,820 ordinary shares (2009 – 2,885,696), nil Warrants (2009 – 221,344) at an exercise price of £0.1375 per Share, nil Warrants (2009 – 3,700,748) at an exercise price of £0.15 per Share and nil Warrants (2009 – 2,114,712) at an exercise price of £0.1625 per Share are held by Palamos Limited, a connected person to Mr de Sousa.

Whilst the Executive Directors, as potential beneficiaries, are technically deemed to have an interest in all ordinary shares held by the SOCO Employee Benefit Trust (Trust), the table above only includes those ordinary shares which are potentially transferable to the Directors and their families pursuant to Options which have been granted to them under incentive schemes facilitated by the Trust. Details of the Trust and its holdings are set out in Note 26 to the financial statements.

There have been no other changes in the interests of the Directors between 31 December 2010 and the date of this report. No Director held any other interests in any Group companies.

### Approval

This report was approved by the Board of Directors on 22 March 2011 and signed on its behalf by:

**Peter Kingston**  
Remuneration Committee Chairman

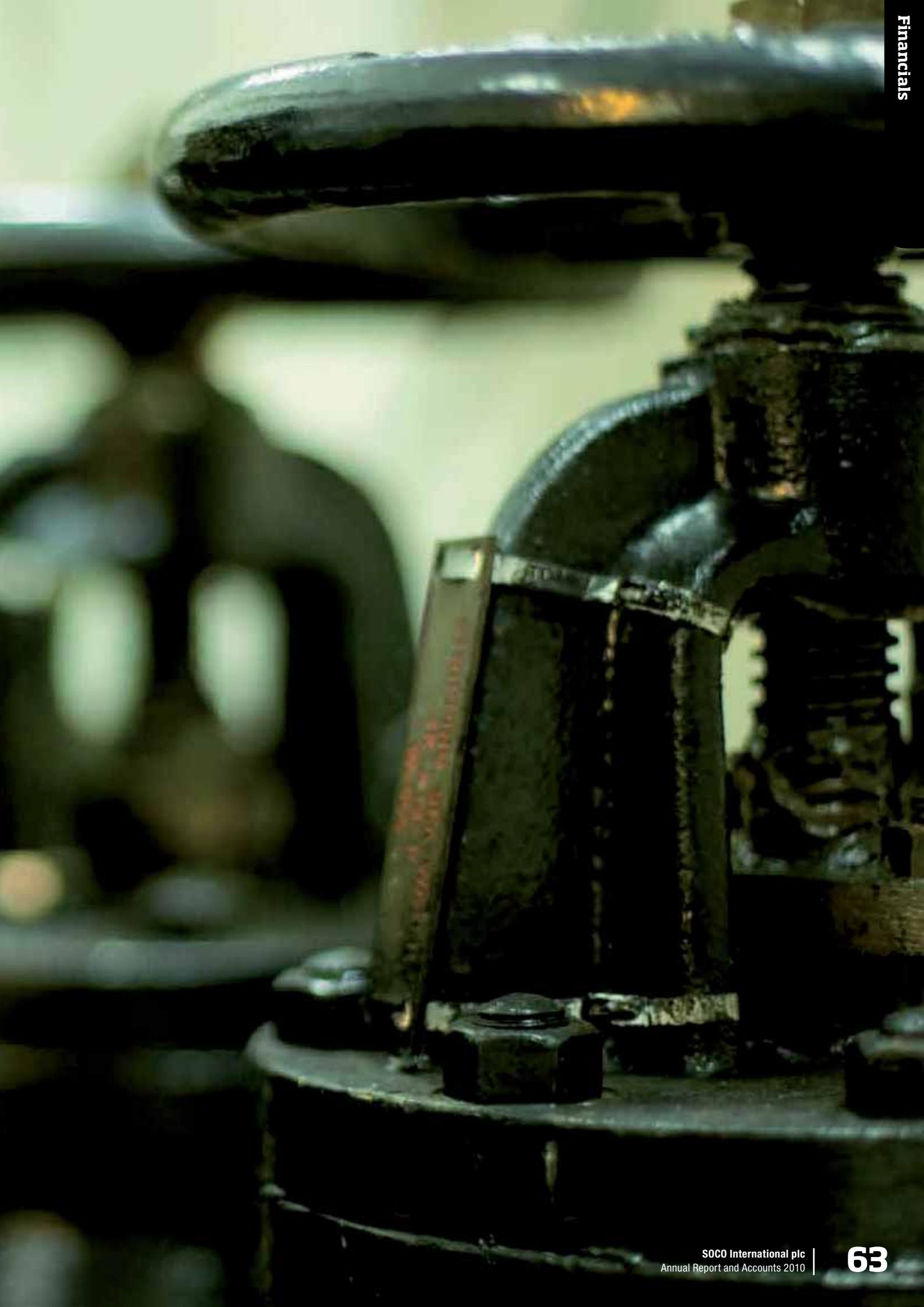
# FINANCIALS

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After tax profit for the year, \$101.4 million, almost doubled that of 2009 (\$51.1 million) largely on the back of the disposal of the Group's Thailand asset (gain of \$80.1 million).





## **2010 FINANCIALS**



Left: **Robert Harris, Corporate Financial Controller**

Right: **Neil Gibson, Manager – Group Reporting, Taxation & Treasury**

“

Financial results for 2010 had three major non-operating catalysts - a share placing; a put option exercise by a portion of the convertible bondholders and the disposal of one of the Company's producing assets.

**Robert Harris**

Corporate Financial Controller

The net of these events is a further strengthening in the Group's financial position allowing it to fully fund existing exploration and development programmes.

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# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOCO INTERNATIONAL PLC

We have audited the financial statements of SOCO International plc for the year ended 31 December 2010 which comprise the Group Income Statement, the Group and parent Company Statements of Comprehensive Income, the Group and parent Company Balance Sheets, the Group and parent Company Statements of Changes in Equity and the Group and parent Company Cash Flow Statements, and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

## Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, contained within the Annual Report of the Directors, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

**David Paterson**  
(Senior Statutory Auditor)  
for and on behalf of Deloitte LLP

**Chartered Accountants and Statutory Auditor**  
London, United Kingdom  
22 March 2011

## Financials

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR TO 31 DECEMBER 2010

	Notes	2010 \$000's	2009 \$000's
<b>Continuing operations</b>			
Revenue	5, 6	<b>48,390</b>	69,339
Cost of sales		(12,395)	(10,914)
<b>Gross profit</b>		<b>35,995</b>	58,425
Administrative expenses		(6,858)	(6,785)
<b>Operating profit</b>	9	<b>29,137</b>	51,640
Investment revenue	5	<b>1,301</b>	2,554
Other gains and losses	7	<b>938</b>	1,694
Finance costs	8	(525)	(1,160)
<b>Profit before tax</b>	6, 9	<b>30,851</b>	54,728
Tax	6, 11	(18,548)	(19,915)
<b>Profit for the year from continuing operations</b>		<b>12,303</b>	34,813
<b>Discontinued operations</b>	12		
Operating profit from discontinued operations		<b>36,473</b>	38,811
Other gains and losses on discontinued operations	7	<b>1,067</b>	21
Finance costs of discontinued operations	8	(53)	(66)
Profit on disposal		<b>80,116</b>	–
<b>Profit before tax from discontinued operations</b>	6	<b>117,603</b>	38,766
Tax	6, 11	(28,474)	(22,461)
<b>Profit for the year from discontinued operations</b>		<b>89,129</b>	16,305
<b>Profit for the year</b>	9	<b>101,432</b>	51,118
<b>Earnings per share (cents)</b>	14		
From continuing operations		<b>3.8</b>	11.8
From discontinued operations excluding profit on disposal		<b>2.7</b>	5.5
From profit on disposal		<b>24.4</b>	–
<b>Basic</b>		<b>30.9</b>	17.3
From continuing operations		<b>3.5</b>	10.6
From discontinued operations excluding profit on disposal		<b>2.5</b>	4.8
From profit on disposal		<b>22.4</b>	–
<b>Diluted</b>		<b>28.4</b>	15.4

# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR TO 31 DECEMBER 2010

	Note	Group		Company	
		2010 \$000's	2009 \$000's	2010 \$000's	2009 \$000's
Profit (loss) for the year	13	<b>101,432</b>	51,118	<b>(5,878)</b>	6,887
Transfer from other reserves		<b>11,539</b>	4,209	—	—
Unrealised currency translation differences		<b>(5,538)</b>	98	<b>(21,686)</b>	55,219
<b>Total comprehensive income (loss) for the year</b>		<b>107,433</b>	55,425	<b>(27,564)</b>	62,106

## Financials

# BALANCE SHEETS

AS AT 31 DECEMBER 2010

	Notes	Group		Company	
		2010 \$000's	2009 \$000's	2010 \$000's	2009 \$000's
<b>Non-current assets</b>					
Intangible assets	15	<b>144,256</b>	103,462	—	—
Property, plant and equipment	16	<b>692,979</b>	572,735	<b>116</b>	162
Investments	17	—	—	<b>532,460</b>	512,031
Financial asset	18	<b>37,448</b>	36,247	—	—
		<b>874,683</b>	712,444	<b>532,576</b>	512,193
<b>Current assets</b>					
Inventories	20	<b>16,405</b>	23,834	—	—
Trade and other receivables	21	<b>24,377</b>	19,946	<b>503</b>	542
Tax receivables		<b>334</b>	270	<b>134</b>	132
Liquid investments		—	151,954	—	—
Cash and cash equivalents		<b>260,438</b>	155,619	<b>114,362</b>	240
		<b>301,554</b>	351,623	<b>114,999</b>	914
<b>Total assets</b>		<b>1,176,237</b>	1,064,067	<b>647,575</b>	513,107
<b>Current liabilities</b>					
Trade and other payables	22	<b>(45,871)</b>	(23,721)	<b>(1,295)</b>	(2,657)
Tax payables		<b>(2,013)</b>	(10,686)	<b>(94)</b>	(367)
Convertible bonds	23	—	(232,674)	—	—
		<b>(47,884)</b>	(267,081)	<b>(1,389)</b>	(3,024)
<b>Net current assets (liabilities)</b>		<b>253,670</b>	84,542	<b>113,610</b>	(2,110)
<b>Non-current liabilities</b>					
Convertible bonds	23	<b>(77,968)</b>	—	—	—
Deferred tax liabilities	19	<b>(24,073)</b>	(22,821)	—	—
Long term provisions	24	<b>(13,095)</b>	(10,897)	—	—
		<b>(115,136)</b>	(33,718)	—	—
<b>Total liabilities</b>		<b>(163,020)</b>	(300,799)	<b>(1,389)</b>	(3,024)
<b>Net assets</b>		<b>1,013,217</b>	763,268	<b>646,186</b>	510,083
<b>Equity</b>					
Share capital	25	<b>27,534</b>	24,451	<b>27,534</b>	24,451
Share premium account		<b>72,622</b>	71,077	<b>72,622</b>	71,077
Other reserves	26	<b>149,205</b>	11,317	<b>100,592</b>	(58,447)
Retained earnings		<b>763,856</b>	656,423	<b>445,438</b>	473,002
<b>Total equity</b>		<b>1,013,217</b>	763,268	<b>646,186</b>	510,083

The financial statements were approved by the Board of Directors on 22 March 2011 and signed on its behalf by:

**Rui de Sousa**  
Chairman

**Roger Cagle**  
Director

# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR TO 31 DECEMBER 2010

	Notes	Called up share capital \$000's	Share premium account \$000's	Other reserves \$000's	Retained earnings \$000's	Group Total \$000's
As at 1 January 2009		24,322	70,369	14,697	600,998	710,386
New shares issued		129	708	–	–	837
Share-based payments		–	–	875	–	875
Transfer relating to share-based payments		–	–	(740)	740	–
Transfer relating to convertible bonds		–	–	(3,469)	3,469	–
Unrealised currency translation differences		–	–	(46)	98	52
Retained profit for the year		–	–	–	51,118	51,118
As at 1 January 2010		24,451	71,077	11,317	656,423	763,268
New shares issued	25	3,083	1,545	159,047	–	163,675
Share-based payments	27	–	–	(9,612)	–	(9,612)
Transfer relating to share-based payments	27	–	–	(1,431)	1,431	–
Transfer relating to convertible bonds		–	–	(2,022)	2,022	–
Transfer relating to the unwinding of discount on redeemed bonds	23, 26	–	–	(8,086)	8,086	–
Unrealised currency translation differences		–	–	(8)	(5,538)	(5,546)
Retained profit for the year		–	–	–	101,432	101,432
<b>As at 31 December 2010</b>		<b>27,534</b>	<b>72,622</b>	<b>149,205</b>	<b>763,856</b>	<b>1,013,217</b>

	Notes	Called up share capital \$000's	Share premium account \$000's	Other reserves \$000's	Retained earnings \$000's	Company Total \$000's
As at 1 January 2009		24,322	70,369	(58,520)	410,896	447,067
New shares issued		129	708	–	–	837
Share-based payments		–	–	50	–	50
Unrealised currency translation differences		–	–	23	55,219	55,242
Retained profit for the year		–	–	–	6,887	6,887
As at 1 January 2010		24,451	71,077	(58,447)	473,002	510,083
New shares issued	25	3,083	1,545	159,047	–	163,675
Unrealised currency translation differences		–	–	(8)	(21,686)	(21,694)
Retained loss for the year	13	–	–	–	(5,878)	(5,878)
<b>As at 31 December 2010</b>		<b>27,534</b>	<b>72,622</b>	<b>100,592</b>	<b>445,438</b>	<b>646,186</b>

## Financials

# CASH FLOW STATEMENTS

FOR THE YEAR TO 31 DECEMBER 2010

	Notes	Group		Company	
		2010 \$000's	2009 \$000's	2010 \$000's	2009 \$000's
<b>Net cash from (used in) operating activities</b>	28	<b>36,682</b>	77,030	<b>(7,191)</b>	(6,435)
<b>Investing activities</b>					
Purchase of intangible assets		<b>(29,438)</b>	(38,025)	–	–
Purchase of property, plant and equipment		<b>(122,452)</b>	(35,876)	<b>(77)</b>	(6)
Decrease (increase) in liquid investments <sup>1</sup>		<b>151,954</b>	(151,954)	–	–
Investment in subsidiary undertakings		–	–	<b>(25,732)</b>	(8,467)
Dividends received from subsidiary undertakings		–	–	–	13,352
Proceeds on disposal of subsidiary	12	<b>85,867</b>	–	–	–
<b>Net cash from (used in) investing activities</b>		<b>85,931</b>	(225,855)	<b>(25,809)</b>	4,879
<b>Financing activities</b>					
Share-based payments	26	<b>(10,477)</b>	–	<b>(10,477)</b>	–
Repayment of borrowings	23	<b>(165,949)</b>	–	–	–
Proceeds on issue of ordinary share capital	25	<b>163,674</b>	837	<b>163,674</b>	837
<b>Net cash (used in) from financing activities</b>		<b>(12,752)</b>	837	<b>153,197</b>	837
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>109,861</b>	(147,988)	<b>120,197</b>	(719)
<b>Cash and cash equivalents at beginning of year</b>		<b>155,619</b>	303,433	<b>240</b>	1,143
Effect of foreign exchange rate changes		<b>(5,042)</b>	174	<b>(6,075)</b>	(184)
<b>Cash and cash equivalents at end of year<sup>1</sup></b>		<b>260,438</b>	155,619	<b>114,362</b>	240

<sup>1</sup> Liquid investments comprise short term liquid investments of between three to six months maturity while cash and cash equivalents comprise cash at bank and other short term highly liquid investments of less than three months maturity. The combined cash and cash equivalents and liquid investments balance at 31 December 2010 was \$260.4 million (2009 – \$307.6 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 01 General information

SOCO International plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 94. The nature of the Group's operations and its principal activities are set out in Note 6 and in the Review of Operations and Financial Review on pages 14 to 19 and 20 to 25, respectively.

## 02 Significant accounting policies

### (a) Basis of preparation

The financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (IFRS) and on a going concern basis of accounting for the reasons set out in the Annual Report of the Directors on page 42 and in the Financial Review on page 20. The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost basis, except for the valuation of hydrocarbon inventory and the revaluation of certain financial instruments. The financial statements are presented in US dollars, which is the functional currency of each of the Company's subsidiary undertakings. The functional currency of the Company remains GB pounds although its financial statements are presented in US dollars. The principal accounting policies adopted are set out below.

### (b) Adoption of new and revised accounting standards

A number of new and revised IFRS and International Accounting Standards (IAS) have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements. Where we consider that their adoption may impact the accounting for future transactions and arrangements, they are set out below.

- IFRS 3 (revised 2008) Business Combinations
- IAS 27 (revised 2008) Consolidated and Separate Financial Statements
- IAS 28 (revised 2008) Investments in Associates

The above standards introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate. IFRS 3 (2008) has also introduced additional disclosure requirements relating to acquisitions.

A number of other new or revised standards are in issue but not yet effective. However, none of these are expected to have any material impact on the Group when they are adopted in future periods.

### (c) Basis of consolidation

The Group financial statements consolidate the accounts of SOCO International plc and entities controlled by the Company (its subsidiary undertakings) drawn up to the balance sheet date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. 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, liabilities and contingent liabilities acquired and the consideration given are recognised in the Group accounts at their fair values as at the date of the acquisition.

### (d) Investments

Except as stated below, non-current investments are shown at cost less provision for impairment. Liquid investments comprise short term liquid investments of between three to six months maturity.

### (e) Interests in joint ventures

Jointly controlled entities are those for which the Group exercises joint control over the operating and financial policies. These investments are dealt with by proportionate consolidation whereby the consolidated financial statements include the appropriate share of these companies' assets, liabilities, income and expenses on a line by line basis.

Where a consolidated member of the Group participates in unincorporated joint ventures, that member accounts directly for its share of the jointly controlled assets, liabilities and related income and expenses which are then similarly included in the consolidated financial statements of the Group.

### (f) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and no depreciation is charged.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## 02 Significant accounting policies continued

### (g) Revenue

Revenue represents the fair value of the Group's share of oil and gas sold during the year on an entitlement basis. To the extent revenue arises from test production during an evaluation programme, an amount is charged from evaluation costs to cost of sales so as to reflect a zero net margin.

Investment revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### (h) Tangible and intangible non-current assets

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

The Group uses the full cost method of accounting for exploration, evaluation and development expenditure, whereby all expenditures incurred in connection with the acquisition, exploration, evaluation and development of oil and gas assets, including directly attributable overheads, 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. Intangible acquisition, exploration and evaluation costs incurred in a geographical area where the Group has no established cost pool are initially capitalised as intangible non-current assets except where they fall outside the scope of IFRS 6 Exploration for and Evaluation of Mineral Resources whereby they are expensed as incurred subject to other guidance under IFRS. Tangible non-current assets used in acquisition, exploration and evaluation are classified with tangible non-current assets as property, plant and equipment. To the extent that such tangible assets are consumed in exploration and evaluation the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Upon successful conclusion of the appraisal programme and determination that commercial reserves exist, such costs are transferred to tangible non-current assets as property, plant and equipment. Exploration and evaluation costs carried forward are assessed for impairment as described below.

Proceeds from the disposal of oil and gas assets are credited against the relevant cost centre. Any overall surplus arising in a cost centre is credited to the income statement.

#### **Depreciation and depletion**

Depletion is provided on oil and gas assets in production using the unit of production method, based on proven and probable reserves, applied to the sum of the total capitalised exploration, evaluation and development costs, together with estimated future development costs at current prices. Oil and gas assets which have a similar economic life are aggregated for depreciation purposes.

#### **Impairment of value**

Where there has been a change in economic conditions or in the expected use of a tangible non-current asset that indicates a possible impairment in an asset, management tests the recoverability of the net book value of the asset 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 income statement.

Intangible non-current assets are considered for impairment at least annually by reference to the indicators in IFRS 6. Where there is an indication of impairment of an exploration and evaluation asset which is within a geographic pool where the Group has tangible oil and gas assets with commercial reserves, the exploration asset is assessed for impairment together with all other cash generating units and related tangible and intangible assets in that geographic pool and any balance remaining after impairment is amortised over the proven and probable reserves of the pool. Where the exploration asset is in an area where the Group has no established pool, the exploration asset is tested for impairment separately and, where determined to be impaired, is written off.

#### **Other tangible non-current assets**

Other tangible non-current 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 is expected to 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. The cost of recognising the decommissioning provision is included as part of the cost of the relevant property, plant and equipment and is thus charged to the income statement on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current assets. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in finance costs.

### (i) Changes in estimates

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

**(j) Inventories**

Inventories, except for inventories of hydrocarbons, are valued at the lower of cost and net realisable value.

Physical inventories of hydrocarbons, which are held for trading purposes, are valued at net realisable value and recorded as inventory. Underlifts and overlifts are valued at market value and are included in prepayments and accrued income and accruals and deferred income, respectively. Changes in hydrocarbon inventories, underlifts and overlifts are adjusted through cost of sales.

**(k) Leases**

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

**(l) Share-based payments**

Equity-settled awards under share-based incentive plans are measured at fair value at the date of grant and expensed on a straight line basis over the performance period along with a corresponding increase in equity. Fair value is measured using an option pricing model taking into consideration management's best estimate of the expected life of the option and the estimated number of shares that will eventually vest.

**(m) Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that sufficient taxable profits will be available to recover the asset. Deferred tax is not recognised where an asset or liability is acquired in a transaction which is not a business combination for an amount which differs from its tax value.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**(n) Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group does not currently utilise derivative financial instruments.

Other than the convertible bonds there are no material financial assets and liabilities for which differences between carrying amounts and fair values are required to be disclosed. The classification of financial instruments as required by IFRS 7 is disclosed in Notes 18, 21, 22 and 23.

**Financial asset at fair value through profit or loss**

Where a financial instrument is classified as a financial asset at fair value through profit or loss it is initially recognised at fair value. At each balance sheet date the fair value is reviewed and any gain or loss arising is recognised in the income statement. Period credits for changes in the net present value of the financial asset arising from discounting are included in other gains and losses.

**Trade receivables**

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

**Trade payables**

Trade payables are stated at their nominal value.

**Convertible bonds**

The net proceeds received from the issue of convertible bonds are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not remeasured. The liability component is carried at amortised cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## 02 Significant accounting policies continued

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bonds.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (o) Foreign currencies

The individual financial statements of each Group company are stated in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rate of exchange at the date of the transaction. 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. Any resulting gains and losses are included in net profit or loss for the period.

For the purpose of presenting consolidated financial statements the results of entities denominated in currencies other than US dollars 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 entities denominated in currencies other than US dollars are dealt with through equity and transferred to the Group's retained earnings reserve.

#### (p) 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 income statement. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

## 03 Financial risk management

The Board reviews and agrees policies for managing financial risks that may affect the Group. In certain cases the Board delegates responsibility for such reviews and policy setting to the Audit Committee. The main financial risks affecting the Group are discussed below:

### Credit risk

The Group's non-current financial asset that is subject to credit risk comprises a financial asset at fair value through profit or loss arising in respect of the Group's disposal of its Mongolia interest (see Note 18). The Group's and Company's other financial assets comprise investments, trade receivables and cash and cash equivalents. The Group seeks to minimise credit risk by only maintaining balances with creditworthy third parties including major multi-national oil companies subject to contractual terms in respect of trade receivables. The credit risk on liquid funds is limited as the Board only selects institutions with high credit-ratings assigned by international credit-rating agencies and endeavours to spread cash balances and liquid investments over more than one institution. The level of deposits held by different institutions is regularly reviewed.

### Foreign currency risk

The Group primarily conducts and manages its business in US dollars. Cash balances in Group subsidiaries are usually held in US dollars, but smaller amounts may be held in GB pounds or local currencies to meet immediate operating or administrative expenses, or to comply with local currency regulations. However, during 2010 the Company placed new shares raising gross proceeds of £102.0 million (see Note 25) and consequently held significant sterling cash balances as at 31 December 2010. As these are held by the Company, which is a sterling functional currency entity, there is no foreign exchange transactional exposure. Since the year end 2010 the Group has substantially reduced its sterling cash position. From time to time the Group may take short term hedging positions to protect the value of any cash balances it holds in non-US dollar currencies. The impact of a 10% movement in foreign exchange rates on the Group's net assets as at 31 December 2010 would have been approximately \$11.0 million (2009 – not material) and would not have been material with respect to the Group's profit in 2010 and 2009.

### Liquidity risk

The Group's cash requirements and balances are projected for the Group as a whole and for each country in which operations and capital expenditures are conducted. The Group meets these requirements through an appropriate mix of available funds, equity instruments and debt financing. The Group's ability to satisfy its debt obligations and to pursue its operational objectives are discussed in the Risk Management section of the Financial Review. The Group seeks to minimise the impact that any debt financings have on its balance sheet by negotiating borrowings in matching currencies (see Note 23). The Group further mitigates liquidity risk by entering into arrangements with industry partners thereby sharing costs and risks, and by maintaining an insurance programme to minimise exposure to insurable losses.

### Interest rate risk

The Group earns interest on its cash, cash equivalents and liquid investments at floating and fixed rates. Fixed rate interest is charged on the Group's convertible bonds (see Note 23). The fair value of the Group's non-current financial asset (see Note 18) is also dependent on the discount rate used. Management assess the Group's sensitivity to changes in interest rates. If interest rates had been 0.5% higher or lower and all other variables held constant, the Group's profit for the year ended, and its net assets at, 31 December 2010 would decrease or increase by \$2.7 million (2009 – \$2.6 million).

### Commodity price risk

The Group's production is usually sold on "spot" or near term contracts, with prices fixed at the time of a transfer of custody or on the basis of a monthly average market price. However the Board may give consideration in certain circumstances to the appropriateness of entering into fixed price, long term marketing contracts. Although oil prices may fluctuate widely, it is the Group's policy not to hedge crude oil sales unless hedging is required to mitigate financial risks associated with debt financing of its assets or to meet its commitments. Over time, during periods when the Group sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

### Regulatory risk

The Group operates in countries with emerging taxation and other regulatory regimes. The compliance with and interpretation of these taxation and other regulations may expose the Group to risk. The Group seeks to minimise such risk by using in country professional advisors and by engaging directly with the relevant authorities where appropriate.

### Contractual risk

The Group enters into various contractual arrangements in the ordinary course of its business. Such contracts may rely on or include provisional information or contract terms that are subject to further negotiation at a later date. This may give rise to uncertainty regarding such information and the related accounting treatment of the contracts. In considering any financial impact on the Group's financial statements, income, expenses, assets and liabilities are recognised in accordance with applicable IFRS and IAS.

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt (see Note 23), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 25 and 26 and in the Statement of Changes in Equity. During the year the Company placed 28,937,388 new ordinary shares, post share sub-division, of £0.05 each (see Note 25) and repaid convertible bonds with a par value of \$165.9 million (see Note 23).

## 04 Critical judgements and accounting estimates

### (a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies described in Note 2, management has made judgements that may have a significant effect on the amounts recognised in the financial statements. These are discussed below:

#### Oil and gas assets

Note 2(h) describes the judgements necessary to implement the Group's policy with respect to the carrying value of intangible exploration and evaluation assets and tangible property, plant and equipment. Management considers these assets for impairment at least annually with reference to indicators in IFRS 6 and IAS 36, respectively. In making its judgements in this area, management has concluded that capitalised expenditure relating to Block 16-1 in Vietnam is considered to be one cash generating unit due to the level of economic and management interdependence. Note 15 discloses the carrying value of intangible exploration and evaluation assets and Note 16 discloses the carrying value of property, plant and equipment. Further, Note 2(h) describes the Group's policy regarding reclassification of intangible assets to tangible assets. Management considers the appropriateness of asset classification at least annually.

#### Financial asset

Note 2(n) describes the accounting policy with respect to financial assets at fair value through profit or loss. The key judgements that are used in calculating the fair value of the Group's financial asset arising on the disposal of its Mongolia interest are described in Note 18 and are reviewed at least annually. The only market risk assumption that has a significant impact on the fair value of this asset is the discount rate, as described in Note 3.

#### Convertible bonds

Note 2(n) sets out the Group's accounting policy on convertible bonds. Management assesses the fair value of the liability component at issue and reviews the appropriateness of the amortisation period at least annually. Note 2(h) describes the nature of the costs that the Group capitalises which include applicable borrowing costs that are directly attributable to qualifying assets as defined in IAS 23 Borrowing Costs (IAS 23). Management has considered the definition of qualifying assets in IAS 23 and has determined that the only expenditure that currently meets the definition is that related to the Group's interests in Vietnam. Consequently, the interest associated with capital expenditure in Vietnam has been capitalised up to the date at which such qualifying assets enter into production.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**CONTINUED**

## 04 Critical judgements and accounting estimates continued

### (b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, other than those mentioned above, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

#### Oil and gas reserves

Note 2(h) sets out the Group's accounting policy on depreciation and depletion. Proven and probable reserves are estimated using standard recognised evaluation techniques. The estimate is reviewed at least twice a year and is regularly reviewed by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

#### Decommissioning provision

The accounting policy for decommissioning is discussed in Note 2(h). The cost of decommissioning is estimated by reference to operators, where applicable, and internal engineers. Further details are provided in Note 24.

## 05 Total revenue

An analysis of the Group's revenue is as follows:

	2010 \$000's	2009 \$000's
<b>Continuing operations</b>		
Oil and gas sales (see Note 6)	<b>48,390</b>	69,339
Investment revenue	1,301	2,554
	<b>49,691</b>	71,893
<b>Discontinued operations</b>		
Oil sales (see Note 6)	64,660	61,674
	<b>114,351</b>	133,567

## 06 Segment information

The Group has one principal business activity being oil and gas exploration and production. The Group's operations are located in South East Asia and Africa (the Group's operating segments) and form the basis on which the Group reports its segment information. There are no inter-segment sales.

	SE Asia \$000's	Africa <sup>3</sup> \$000's	Unallocated \$000's	Continuing operations Total \$000's	Discontinued operations <sup>2</sup> \$000's	2010 Group \$000's
Oil and gas sales (see Note 5)	48,390	—	—	48,390	64,660	113,050
Profit (loss) before tax <sup>1</sup>	35,487	—	(4,636)	30,851	117,603	148,454
Tax charge (see Note 11)	18,544	—	4	18,548	28,474	47,022
Depletion and depreciation	5,897	—	149	6,046	3,732	9,778

	SE Asia \$000's	Africa <sup>3</sup> \$000's	Unallocated \$000's	Continuing operations Total \$000's	Discontinued operations <sup>2</sup> \$000's	2009 Group \$000's
Oil and gas sales	69,339	—	—	69,339	61,674	131,013
Profit before tax <sup>1</sup>	58,314	—	(3,586)	54,728	38,766	93,494
Tax charge	19,821	—	94	19,915	22,461	42,376
Depletion and depreciation	11,267	—	152	11,419	4,707	16,126

<sup>1</sup> Unallocated amounts included in profit before tax comprise corporate costs not attributable to an operating segment, investment revenue, other gains and losses and finance costs.

<sup>2</sup> In September 2010, the Group completed the sale of its Thailand interest which was included in the SE Asia segment and is classified as a discontinued operation. Profit before tax includes the profit on disposal of \$80.1 million (see Note 12).

<sup>3</sup> Costs associated with the Africa segment are capitalised in accordance with the Group's accounting policy.

The accounting policies of the reportable segments are the same as the Group's accounting policies as described in Note 2.

Included in revenues arising from South East Asia (continuing and discontinued operations) are revenues of \$54.4 million, \$34.2 million and \$12.5 million (2009 – South East Asia \$61.7 million, \$40.1 million and \$19.2 million) which arose from the Group's largest individual customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

**06 Segment information** continued**Geographical information**

Group revenue and non-current assets (excluding the financial asset) by geographical location are separately detailed below where they exceed 10% of total revenue or non-current assets, respectively, in any particular year:

**Revenue**

All of the Group's revenue is derived from foreign countries. The Group's revenue by geographical location is determined by reference to the final destination of oil or gas sold.

	2010 \$000's	2009 \$000's
Vietnam	<b>48,389</b>	22,443
Thailand	<b>35,922</b>	–
South Korea	<b>19,560</b>	–
United States of America	–	44,010
Australia	–	25,834
Other	<b>9,179</b>	38,726
	<b>113,050</b>	131,013

**Non-current assets**

	2010 \$000's	2009 \$000's
United Kingdom	<b>116</b>	162
Vietnam	<b>692,760</b>	551,764
Other – Africa	<b>144,359</b>	124,271
	<b>837,235</b>	676,197

**07 Other gains and losses**

	2010 \$000's	2009 \$000's
Change in fair value of financial asset (see Note 18)	<b>1,202</b>	1,863
Exchange loss	<b>(264)</b>	(169)
Exchange gain arising on discontinued operations	<b>1,067</b>	21
	<b>2,005</b>	1,715

**08 Finance costs**

	2010 \$000's	2009 \$000's
Interest payable in respect of convertible bonds (see Note 23)	<b>9,724</b>	15,679
Other interest payable and similar fees	64	29
Unwinding of discount on provisions (see Note 24)	393	188
Unwinding of discount on provisions arising on discontinued operations (see Note 24)	53	66
Unwinding of discount on redeemed bonds (see Note 23)	8,086	–
Capitalised finance costs	<b>(17,742)</b>	(14,736)
	<b>578</b>	1,226

The amount of finance costs capitalised was determined by applying the weighted average rate of finance costs applicable to the borrowings of the Group of 13.27% (2009 – 6.55%) to the expenditures on the qualifying asset (see Notes 4 and 23).

**09 Profit for the year**

Profit for the year is stated after charging fees payable to the Company's auditors:

	2010 \$000's	2009 \$000's
Audit of the Company's annual accounts	135	124
Audit of the Company's subsidiaries pursuant to legislation	17	14
Other services pursuant to legislation	74	70
Audit and audit related services	226	208
Recruitment and remuneration services:		
Committee advisory services	19	54
Company share option plan	–	52
Tax services	–	38
Corporate finance services	171	–
Other services	8	7
<b>Total fees</b>	<b>424</b>	359

The amounts payable to Deloitte LLP by the Group in respect of other services pursuant to legislation comprises \$74,000 relating to the Group's half year review (2009 – \$70,000). The amount payable in respect of corporate finance services relates to reporting accountant and non-statutory audit work in connection with the disposal of the Group's Thailand interest (see Note 12).

Fees payable to Deloitte LLP for non-audit services to the Company are not required to be disclosed separately because the consolidated financial statements disclose such fees on a consolidated basis.

## Financials

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 10 Staff costs

The average monthly number of employees of the Group including Executive Directors was 15 (2009 – 14), of which 12 (2009 – 11) were administrative personnel and 3 (2009 – 3) were operations personnel. The average monthly number of employees directly contracted to the Company was 9 (2009 – 8) of which 8 (2009 – 7) were administrative personnel and 1 (2009 – 1) was operations personnel. Their aggregate remuneration comprised:

	Group		Company	
	2010 \$000's	2009 \$000's	2010 \$000's	2009 \$000's
Wages and salaries	<b>4,474</b>	5,053	<b>1,674</b>	1,537
Social security costs	<b>215</b>	505	<b>174</b>	247
Share-based payment expense (see Note 27)	<b>865</b>	875	–	50
Other pension costs under money purchase schemes	<b>421</b>	439	<b>106</b>	124
	<b>5,975</b>	6,872	<b>1,954</b>	1,958

In accordance with the Group's accounting policy \$2.2 million of the Group's staff costs have been capitalised (2009 – \$2.5 million).

### 11 Tax

	Continuing operations		Discontinued operations		Group	
	2010 \$000's	2009 \$000's	2010 \$000's	2009 \$000's	2010 \$000's	2009 \$000's
Current tax	<b>10,531</b>	6,960	<b>25,622</b>	14,563	<b>36,153</b>	21,523
Deferred tax (see Note 19)	<b>8,017</b>	12,955	<b>2,852</b>	7,898	<b>10,869</b>	20,853
	<b>18,548</b>	19,915	<b>28,474</b>	22,461	<b>47,022</b>	42,376

The Group's corporation tax is calculated at 50% (2009 – 50%) of the estimated assessable profit for the year in both Vietnam and Thailand. During 2010 and 2009 both current and deferred taxation have arisen in overseas jurisdictions only.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2010 \$000's	2009 \$000's
Profit before tax on continuing operations	<b>30,851</b>	54,728
Profit before tax on discontinued operations	<b>117,603</b>	38,766
Profit before tax	<b>148,454</b>	93,494
Profit before tax at 50% (2009 – 50%)	<b>74,227</b>	46,747
Effects of:		
Non-taxable income and non-deductible expenses	(183)	(6,917)
Tax losses not recognised	<b>2,939</b>	3,233
Non-taxable profit on disposal	(40,058)	–
Taxes not related to profit before tax	<b>7,979</b>	–
Adjustments to tax charge in respect of previous years	<b>2,118</b>	(687)
<b>Tax charge for the year</b>	<b>47,022</b>	42,376

In 2009 the above reconciliation was based on the UK corporation tax rate of 28%, however, since the prevailing tax rate in the jurisdictions in which the Group produces oil and gas is 50% a more meaningful reconciliation using 50% as the tax rate has been prepared. The 2009 figures have been restated accordingly. The tax charge in future periods may also be affected by the factors in the reconciliation.

## 12 Discontinued operations

In July 2010, SOCO announced that it had entered into a conditional sale and purchase agreement, with an effective date of 1 January 2010, for the sale of its wholly owned subsidiary SOCO Thailand LLC (SOCO Thailand) to Salamander Energy plc for an initial value of \$105.0 million (subject to certain financial adjustments including adjustments in respect of cash flows arising from the effective date), plus contingent cash consideration of \$1 million (the Disposal). SOCO Thailand was the 99.9993% shareholder of SOCO Exploration (Thailand) Co Limited, the entity that held the Group's interest in the Bualuang Field, offshore of Thailand and which was a component of the Group's South East Asia segment (see Note 6). The Disposal completed in September 2010.

The results of the Group's discontinued Thailand interest are shown on the consolidated income statement and in Note 6. Net operating cash flows from discontinued operations are shown in Note 28. During the period to the date of completion of the Disposal cash used in investing activities was \$11.2 million and cash from financing activities was \$2.3 million. Immediately prior to the completion of the Disposal the Group's share of net assets associated with the Thailand interest was \$28.5 million comprising property, plant and equipment of \$28.5 million, current assets of \$41.0 million (including amounts owed by Group undertakings of \$6.4 million), current liabilities of \$29.2 million and long term liabilities of \$11.8 million.

Upon completion the Group recognised a gain, excluding contingent consideration, of \$80.1 million and cash inflow of \$85.9 million reflecting the \$105.0 million cash consideration less the Group's share of cash held by the Thailand interest of \$16.3 million, transaction costs of \$1.8 million and financial adjustments of \$1.0 million.

## 13 Loss attributable to SOCO International plc

The loss for the financial year dealt with in the accounts of the Company was \$5,878,000 (2009 – profit of \$6,887,000 inclusive of dividends from subsidiary undertakings). As provided by section 408 of the Companies Act 2006, no income statement is presented in respect of the Company.

## 14 Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2010 \$000's	2009 \$000's
Earnings from continuing operations	12,303	34,813
Effect of dilutive potential ordinary shares: Interest on convertible bonds (see Note 8)	68	943
Earnings for the purposes of diluted earnings per share on continuing operations	12,371	35,756
Earnings from discontinued operations	89,129	16,305
Earnings for the purposes of diluted earnings per share on continuing and discontinued operations	101,500	52,061
Number of shares ('000)		
	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	328,459	293,835
Effect of dilutive potential ordinary shares:		
Share options and warrants	8,172	10,675
Ordinary shares of the Company held by the Group (see Note 26)	5,874	7,135
Convertible bonds (see Note 23)	14,560	24,952
Weighted average number of ordinary shares for the purpose of diluted earnings per share	357,065	336,597

In June 2010, the Company subdivided its share capital on a four for one share basis. Accordingly, the number of ordinary shares used in 2009 for the purposes of the earnings per share calculation has been adjusted.

## Financials

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 15 Intangible assets

### Exploration and evaluation expenditure

	Group \$000's
As at 1 January 2009	363,958
Additions	52,830
Transfers to property, plant and equipment	(313,326)
As at 1 January 2010	103,462
Additions	40,794
<b>As at 31 December 2010</b>	<b>144,256</b>

Intangible assets as at 31 December 2010 comprise the Group's exploration and evaluation projects in Africa which are pending determination.

## 16 Property, plant and equipment

	Group	Company		
	Oil and gas properties \$000's	Other \$000's	Total \$000's	Other \$000's
<b>Cost</b>				
As at 1 January 2009	243,099	1,272	244,371	951
Additions	39,992	20	40,012	6
Transfers from intangible assets	313,326	–	313,326	–
Foreign exchange	–	117	117	117
As at 1 January 2010	596,417	1,409	597,826	1,074
Additions	158,363	167	158,530	77
Disposals (see Note 12)	(39,076)	(40)	(39,116)	–
Foreign exchange	–	(31)	(31)	(31)
<b>As at 31 December 2010</b>	<b>715,704</b>	<b>1,505</b>	<b>717,209</b>	<b>1,120</b>
<b>Depreciation</b>				
As at 1 January 2009	7,913	961	8,874	709
Charge for the year	15,974	152	16,126	112
Foreign exchange	–	91	91	91
As at 1 January 2010	23,887	1,204	25,091	912
Charge for the year	9,629	149	9,778	119
Disposals (see Note 12)	(10,572)	(40)	(10,612)	–
Foreign exchange	–	(27)	(27)	(27)
<b>As at 31 December 2010</b>	<b>22,944</b>	<b>1,286</b>	<b>24,230</b>	<b>1,004</b>
<b>Carrying amount</b>				
<b>As at 31 December 2010</b>	<b>692,760</b>	<b>219</b>	<b>692,979</b>	<b>116</b>
As at 31 December 2009	572,530	205	572,735	162

Other fixed assets comprise plant and machinery, computer equipment and fixtures and fittings.

## 17 Fixed asset investments

### Principal Group investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2010 which principally affected the profits or net assets of the Group, all of which are indirectly held.

	Country of incorporation	Country of operation	Principal activity	Percentage holding
OPECO Vietnam Limited	Cook Islands	Vietnam	Oil and gas exploration	100
SOCO Congo Limited <sup>1</sup>	Cayman Islands	Congo (Brazzaville)	Investment holding	85
SOCO DRC Limited <sup>2</sup>	Cayman Islands	Congo (Kinshasa)	Investment holding	85
SOCO Vietnam Ltd <sup>3</sup>	Cayman Islands	Vietnam	Oil and gas exploration and production	80

<sup>1</sup> SOCO Congo Limited (SOCO Congo) owns 100% of SOCO Exploration and Production Congo SA which holds the Group's working interest in its Congo (Brazzaville) asset. The Group funds 100% of SOCO Congo and is entitled to receive 100% of the distributions made by SOCO Congo until it has recovered such funding including a rate of return. The 15% non-controlling interest is held by Quantic Limited.

<sup>2</sup> SOCO DRC Limited (SOCO DRC) owns 99% of SOCO Exploration and Production DRC Spri which holds the Group's working interest in its DRC asset. The Group funds 100% of SOCO DRC and is entitled to receive 100% of the distributions made by SOCO DRC until it has recovered such funding including a rate of return. The 15% non-controlling interest is held by Quantic Limited.

<sup>3</sup> The remaining 20% non-controlling interest is funded by the Group. The Group is entitled to receive 100% of the distributions made by SOCO Vietnam until it has recovered its funding of the non-controlling interest including a rate of return on the non-controlling interest's pro rata portion of those distributions.

The Company's investments in subsidiary undertakings include contributions to the SOCO Employee Benefit Trust (see Note 26) and are otherwise held in the form of share capital.

## 18 Financial asset

In 2005, the Group completed a transaction whereby it sold its 100% owned subsidiaries SOCO Tamtsag Mongolia, LLC (SOTAMO) and SOCO Mongolia Ltd (SOCO Mongolia) to Daqing Oilfield Limited Company (Daqing). Together SOTAMO and SOCO Mongolia held the Group's Mongolia interest. Under the terms of the transaction the Group will receive total consideration of up to \$92.3 million comprising \$39.6 million of cash consideration net of settlement adjustments, plus a subsequent payment amount. The remaining consideration is payable, once cumulative production reaches 27.8 million barrels of oil, at the rate of 20% of the average monthly posted marker price for Daqing crude multiplied by the aggregate production for that month, up to a total of \$52.7 million.

The subsequent payment amount is included in non-current assets as a financial asset at fair value through profit or loss. The timescale for the production of crude oil in excess of 27.8 million barrels and the price of Daqing marker crude oil are factors that cannot accurately be predicted. However, based upon the Directors' current estimates of proven and probable reserves from the Mongolia interests and the development scenarios as discussed with the buyer, the Directors believe that the full subsequent payment amount will be payable. The fair value of the subsequent payment amount was determined using a valuation technique as there is no active market against which direct comparisons can be made (Level 3 as defined in IFRS 7). Assumptions made in calculating the fair value include the factors mentioned above, risked as appropriate, with the resultant cash flows discounted at a commercial risk free interest rate. The fair value of the financial asset at the date of completion of the sale was \$31.5 million. As at 31 December 2010 the fair value was \$37.4 million (2009 – \$36.2 million) after accounting for the change in fair value (see Note 7).

## Financials

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

### 19 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period:

	(Accelerated) decelerated tax depreciation \$000's	Other temporary differences \$000's	Tax losses \$000's	Group \$000's
As at 1 January 2008	(2,865)	–	897	(1,968)
Charge to income	(8,051)	(11,917)	(885)	(20,853)
As at 1 January 2009	<b>(10,916)</b>	<b>(11,917)</b>	<b>12</b>	<b>(22,821)</b>
(Charge) credit to income (see Note 11)	(11,178)	309	–	(10,869)
Disposal of subsidiary (see Note 12)	6,212	3,405	–	9,617
<b>As at 31 December 2010</b>	<b>(15,882)</b>	<b>(8,203)</b>	<b>12</b>	<b>(24,073)</b>

There are no unprovided deferred taxation balances at either balance sheet date except in relation to tax losses that are not expected to be utilised in the amount of \$51.7 million (2009 – \$39.4 million).

### 20 Inventories

Inventories comprise crude oil and condensate.

### 21 Other financial assets

	Group		Company	
	2010 \$000's	2009 \$000's	2010 \$000's	2009 \$000's
<b>Amounts falling due within one year</b>				
Trade receivables	<b>6,904</b>	6,610	–	–
Other receivables	<b>14,382</b>	9,339	<b>53</b>	86
Prepayments and accrued income	<b>3,091</b>	3,997	<b>450</b>	456
	<b>24,377</b>	19,946	<b>503</b>	542

There are no amounts overdue or allowances for doubtful debts in respect of trade or other receivables. There is no material difference between the carrying amount of trade and other receivables and their fair value. The above financial assets are held at amortised cost.

## 22 Other financial liabilities

	Group		Company	
	2010 \$000's	2009 \$000's	2010 \$000's	2009 \$000's
Trade payables	13,833	7,998	—	—
Other payables	17,092	4,378	614	554
Accruals and deferred income	14,946	11,345	681	2,103
	<b>45,871</b>	23,721	<b>1,295</b>	2,657

There is no material difference between the carrying value of trade payables and their fair value. Accruals and deferred income includes interest payable of \$0.5 million (2009 – \$1.4 million) in respect of convertible bonds (see Note 23). The above financial liabilities are held at amortised cost and are not discounted as the impact would not be material.

## 23 Convertible bonds

In May 2006, the Group issued bonds at a par value of \$250 million which will be convertible into ordinary shares of the Company at any time, at the option of the bondholder, from June 2006 until six days before their maturity date of 16 May 2013. At the initial conversion price of £5.462 per share there were 24,952,000 ordinary shares of the Company underlying the bonds (stated post share subdivision – see Note 25). On 16 May 2010, bonds with a par value of \$165.9 million were redeemed at the option of each bondholder. The unwinding of the discount relating to the redeemed bonds has been charged to finance costs in the amount of \$8.1 million and capitalised in accordance with IAS 23 Borrowing Costs. The liability component of the bonds has been reclassified as a non-current liability on the balance sheet as at 31 December 2010 as, if the bonds have not been previously purchased and cancelled, redeemed or converted, the remaining bonds will be redeemed at par value on 16 May 2013. Interest of 4.5% per annum will be paid semi-annually up to that date.

	2010 \$000's	2009 \$000's
Liability component at 1 January	234,104	229,675
Redeemed bonds	(165,949)	—
Unwinding of discount on redeemed bonds (see Note 8)	8,086	—
Other interest charged (see Note 8)	9,724	15,679
Interest paid	(7,516)	(11,250)
<b>Total liability component as at 31 December</b>	<b>78,449</b>	234,104

Reported in:

Interest payable in current liabilities (see Note 22)	481	1,430
Current liabilities	—	232,674
Non-current liabilities	77,968	—
<b>Total liability component as at 31 December</b>	<b>78,449</b>	234,104

The interest charged for the year is calculated by applying an effective interest rate of 13.27% (2009 – 6.55%) to the liability component for the period. The increase in the year is the result of additional charges associated with the redemption described above. There is no material difference between the carrying amount of the liability component of the convertible bonds, which is carried at amortised cost, and their fair value. This fair value is calculated by discounting the future cash flows at the market rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

**23 Convertible bonds** continued

The Group's remaining contractual liability, based on undiscounted cash flows at the earliest date on which the Group is required to pay and assuming the bonds are not purchased and cancelled, redeemed or converted prior to 16 May 2013, is as follows:

	2010 \$000's	2009 \$000's
Within one year	3,782	11,250
Within two to five years	5,673	28,125
<b>Total as at 31 December</b>	<b>9,455</b>	<b>39,375</b>

**24 Long term provisions**

## Decommissioning

	Group \$000's
As at 1 January 2010	10,897
New provisions and changes in estimates	3,987
Disposals (see Note 12)	(2,235)
Unwinding of discount (see Note 8)	446
<b>As at 31 December 2010</b>	<b>13,095</b>

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

**25 Share capital**

	2010 \$000's	2009 \$000's
<b>Issued and fully-paid</b>		
340,419,452 ordinary shares of £0.05 each (2009 – restated 301,667,892)	27,534	24,451

In June 2010, the Company subdivided its share capital on a four for one share basis. Accordingly, the number of ordinary shares and their value have been restated to reflect that subdivision throughout this report.

As at 31 December 2010 authorised share capital comprised 500 million (2009 – restated 500 million) ordinary shares of £0.05 each with a total nominal value of £25 million (2009 – £25 million).

In January 2010, the Company placed 28,937,388 new ordinary shares of £0.05 each (the Placing Shares) with institutions at a price of £3.525 per Placing Share (the Placing Price) via a cash box structure. Based on the Placing Price, the gross proceeds of the Placing were £102.0 million (\$166.0 million). Issue costs were deducted and the net amount of \$159.0 million recorded to other reserves. No share premium has been recognised as the Company has taken advantage of section 612 of the Companies Act 2006 regarding merger relief. This amount is a distributable reserve. The Placing Shares issued represented an increase of approximately 9.6% in SOCO's existing issued ordinary share capital. Upon issue the Placing Shares were credited as fully paid and rank pari passu in all respects with the existing ordinary shares of £0.05 each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue of the Placing Shares.

The Company issued 9,814,172 new ordinary shares of £0.05 each during 2010 (2009 – restated 1,755,032) upon the exercise of certain share options (see Note 27) and warrants at a weighted average exercise price per share of £0.23 (2009 – restated £0.32). Following the exercise during 2010 of 9,614,172 warrants to subscribe for the same number of ordinary shares of £0.05 each (Warrants) at a weighted average subscription price per share of £0.15 there were nil Warrants outstanding at 31 December 2010 (2009 – restated 9,614,172 at a weighted average subscription price of £0.15). Details of outstanding share options are set out in Note 27.

## 26 Reserves

The Group's other reserves include reserves arising in respect of merger relief (see Note 25), upon the purchase of the Company's own ordinary shares (Shares) held in treasury and held by the SOCO Employee Benefit Trust (Trust) and in respect of the unrealised equity component of the convertible bonds. During 2010 other reserves were reduced by share-based payments comprising the cash settlement of tax liabilities associated with the settlement of certain share awards of \$10.5 million offset by the expense recognised in respect of the incentive schemes of \$865,000 (2009 – \$875,000) (see Note 27) and by \$8.1 million in respect of unwinding the discount on the equity component of the redeemed convertible bonds (see Note 23).

The number of treasury Shares held by the Group and the number of Shares held by the Trust at 31 December 2010 was 110,000 (2009 – restated 110,000) and 4,156,922 (2009 – restated 7,010,720) after using 2,853,798 (2009 – restated 668,000) Shares for the exercise of certain incentive plan awards, respectively. The market price of the Shares at 31 December 2010 was £3.696 (2009 – restated £3.35). The number of ordinary shares and market price have been adjusted, as appropriate, to reflect the share subdivision (see Note 25).

The Trust, a discretionary trust, was established to facilitate the administration of long term incentive awards for senior management of the Group, details of which are set out in Note 27 and in the Directors' Remuneration Report on pages 54 to 61. The trustees purchase Shares in the open market which are recognised by the Company within investments and classified as other reserves by the Group as described above. When award conditions are met an unconditional transfer of Shares is made out of the Trust to plan participants. The Group has an obligation to make regular contributions to the Trust to enable it to meet its financing costs. Rights to dividends on the Shares held by the Trust have been waived by the trustees.

## 27 Incentive plans

Details of the Group's employee incentive schemes are set out below. Additional information regarding the schemes is included in the Directors' Remuneration Report on pages 54 to 61. The Group recognised total expenses of \$865,000 (2009 – \$875,000) in respect of the schemes during the year, a proportion of which was capitalised in accordance with the Group's accounting policies. An amount of \$516,000 (2009 – \$740,000) was transferred between other reserves and retained earnings upon the exercise or lapse of certain awards (see Note 26).

### Awards administered under the SOCO Employee Benefit Trust (Trust)

The Company operates a long term incentive plan (LTIP) for senior employees of the Group. Awards vest over a period of three years, subject to performance criteria which have been set with reference to the Company's total shareholder return (TSR) relative to a range of comparator companies. Consideration may also be given to assessment as to whether the TSR performance is consistent with underlying performance. Awards are normally forfeited if the employee leaves the Group before the award vests. Certain additional awards exercised during 2010 were granted prior to the introduction of the LTIP. Awards normally expire at the end of 10 years following the date of grant, subject to the requirement to exercise certain awards prior to 15 March of the year following vesting.

Awards would normally be equity-settled through a transfer at nil consideration of the Company's own ordinary shares (Shares) held by the Trust (see Note 26). Awards exercised during 2010 over 4,629,804 Shares were partially satisfied by the issue of 2,853,798 Shares. The remaining 1,776,006 awards exercised, being the number of Shares that might otherwise be sold in the market, were satisfied by cash settlement of the participants' tax liabilities of \$10.5 million. The Board decided in that instance it was in the best interest of the Company to agree this settlement method with the participants. The Company has no legal or constructive obligation to repurchase or settle awards in cash. Details of awards outstanding during the year are as follows:

	2010 No. of share awards	2009 No. of share awards (restated)
As at 1 January	<b>6,089,932</b>	5,728,880
Granted	<b>627,800</b>	1,235,200
Exercised	<b>(4,629,804)</b>	(668,000)
Lapsed	<b>(224,928)</b>	(206,148)
As at 31 December	<b>1,863,000</b>	6,089,932
Exercisable as at 31 December	–	4,513,932

**NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS****CONTINUED****27 Incentive plans** continued

Awards outstanding at the end of the year have a weighted average remaining contractual life of 2.2 (2009 – 3.8) years. The weighted average market price and estimated fair value of the 2010 grants (at grant date) were £3.66 and £1.06, respectively. The number of awards, market price and estimated fair value have been restated, as appropriate, to reflect the share subdivision (see Note 25).

The fair value of awards at date of grant has been estimated using a binomial option pricing model, based on the market price at date of grant set out above and a nil exercise price. The future vesting proportion of 28.9% was estimated by calculating the expected probability of the Company's TSR ranking relative to its comparators based on modelling each company's projected future share price growth.

**Share options**

The Company operated a discretionary share option scheme for key employees of the Group which expired in April 2007 without prejudice to the subsisting rights of participants. Options are exercisable at a price equal to the average quoted market price of the Company's Shares on the date of grant. The vesting period is three years, subject to performance criteria based on the Company's TSR relative to a range of comparator companies. Unexercised options expire at the end of a seven or 10 year period, in accordance with the plan rules. Options are normally forfeited if the employee leaves the Group before the options vest. During 2009, the Company established a new discretionary share option scheme. As at 31 December 2010, no awards had been made under that scheme. Options would normally be equity-settled through newly issued Shares. The Company has no legal or constructive obligation to repurchase or settle options in cash. Details of options outstanding during the year are as follows:

	<b>No. of share options</b>	<b>2010 Weighted average exercise price £</b>	<b>No. of share options (restated)</b>	<b>2009 Weighted average exercise price (restated) £</b>
As at 1 January	<b>1,200,000</b>	<b>1.10</b>	1,755,800	0.97
Exercised	(200,000)	0.56	(555,800)	0.68
As at 31 December	<b>1,000,000</b>	<b>1.20</b>	1,200,000	1.10
Exercisable as at 31 December	<b>918,000</b>	<b>0.53</b>	1,000,000	0.60

The weighted average market price at the date of exercise during the year was £4.03 (2009 – restated £3.19). Options outstanding at the end of the year have a weighted average remaining contractual life of 2.7 (2009 – 3.5) years. The number of options, the weighted average exercise price and market price have been restated, as appropriate, to reflect the share subdivision (see Note 25).

## 28 Reconciliation of operating profit to operating cash flows

	Group		Company	
	2010 \$000's	2009 \$000's	2010 \$000's	2009 \$000's
Operating profit (loss) from continuing operations	29,137	51,640	(6,608)	(6,462)
Operating profit from discontinued operations	36,473	38,811	—	—
	65,610	90,451	(6,608)	(6,462)
Share-based payments	865	875	865	875
Depletion and depreciation	9,778	16,126	119	112
<b>Operating cash flows before movements in working capital</b>	<b>76,253</b>	<b>107,452</b>	<b>(5,624)</b>	<b>(5,475)</b>
Increase in inventories	(873)	(19,922)	—	—
(Increase)/decrease in receivables	(11,193)	14,032	76	(218)
Increase/(decrease) in payables	5,412	(2,919)	(2,322)	(740)
<b>Cash generated by (used in) operations</b>	<b>69,599</b>	<b>98,643</b>	<b>(7,870)</b>	<b>(6,433)</b>
Interest received	1,364	3,577	688	1
Interest paid	(7,580)	(11,278)	(9)	(3)
Income taxes paid	(26,701)	(13,912)	—	—
<b>Net cash from (used in) operating activities</b>	<b>36,682</b>	<b>77,030</b>	<b>(7,191)</b>	<b>(6,435)</b>
<b>Cash generated from operating activities comprises:</b>				
Continuing operating activities	12,419	46,478	(7,191)	(6,435)
Discontinued operating activities	24,263	30,552	—	—
	36,682	77,030	(7,191)	(6,435)

Cash and cash equivalents (which are presented as a single class of asset on the balance sheet) comprise cash at bank and other short term highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 29 Operating lease arrangements

	2010 \$000's	2009 \$000's
Minimum lease payments under operating leases recognised in income for the year	<b>499</b>	506

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 \$000's	2009 \$000's
Within one year	<b>470</b>	433
In two to five years	–	476
	<b>470</b>	909

Operating lease payments mainly represent rentals payable by the Group for certain of its office properties.

### 30 Capital commitments

At 31 December 2010 the Group had exploration licence commitments not accrued of approximately \$29.9 million (2009 – \$33.9 million).

### 31 Related party transactions

During the year, the Company recorded a net credit in the amount of \$0.6 million (2009 – \$0.5 million) in respect of services rendered between Group companies. There were no balances outstanding with Group undertakings as at 31 December 2010. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Transactions with the Directors of the Company, who are considered to be its key management personnel, are disclosed in the Directors' Remuneration Report on pages 54 to 61.

# FIVE YEAR SUMMARY

	Year to 31 Dec 2010 \$000's	Year to 31 Dec 2009 \$000's	Year to 31 Dec 2008 \$000's	Year to 31 Dec 2007 \$000's	Year to 31 Dec 2006 \$000's
<b>Consolidated income statement</b>					
Oil and gas revenues – continuing operations	<b>48,390</b>	69,339	44,976	–	–
Operating profit – continuing operations	<b>29,137</b>	51,640	28,848	(7,858)	(8,802)
Operating profit – discontinued operations <sup>1</sup>	<b>36,473</b>	38,811	37,743	65,645	55,113
Profit for the year	<b>101,432</b>	51,118	411,060	32,314	29,063
	2010 \$000's	2009 \$000's	2008 \$000's	2007 \$000's	2006 \$000's
<b>Consolidated balance sheet</b>					
Non-current assets	<b>874,683</b>	712,444	635,089	517,744	340,527
Net current assets	<b>253,670</b>	84,542	315,044	44,272	181,685
Non-current liabilities	<b>(115,136)</b>	(33,718)	(239,747)	(233,049)	(226,420)
Net assets	<b>1,013,217</b>	763,268	710,386	328,967	295,792
Share capital	<b>27,534</b>	24,451	24,322	23,549	23,532
Share premium	<b>72,622</b>	71,077	70,369	68,355	68,325
Other reserves	<b>149,205</b>	11,317	14,697	49,437	54,406
Retained earnings	<b>763,856</b>	656,423	600,998	187,626	149,529
Total equity	<b>1,013,217</b>	763,268	710,386	328,967	295,792
	Year to 31 Dec 2010 \$000's	Year to 31 Dec 2009 \$000's	Year to 31 Dec 2008 \$000's	Year to 31 Dec 2007 \$000's	Year to 31 Dec 2006 \$000's
<b>Consolidated cash flow statement</b>					
Net cash from operating activities	<b>36,682</b>	77,030	45,056	49,009	33,230
Capital expenditure	<b>151,890</b>	73,901	217,613	178,590	114,339

## Financials

# FIVE YEAR SUMMARY

## CONTINUED

	Year to 31 Dec 2010	Year to 31 Dec 2009	Year to 31 Dec 2008	Year to 31 Dec 2007	Year to 31 Dec 2006
<b>Financial key performance indicators (continuing and discontinued operations)</b>					
Realised oil price per barrel (\$) <sup>2</sup>	<b>75.66</b>	55.70	66.62	70.69	62.73
Operating cost per barrel (\$) <sup>3</sup>	<b>12.41</b>	9.82	10.30	6.93	5.91
DD&A per barrel (\$) <sup>4</sup>	<b>6.68</b>	5.44	4.25	5.32	3.70
Basic earnings per share (cents) <sup>5</sup>	<b>30.9</b>	17.3	143.8	11.5	10.3
Diluted earnings per share (cents) <sup>5</sup>	<b>28.4</b>	15.4	124.3	10.2	9.2
<b>Non financial key performance indicators (continuing and discontinued operations)</b>					
Total shareholder return (%) <sup>6</sup>	<b>10.3</b>	22.4	(50.2)	59.2	75.8
Production (barrels of oil per day) <sup>7</sup>	<b>4,648</b>	6,415	4,464	6,316	6,766
Total proven and probable reserve additions (mmboe) <sup>8, 9</sup>	–	3.4	25.0	2.6	41.8
Proven and probable reserves (mmboe) <sup>9</sup>	<b>132.6</b>	142.5	144.1	160.9	160.6
Employee tenure (years) <sup>10</sup>	<b>8</b>	8	7	6	6
Professional development (days) <sup>11</sup>	<b>89</b>	22	20	40	47
Lost time injuries frequency (thousand man-hours) <sup>12</sup>	<b>0.000</b>	0.000	0.001	0.000	0.000
Emissions (tonnes) <sup>13</sup>	<b>Negligible</b>	Negligible	Negligible	Negligible	Negligible

<sup>1</sup> Discontinued operations includes the results of all discontinued operations throughout the five years shown.

<sup>2</sup> The realised oil price per barrel is the average proceeds received for each barrel of oil sold in the period.

<sup>3</sup> Operating cost per barrel is the average cost incurred to produce a barrel of oil which excludes lifting imbalances and inventory effects.

<sup>4</sup> DD&A per barrel includes depreciation, depletion and decommissioning costs for the period calculated over barrels of oil produced.

<sup>5</sup> Earnings per share in prior years have been restated to reflect the 2010 share sub-division (see Note 25).

<sup>6</sup> The total shareholder return is the percentage annual return to the Company's shareholders.

<sup>7</sup> Average barrels of oil produced per day net to the Group's working interest.

<sup>8</sup> Comprises additions, revisions to previous estimates and purchase of reserves.

<sup>9</sup> Reserves are net to the Group's working interest expressed in millions of barrels of oil equivalent (see Reserves Statistics on page 93).

<sup>10</sup> Average length of UK based employee tenure.

<sup>11</sup> Average number of days per year of job-related training undertaken by UK based administrative employees excluding Directors.

<sup>12</sup> Number of lost time injuries per thousand man-hours on projects operated by SOCO or jointly operated companies.

<sup>13</sup> Scope One emissions in tonnes of carbon dioxide.

# RESERVE STATISTICS

## UNAUDITED, NET WORKING INTEREST (MMBOE)

### Net proven oil and gas reserves

	Total	Vietnam <sup>1</sup>	Thailand	Congo <sup>1</sup>
<b>Reserves as at 31 December 2009</b>	<b>78.9</b>	<b>70.7</b>	<b>4.5</b>	<b>3.7</b>
<b>Changes in the year</b>				
Additions	–	–	–	–
Revision to previous estimates	–	–	–	–
Purchase of reserves	–	–	–	–
Change of interest	–	–	–	–
Sale of reserves	(3.6)	–	(3.6)	–
Production	(1.7)	(0.8)	(0.9)	–
<b>Reserves as at 31 December 2010</b>	<b>73.6</b>	<b>69.9</b>	–	<b>3.7</b>

### Net proven and probable oil and gas reserves

	Total	Vietnam <sup>1</sup>	Thailand	Congo <sup>1</sup>
<b>Reserves as at 31 December 2009</b>	<b>142.5</b>	<b>124.2</b>	<b>9.1</b>	<b>9.2</b>
<b>Changes in the year</b>				
Additions	–	–	–	–
Revision to previous estimates	–	–	–	–
Purchase of reserves	–	–	–	–
Change of interest	–	–	–	–
Sale of reserves	(8.2)	–	(8.2)	–
Production	(1.7)	(0.8)	(0.9)	–
<b>Reserves as at 31 December 2010</b>	<b>132.6</b>	<b>123.4</b>	–	<b>9.2</b>

### Net proven and probable oil and gas reserves yearly comparison

	2010	2009	2008	2007	2006
<b>Reserves as at 1 January</b>	<b>142.5</b>	144.1	160.9	160.6	133.2
<b>Changes in the year</b>					
Additions	–	–	7.0	–	–
Revision to previous estimates	–	3.4	18.0	2.6	38.8
Purchase of reserves	–	–	–	–	3.0
Change of interest	–	(2.7)	(11.0)	–	(11.9)
Sale of reserves	(8.2)	–	(29.2)	–	–
Production	(1.7)	(2.3)	(1.6)	(2.3)	(2.5)
<b>Reserves as at 31 December</b>	<b>132.6</b>	142.5	144.1	160.9	160.6

Note: mmboe denotes millions of barrels oil equivalent

<sup>1</sup> Reserves are shown before deductions for non-controlling interests which are funded by the Group. The Group is entitled to receive 100% of the cash flows until it has recovered its funding of the non-controlling interest including a rate of return from the non-controlling interest's pro rata portion of those cash flows.

## Company information

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### Registered Office

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Registered in England  
Company No. 3300821

**Website**

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**Company Secretary**

**Cynthia B Cagle**

**Financial Calendar**

Group results for the year to 31 December are announced in March/April. The Annual General Meeting is held during the second quarter. Half year results to 30 June are announced in August. Additionally, the Group will issue an interim management statement between ten weeks after the beginning and six weeks before the end of each half year period.

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