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SOCO International plc

Annual Report and Accounts 2009

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We are an international oil and gas exploration and production company headquartered in London and listed on the London stock exchange.

The Company has designated core areas in South East Asia and Africa and employs a strategy for building shareholder value through a portfolio of oil and gas assets.

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2009 Highlights

\$Millions	2009	2008	2007
Profit For The Year From Continuing Operations	51.1	30.6	(8.9)
Net Cash From Operating Activities	77.0	45.1	49.0
Cash, Cash Equivalents and Liquid Investments	307.6	303.4	68.3
Net Assets	763.3	710.4	329.0

2010 Outlook

- Significant portfolio de-risking
- Exploration will focus upon new targets in Africa
- Reserve growth anticipated from Vietnam where we begin our largest ever development and appraisal programme

SOCO Around the World

Africa

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%)

DR Congo (Kinshasa)

Block: Nganzai

Location: North Congo Basin, onshore
western DRC

Operational phase: Exploration

SOCO interest: SOCO E&P DRC (85% – Operator)

Project partner: Cohydro (15%)

Block: Block 5

Location: Albertine Graben, onshore eastern DRC

Operational phase: Exploration

SOCO interest: SOCO E&P DRC (38.25%)

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

Angola

Block: Cabinda Onshore North Block

Location: North Congo Basin, onshore
western Cabinda

Operational phase: Block evaluation/exploration

SOCO interest: SOCO Cabinda (17%)

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

South East Asia

Vietnam

Block: 9-2, operated by the Hoan Vu Joint Operating Company

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, operated by the Hoang Long Joint Operating Company

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%)

Thailand

Block: Bualuang field Block B8/38

Location: Western Basin, offshore Thailand

Operational phase: Field development/production

SOCO interest: SOCO Thai (40%)

Project partner: Salamander (60% – Operator)

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.

South East Asia
The TGT field offshore Vietnam
is targeted to come on stream in
mid-2011
see page 15

Africa

The most prolific drilling campaign in the Company's history began in late 2009 with exploration/appraisal drilling offshore Congo (Brazzaville) see page 19

Africa
Exploration on the Nganzi
Block onshore DRC is targeting
estimated recoverable reserves
of 600 million barrels
see page 20

Chairman and Chief Executive's Statement

From left:
Ed Story
President and Chief
Executive Officer
Rui de Sousa
Chairman

Dear Shareholders

SOCO enjoyed a great deal of success in 2009, delivering record profits on continuing operations, obtaining government sanctioning of the Group's largest development project and ending with record year end cash, cash equivalents and liquid investments balances. Even with all of this, from a news flow perspective, the past year may seem to have been anticlimactic. However, the Group was gathering momentum during 2009 towards the launch of an exciting exploration campaign in both core areas, Africa and South East Asia. Even so, the activity since initiating this programme in September 2009 has been fractional compared with the significant portfolio de-risking due to occur this year.

SOCO has been gathering momentum in 2009 towards an exciting exploration campaign

The exploration campaign will focus upon new targets in Africa. Reserve growth could also come from the appraisal programme in Vietnam where we begin our largest ever development programme in the Te Giac Trang (TGT) field and drill a promising follow-up well to the 2008 Te Giac Den (TGD) discovery well.

Financial and Operating Results

The 2009 financial statements report the first return to a full year of production operations since 2007, following the sale of the Group's Yemen asset in April 2008. This resulted in record revenues, operating profits and profit after tax (excluding disposals). The Group's balance sheet strengthened further, ending the year with a cash balance (including liquid investments) higher than at the beginning of the year. Moreover, early in 2010 we raised an additional £99.2 million net from a share placing which will, with our existing funds and operational cash flows, underwrite the current exploration and development programmes regardless of the number of bonds that may be redeemed in May of 2010.

After tax profit of \$51.1 million (2008 – \$30.6 million from continuing operations) demonstrates the impact of a full year's earnings from the Group's two new producing assets in its South East Asia portfolio. This was achieved even though production from the Ca Ngu Vang (CNV) field was curtailed in order to maintain reservoir pressure prior to the commencement of water injection. Total production net to the Company's working interest averaged 6,415 barrels of oil equivalent per day (BOEPD) from both assets, on par with the 2008 production average over the period from start up of production operations.

Cash flows from operating activities of \$77.0 million (2008 – \$45.1 million) were in excess of 2009 capital expenditure of \$73.9 million (2008 – \$217.6 million) contributing to a year end cash, cash equivalent and liquid investments balance of \$307.6 million (2008 – \$303.4 million). This combined with net funds raised of £99.2 million from the share placing in January 2010 provides the Company with a strong position to fund its current exploration, appraisal and development programmes.

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.

\$77.0m

Cash flows from operating activities

2009 Operations Review

South East Asia

Vietnam - Block 16-1

During 2009, the 3D seismic over the TGT and the TGD fields in Block 16-1 offshore Vietnam was reprocessed, yielding encouraging results for both projects. TGT, which the Vietnamese Government sanctioned for development during the year, is targeted to come on stream in mid-2011 at approximately 50,000 BOEPD. Pre-development activities commenced during 2009 with the ordering of long lead items, commencing fabrication of the unmanned platform for Phase I development and tendering bids for appraisal drilling. A follow-up appraisal well to the TGD discovery is expected to be drilled in the second or third quarter of 2010 following Government approval of the Appraisal Area during 2009.

Vietnam - Block 9-2

The sixth and final well in the initial CNV development drilling programme was drilled early in 2009. Production has been temporarily scaled back in order to maintain adequate reservoir pressure pending the initiation of water injection following the drilling of an injector well and sidetrack to a current producer in the first half of this year. Production in 2009 from the CNV field averaged 2,848 BOEPD net to SOCO's working interest.

Chairman and Chief Executive's Statement continued

Thailand

Two horizontal wells were drilled on the Company's Bualuang field in Thailand in the first half of the year in order to maximise oil production and minimise water production. Following this work, SOCO has booked additional reserves in line with those of the operator's independent reservoir engineers' assessment. Further development drilling activity is planned for 2010. A 3D seismic acquisition covering 384 square kilometres was completed in the first quarter of 2010 to further evaluate the field. Production from Bualuang in 2009 averaged 3,567 barrels of oil per day (BOPD) net to SOCO's working interest.

Africa

Republic of Congo (Brazzaville)

The Company drilled its first two wells in its Africa region in the second half of 2009, both in the Company's Marine XI licence, offshore Congo (Brazzaville). The Lyeke Marine 1, a low cost wildcat well, targeted the Sendji Formation but was found to be water saturated and was subsequently plugged and abandoned. The second Marine XI well, the Viodo Marine 4, was a vertical well appraising the 1986, oil rich, although structurally complex, discovery. Two drill stem tests were completed resulting in a combined maximum flow rate of approximately 2,600 BOPD and 7.0 million standard cubic feet of gas per day. The results of the well and associated reprocessed 3D seismic are currently being incorporated into a model to assess the commerciality of the accumulation.

\$51.1m

After tax profit

In the first quarter of 2009, SOCO received Congolese Government approval to farm-in as operator to the offshore Marine XIV Block adjacent to the Group's operated Marine XI Block. Subsequently, a 100 square kilometre multi-azimuthal 3D seismic campaign was completed and is currently being interpreted ahead of SOCO's first Marine XIV well.

Democratic Republic of Congo (Kinshasa) (DRC)

During 2009, the Company continued interpretation of the 360 kilometre 2D seismic on the Ngarzi Block that was acquired in 2008, identifying several major structures. In anticipation of drilling two or three exploration wells in 2010, the Group began construction of roads, bridges and a base camp to facilitate drilling in previously inaccessible areas.

SOCO hopes to broaden its portfolio in DRC, with its application for a licence over Block 5, in the Albertine Graben in eastern DRC, pending a Presidential Decree and an application submitted for a large interior block.

Angola

Due to recent security incidents in Cabinda North the planned 2009 2D and 3D seismic campaign was suspended by the operator of the Block. The operator currently expects this to resume in the first half of 2010.

Corporate

Share Placing

In January 2010, the Company successfully placed 7,234,347 new ordinary shares of 20 pence each at a price of 1410 pence per Placing Share (the Placing Price). Based on the Placing Price, the gross proceeds of the Placing were £102.0 million (\$166.0 million). The proceeds of the placing further reinforce the Group's balance sheet ahead of a period of significant expenditure on the TGT development and exploration in Africa. Further details can be found in the Financial Review on pages 22 to 25 and in Note 32 to the financial statements.

The Board

As previously reported, Mr John Snyder, a Director since the Company's initial listing on the London Stock Exchange, retired from the Board at the 2009 Annual General Meeting. In June, SOCO announced the appointment of Ambassador António Monteiro as a Non-Executive Director. Ambassador Monteiro was appointed to serve on the Audit and Remuneration Committees. In August, the Company announced the appointment of Dr Mike Watts as a Non-Executive Director. Dr Watts was appointed to serve on the Audit and Nominations Committees. Ambassador Monteiro's extensive experience in the countries in which SOCO has built its newest core area in Africa and Dr Watts' extensive experience in the oil and gas industry has added significant and complementary skills to the Board.

Further details can be found in the Annual Report of the Directors on pages 36 to 39 and in the Corporate Governance Report on pages 40 to 47.

Outlook

There is little question of the significance of the 2010 drilling programme as the Company will de-risk a substantial portion of its portfolio. The potential for material reserves upgrades cannot be discounted assuming even modest drilling success in the exploration and appraisal programme.

2010 will be an eventful year

Notwithstanding the risks associated with exploration drilling in our sector, we believe we have taken all of the necessary steps to maximise our success ratio for exploration and appraisal drilling, which has averaged over 60% since our listing. In the event that all of the frontier exploration proves unsuccessful, an already proven oil field in Vietnam could provide considerable upside just from the appraisal/development drilling alone.

With our most active drilling programme offering the most upside potential in terms of adding reserves just ahead for us, 2010 will be an eventful year. While past performance is no guarantee of future success, given SOCO's track record on delivering development projects on time and to budget and its previous drilling success ratio we are confident that we will be able to report significant progress during 2010 and in the next annual report.



Rui de Sousa
Chairman



Ed Story
President and Chief Executive Officer

Business Review

Review of Operations

**During 2009,
SOCO prepared for
and launched the
most active drilling
programme in
its history**

Review of Operations

South East Asia continued

Key Performance Indicators

	2009	2008	2007
Production (boepd)	6,415	4,464	6,316
Total proven and probable reserve additions (mmboe)	3.4	25.0	2.6
Proven and probable reserves (mmboe)	142.5	144.1	160.9

See the Five Year Summary on page 82 for definitions

First oil is targeted for mid-2011 with production from this first phase of development expected to be approximately 50,000 BOPD. Tenders for a number of long lead items have been issued and fabrication is underway on the initial unmanned platform to be installed on the northernmost H1 fault block. Drilling of the initial development/appraisal wells will begin shortly after this platform is installed in June/July of this year.

Final negotiations for the floating, production, storage and offloading vessel – the primary critical path item for meeting the first oil date – were concluded in the fourth quarter of 2009.

Te Giac Den

The TGD Appraisal Area encompasses 150 square kilometres including 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.

The application for the Block 16-1 TGD Appraisal Area and work programmes was approved by Petrovietnam in January 2009 and the subsequent Vietnamese Government approval was received in April 2009. The appraisal period expires at the end of 2010. During the intervening period, the contracting parties will attempt to demonstrate commerciality of the initial TGD discovery, which would then lead to an application for field development.

A drilling rig suitable for drilling in high pressure/high temperature environments was contracted in February 2010. The well is expected to spud as soon as practicable after the end of the northwest monsoon season in Vietnam and following a site survey and sourcing of specialised wellhead equipment.

Voi Trang

The initial application for the Voi Trang appraisal area that encompassed the discovery well and several adjacent leads covering an area of approximately 100 square kilometres was approved by Petrovietnam in January 2009. However, following an assessment of the commerciality of the previous discoveries in the awarded area, the HLJOC opted to relinquish this area. Petrovietnam issued a formal approval of the relinquishment in July 2009.

Total production net to the Group's working interest during 2009 was 6,415 BOEPD

Block 9-2

Ca Ngu Vang

Development on Ca Ngu Vang (CNV) continued into 2009 after first oil was achieved the previous year. The sixth and final well in the initial phase of development drilling, the CNV-6P, was drilled during the first quarter. Since the efficient exploitation of this Basement field requires early water flooding to reach a plateau production and avoid gas breakthrough, the original development concept was to water flood the eastern flank of the structure. Because the fracturing in the eastern flank of the field of the Basement reservoir is not as intense as that indicated by wells drilled in other parts of the structure, a drilling programme is being finalised to drill a well to the western part of the field to be converted to a water injector and to sidetrack a current producer to increase production. In the interim, production has been scaled back pending the initiation of water injection in order to maintain adequate reservoir pressure.

Negotiations for a rig to conduct the development drilling are currently being finalised. It is possible that the same rig could be later utilised to drill in the TGT field. Drilling is anticipated to commence on CNV late in the first quarter or early in the second quarter of 2010.

CNV production net to the Group's working interest averaged 2,848 BOEPD for 2009. Production was suspended in late December 2009 as a routine cleaning of the production line connecting the CNV platform to the Bach Ho production platform resulted in a pipeline inspection gauge becoming stuck in the line. Production resumed in early February 2010.

Thailand

Bualuang Field

SOCO's 99.93% owned Thailand subsidiary, SOCO Exploration (Thailand) Co. Ltd., holds a 40% interest in the Bualuang field located in Block B8/38, offshore in the Gulf of Thailand.

During the first half of 2009, the operator drilled two horizontal attic wells in the Bualuang field and reported a reserves upgrade. The two wells were drilled to maximise oil production from the strong water driven reservoir, whilst minimising production of water. In the reserves upgrade, the operator reported a rise from 20 million gross proven and probable barrels of oil at 1 January 2009 to 26.3 million gross proven and probable barrels of oil recoverable.

A 384 square kilometre 3D seismic programme was acquired in the first quarter of 2010. The programme is intended to evaluate additional exploration potential within the Block as well as to enhance understanding of the field. Additional development drilling is anticipated in the upcoming year to maintain production levels and to efficiently exploit the field.

Bualuang production net to the Group's working interest averaged 3,567 BOPD for 2009.

**Phase II development
drilling in the CNV
Field is set to begin in
the first half of 2010**

Review of Operations

continued

South East Asia

During 2009, SOCO prepared for and launched the most active drilling programme in its history. Subject to farm-out discussions and critical equipment availability, the programme continues with a drilling campaign in the Cuu Long Basin offshore Vietnam to appraise and prove up significant additional reserves, two to three high impact exploration wells on the Ngazı Block onshore the Democratic Republic of Congo (Kinshasa) and two exploration wells in the Congo Basin offshore the Republic of Congo (Brazzaville), one on the Marine XI Block and one on the Manne XIV Block.

The potential impact on reserves and production from the current development, appraisal and exploration programme is larger than anything undertaken by the Company to date.

The current programme is larger than anything undertaken to date

Total production net to the Group's working interest during 2009 was 6,415 barrels of oil equivalent per day (BOEPD) sourced from its South East Asia operations compared with 2,533 BOEPD produced from these continuing operations in 2008. This increase reflects a full year of production in Vietnam and Thailand compared with five and four months, respectively, in 2008.

Vietnam

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

The Company's interests are held through its 80% owned subsidiary SOCO Vietnam Ltd (SOCO Vietnam) and through its 100% ownership of OPECO, Inc. SOCO Vietnam holds a 25% working interest in Block 9-2, which is operated by the Hoan Vu JO (HVJO) and holds a 28.5% working interest in Block 16-1, which is operated by the Hoang Long JO (HLJO). OPECO, Inc. holds a 2% working interest in Block 16-1.

Block 16-1

Reprocessing of a 3D seismic grid over the fairway that includes both the Te Giac Trang (TGT) and Te Giac Den (TGD) fields was completed during the second half of 2009. The initial interpretation was encouraging for both projects. Whereas the discovery wells on TGT were drilled based on time migrated seismic, future wells will be positioned using the newly reprocessed, depth migrated seismic.

Initial interpretation of the improved TGT pre-stack depth migration data set suggests that the structural crests of the TGT fault blocks are further east than originally mapped. Thus, the seven exploration/appraisal wells drilled to date in the field, with an average oil and gas flow of approximately 11,300 barrels of oil per day (BOPD) per well, provide greater structural control and suggest improved results in development wells drilled up-dip of the existing wells.

Early conclusions from the seismic reprocessed over TGD show improved continuity at the reservoir level over the structure and support the previous interpretation of the reservoir deposition. Detailed mapping is underway to select the appraisal well location. Drilling is planned for the first half of 2010.

Te Giac Trang

The Company was granted approval from Petrovietnam, the Vietnam national oil company, of the Field Development Area for the TGT field in May of 2009 and, subsequently, Petrovietnam assumed funding of its 41% share of development costs as of 1 July 2009. In September, the Company was informed that the Ministry of Industry and Trade, on behalf of the Vietnamese Government, had approved the Development Plan for the TGT field.

Africa

Republic of Congo (Brazzaville)

The Group's 85% owned subsidiary, SOCO Exploration and Production Congo SA (SOCO EPC), holds interests in and is the designated operator of both the Manne XI (29% working interest) and Marine XIV (29.4% working interest) Blocks offshore Congo (Brazzaville)

Marine XI

The Manne XI Block 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. A two well drilling programme was conducted in the second half of 2009

Liyeke

The Liyeke Manne I (LYM-1), a low cost wildcat well, was spudded on 22 August 2009. The LYM-1 well targeted and encountered the Soudji (post-salt) Formation on the previously designated S1 prospect. On reaching target depth, the reservoir was found to be water saturated. A 62 metre heavy oil column was encountered in the overlying sediments, but log and sample data indicated that the oil would not flow. Accordingly, the well was plugged and abandoned after reaching a total depth of 1,140 metres.

The outcome of this well has no bearing on the post-salt prospects to the south and west of the Liyeke Manne well where the salt is thinner and discontinuous and will allow migration from the pre-salt source rocks. More importantly, the well has no impact on pre-salt prospects where source rocks are adjacent to the prospective reservoirs.

Viodo

The second well to be drilled on Marine XI, the Viodo Marine 4 vertical appraisal well (VIM-4), was spudded on 17 September 2009. The VIM-4 well was an appraisal of the 1986 Viodo oil discovery which lies in some 65 metres of water and contains oil in the Toca Formation, a lacustrine carbonate developed below the regional salt horizon. Three of the four existing wells drilled during the period 1986 to 1990 successfully tested oil, but also showed the accumulation to be geologically complex.

The seismic is currently being interpreted ahead of SOCO's first well on Marine XIV

The Company's objectives in drilling the VIM-4 well were to further delineate the field, gather data that would allow reprocessing of the 3D seismic in order to map the distribution of reservoir quality limestone and to test the effectiveness of a completion strategy that could be applied to high angle development wells.

The Company completed two drill stem tests (DSTs) resulting in a combined maximum flow rate of approximately 2,600 BOPD and 7.0 million standard cubic feet of gas per day (MMSCFD).

The first DST from the deeper carbonate section between 2,240 to 2,273 metres flowed at initial post-acid rates of approximately 2,600 BOPD and 2.5 MMSCFD on a 3/4 inch choke. Flow rates stabilised at approximately 1,100 BOPD on a 1/2 inch choke after an approximate seven hour flow period. A test of the upper carbonate section, between 2,205 and 2,230 metres, flowed at post-acid rates of approximately 4.5 MMSCFD. The results of the well and the reprocessed seismic are being incorporated into a 3D model that will be used to assess the commerciality of the accumulation.

Marine XIV

In March 2009, regulatory approval was received from the Government of Congo (Brazzaville) for SOCO EPC's farm-in to the Manne XIV Block located in the Lower Congo Basin in shallow water, adjacent to the Company's Manne XI Block. The farm-in to the three discontinuous sections of Marine XIV was pursued to complement SOCO's activity, both operationally and technically. Previous exploration activity on the Block has resulted in some oil discoveries.

As operator, SOCO EPC has since completed a 100 square kilometre multi-azimuthal 3D seismic programme. The seismic is currently being interpreted ahead of SOCO's first well on Marine XIV.

Review of Operations

Africa continued

Democratic Republic of Congo (Kinshasa) (DRC)

The Group's 85% owned subsidiary, SOCO Exploration and Production DRC SpA (SOCO E&P DRC), holds the Group's interests in the DRC

Nganzi

The Nganzi Block covers 800 square kilometres, onshore western DRC. SOCO E&P DRC is the designated operator with an 85% working interest. Cohydro, the state owned oil company, holds the remaining 15% interest.

Initial interpretation of the processed seismic from a 2008 360 kilometre 2D seismic acquisition programme has been very encouraging. Several large structures have been identified and two or three exploration wells are planned for the second half of 2010.

Farm-out discussions are underway with other parties, who have interests in the region, but the Company has not ruled out conducting the drilling programme without additional partners.

Block 5

SOCO E&P DRC holds a 38.25% participating interest in the application for Block 5 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, award of which is pending a Presidential Decree, covers an area of 7,105 square kilometres, encompassing part of Lake Edward.

Several large structures have been identified and two or three exploration wells are planned for the second half of 2010 onshore DRC

The Company has also submitted an application for a large interior block. Finalisation of any awards appear to be awaiting resolution of the award of Blocks I and II that directly offset discoveries in the northern part of the basin in Uganda. The timing of finalising any award is impossible to determine at this time.

Angola

Cabinda North

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 1,400 square kilometre Cabinda North Block, operated by Sonangol, is bordered in the north by Congo (Brazzaville) and in the south and east by the DRC.

The contractor that conducted the seismic programme on the Nganzi Block was mobilised in late 2009 to acquire both 2D and 3D seismic in Cabinda North. However, there have been multiple security incidents in the region the latest of which, though unrelated to the project, led to suspension of the seismic acquisition programme in January 2010. No Company personnel have been directly affected thus far. No drilling is anticipated in Cabinda during 2010.

Financial Review

**The record revenues,
operating profits
and profit after tax
further underpin
the Group's balance
sheet strength**

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

Key Performance Indicators

	2009	2008	2007
Realised oil price per barrel (\$)	55.70	66.62	70.69
Operating cost per barrel (\$)	9.82	10.30	6.93
DD&A per barrel (\$)	5.44	4.25	5.32
Basic earnings per share (cents)	69.6	575.3	45.8
Diluted earnings per share (cents)	61.9	497.1	40.9
Total shareholder return (%)	22.4	(50.2)	59.2

See the Five Year Summary on page 62 for definitions

Due to the commencement of production in South East Asia from the Group's Ca Ngu Vang (CNV) field in Vietnam in July 2008 and the Bualuang field in Thailand in August 2008, the 2009 financial statements reflect the first return to a full year of operating profit and cash flow since 2007, following the sale of the Group's Yemen asset in April 2008. The most notable impact when comparing this year's operating result to that of the previous year is the extended producing interval

\$90.5m

Operating profit for the year

The record revenues, operating profits and profit after tax (excluding disposals) achieved in 2009 further underpin the Group's balance sheet strength, ending the year with cash, cash equivalents and liquid investments balances higher than it started the year despite an active capital expenditure programme

Income Statement Operating Results

Revenue from oil and gas production from the CNV field in Vietnam and Bualuang field in Thailand was \$131.0 million compared with \$55.3 million in 2008. This increase reflects the longer production interval and higher realisations in 2009. With the exception of brief typical operating interruptions, both CNV and Bualuang produced for 12 months versus five and four months, respectively, in 2008. Further, the average price realised in 2009 was slightly higher at \$55.70 per barrel of oil sold compared with \$55.27 per barrel realised in 2008 from these South East Asia producing assets. Year on year production volumes remained stable at 6,415 barrels of oil equivalent per day (BOEPD) taking into consideration the date of first oil in 2008 from CNV and Bualuang.

Since the commencement of production operations in the CNV field, the Group has been recouping costs carried on behalf of Petrovietnam associated with the 9-2 Block, which significantly increased the Group's entitlement production volumes over its working interest volumes. By the end of 2009 the Group had fully recouped those carried costs. Costs carried by the Group on behalf of the minority partner in SOCC Vietnam are still being recovered and at year end totalled approximately \$118.4 million. SOCC Vietnam's share of the income stream will continue to accrue 100% to SOCC until the entire amount, including a rate of return, is fully recovered.

Cost of sales in 2009 was \$33.8 million compared with \$18.9 million in 2008. Of this increase \$14.6 million relates to higher operating costs largely due to a full year of operations in 2009 compared with four months in Thailand and five months in Vietnam. Additionally, royalties and export duty, being costs directly associated with liftings, were \$6.1 million higher in 2009 consistent with higher revenue. Offsetting these increases is a credit to cost of sales in respect of inventory, which is recorded at market value, of \$18.8 million compared with a credit in 2008 of \$5.0 million. Finally, depreciation, depletion and decommissioning costs (DD&A) were \$16.0 million in 2009 compared with \$7.9 million in 2008, again primarily associated with the longer producing interval. This impact was partially offset by the effect of increased reserves booked in Thailand.

On a per barrel basis, excluding inventory movements, DD&A and sales related duties and royalties, operating costs were approximately \$9.80 per barrel versus approximately \$13.50 per barrel in 2008. Higher operating costs in the initial months of production during 2008 were anticipated as it is common with start-up operations that production levels during the first few months can be erratic due to initial testing of well flow capability and minor operational interruptions. As production levels have stabilised, operating costs per barrel have reduced.

Financial Review

continued

On a per barrel entitlement basis DD&A in 2009 was approximately \$5.40 per barrel, down from approximately \$6.00 per barrel in 2008. This was primarily due to the effect of increased reserves in Thailand.

Administrative costs were higher in 2009 at \$6.8 million compared with \$6.2 million in 2008 essentially because, although offset by the effects of the weaker GB pound and reduced payroll costs, a greater proportion of the Group's overhead was attributed to the Company's corporate activities.

The above factors combined to result in a record operating profit arising from the Group's continuing production operations for 2009. Operating profit for the year was \$90.5 million versus \$30.2 million for 2008.

Non-Operating Results

Investment income reduced from \$7.2 million in 2008 to \$2.6 million this year as the Group received lower rates of return on its cash, cash equivalent and liquid investments balances compared to 2008.

Tax increased from \$6.8 million in 2008 to \$42.4 million in 2009 mainly due to a full year of operations in 2009 and timing of liftings. The effective rate in 2009 was 45% compared with 18% in 2008. The effective rate in 2008 was substantially below the statutory rate due to a greater proportion of revenue arising from non-taxable income in Vietnam relating to cost recoupment and non-taxable investment revenue.

The Group's profit after tax in 2009 was a record \$51.1 million

The Group's profit after tax in 2009 was a record \$51.1 million up from \$30.6 million on continuing operations in 2008. Basic and diluted earnings per share on continuing operations increased from 42.8 cents in 2008 to 69.6 cents in 2009 and from 37.9 cents in 2008 to 61.9 cents in 2009, respectively.

Balance Sheet

Intangible assets were reduced in the year by \$260.5 million. This is largely due to capitalised costs in South East Asia relating to Block 16-1 in Vietnam being transferred to property, plant and equipment (PP&E) following the Vietnamese Government approval of the Te Giac Trang (TGT) development. The impact is mitigated somewhat by additions to intangible assets due to the exploration expenditure in Africa.

PP&E increased by \$337.2 million predominately due to the transfer from intangible assets as described above plus additional capital expenditure associated with South East Asia, partially offset by DD&A.

Due to the timing of liftings, inventories of oil in both Vietnam and Thailand were high at the year end 2009. These higher volumes combined with higher market values at 2009 year end compared with the 2008 year end meant that the closing oil inventory balance was \$23.8 million this year compared with \$3.9 million last year.

\$307.6m

Cash, cash equivalents and liquid investments

SOCO's cash, cash equivalents and liquid investments increased by the year end 2009 to \$307.6 million from \$303.4 million at the start of the year as cash generated from operations exceeded capital expenditure. As the Group has a strong financial position it has purchased short term liquid investments of over three months maturity in order to maximise investment revenues. As at 31 December 2009 the Group had liquid investments of \$152.0 million (31 December 2008 – \$nil) and cash and cash equivalents of \$155.6 million (31 December 2008 – \$303.4 million).

As at 31 December 2009 the Group's only debt was the convertible bonds issued in 2006 at a par of \$250.0 million. During the year, the liability component of the bonds has been reclassified as a current liability on the balance sheet as the bonds may be redeemed at par on 16 May 2010 at the discretion of each bondholder under the terms and conditions of the bonds. At year end 2009 the liability component was \$232.7 million, up from \$228.2 million at year end 2008 due to the accretion of principal during 2009.

Cash Flow

The Group's operating cash flow from continuing operations increased from \$14.1 million in 2008 to \$77.0 million in 2009 mainly as a result of a full year of production operations in South East Asia as discussed above. This was offset by capital expenditure of \$73.9 million (2008 – \$217.6 million). In Africa, two wells were drilled offshore in Marine XI and seismic was acquired in Marine XIV, Congo (Brazzaville). In Thailand two additional development wells were drilled. Vietnam capital expenditure included the completion of a development well, a capital workover and the commencement of the TGT development.

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 operating 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 82 where the KPIs are defined.

Own Shares

The SOCO Employee Benefit Trust (the Trust) was established in 2001 to administer a Long Term Incentive Plan (LTIP). At the end of 2009, the Trust held 1,752,680 (2008 – 1,919,680) of the Company's ordinary shares (Shares), representing 2.32% (2008 – 2.56%) of the issued share capital after using 167,000 (2008 – 246,100) Shares for the exercise of certain share options under the LTIP. As at 31 December 2009, the Company held 27,500 (2008 – 27,500) treasury Shares.

Corporate Developments Share Placing

In January 2010, the Company announced that it had successfully placed 7,234,347 new ordinary shares of 20 pence each (the Placing Shares) with institutions at a price of 1410 pence per Placing Share (the Placing Price). Based on the Placing Price, the gross proceeds of the Placing were £102.0 million (\$166.0 million). The Placing Shares issued represent 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 20 pence 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.

Board

As previously reported, John Snyder, a Director since the Company's initial listing on the London Stock Exchange, resigned from the Board at the 2009 Annual General Meeting. In June, SOCO announced the appointment of Ambassador António Monteiro as a Non-executive Director. Ambassador Monteiro was appointed to serve on the Audit and Remuneration Committees. In August, the Company announced the appointment of Dr Mike Watts as a Non-executive Director. Dr Watts was appointed to serve on the Audit and Nominations Committees. Ambassador Monteiro's extensive experience in the countries in which SOCO has built its newest core area in Africa and Dr Watts' extensive experience in the oil and gas industry have added significant and complementary skills to the Board.

Corporate Broker

In June, SOCO announced the appointment of J.P. Morgan Cazenove as its joint Corporate Broker alongside Bank of America Merrill Lynch.

Risk Management Financial

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

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 10 to 12. Further, risk management is also discussed below and in Note 3 to the financial statements. The Group has a strong financial position, further enhanced by the share placing in January 2010, 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 page 39.

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. However, due to the low current return on such investments and considering the large cash balances held by the Group, it has entered into some short term liquid investments of over three months maturity in order to maximise investment revenues. Investments are generally confined to money market or fixed term deposits in major financial institutions. For further details of the Group's financial risk management see Note 3 to the financial statements.

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.

\$131.1m

Revenue from oil and gas sales

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.

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

SOCO does not 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.

Corporate Responsibility

**Our goal is to be a
positive presence**

SOCO is an international oil and gas exploration and production company headquartered in the United Kingdom and listed on the London Stock Exchange. With three operating licences in the Africa region and five non-operated interests in South East Asia and Africa, SOCO has interests within regions having multifarious economic, social and environmental conditions and cultures.

The host countries in which we operate are primary stakeholders in each of the respective projects

Whilst the Board's primary responsibility is to return value to its shareholders, the Board recognises that consideration of its other stakeholders' interests are core factors in the Company effectively achieving its business objectives and reducing its risk profile. The host countries in which we operate are primary stakeholders in each of the respective projects. This is due to the potential for positive and sustainable economic and social benefit on a national scale that natural resources from a successful project could generate. Our relationships with our business partners, host governments, local communities, contractors and employees are highly valued. The Board therefore embraces the opportunity to promote sustainable development on an economic, social and environmental level and to engender corporate responsibility (CR) good practice and values into its management and corporate culture.

SOCO has greater CR influence over some projects than others. In projects where we hold the operating interest, we are able to exercise direct influence. Our influence is less direct where we hold a minority interest as an investor or participant in a project. However, in both scenarios, our approach is to clearly communicate our values and to promote sound CR management practices. SOCO endorses the guidelines set out in the Extractive Industries Transparency Initiative and supports its goal of strengthening governance through improved transparency and accountability.

This report focuses on the CR values which define our business policies and how these are implemented in terms of:

- Our management of CR
- Our engagement with stakeholders
- Our commitment to our employees and contractors
- Our commitment as a customer
- Our commitment to local communities
- Our commitment to the environment and to sustainable development

The examples provided in this report focus primarily on our three operated interests, which are the Manne XI and Marine XIV Blocks located in shallow waters in the Lower Congo Basin, offshore the Republic of Congo (Brazzaville), and the Nganzai Block, located onshore in the Bas-Congo Province of the Democratic Republic of Congo (DRC).

SOCO's non-operated interests are the Bualuang field in Block B8/38 located offshore in the Gulf of Thailand, Block 5 located onshore in eastern DRC, near to the border with Uganda and including part of Lake Edward, and the Cabinda Onshore North Block which is bordered in the north by Congo (Brazzaville) and in the south and east by the DRC. SOCO's interests in Vietnam, which are operated through the Hoang Long and Hoan Vu Joint Operating Companies (JOCs), are located offshore in the Cuu Long Basin and comprise oil production from the Ca Ngu Vang (CNV) field and appraisal/development operations in the Te Giac Trang (TGT) and Te Giac Den (TGD) fields.

Policy

SOCO is committed to applying widely accepted good practice in CR management. The detailed guidance set out by the World Bank Group and incorporated into the Equator Principles is the basic benchmark SOCO has adopted.

SOCO's framework of policy documents and procedures is reflective of the relatively small scale and nature of the Company's operations and size of organisation. 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 impede inappropriate and corrupt business practices.

SOCO's health, safety and environment (HSE) policy, which has been in place since the Company's inception, conforms to international best practice and includes bespoke HSE management systems tailored to the Company's projects. Formal reporting to the Board is mandatory for all HSE incidents. Any HSE incident report is automatically investigated to determine the cause and identify actions for prevention of future recurrence.

Corporate Responsibility continued

SOCO commits to meet legal and regulatory requirements governing environmental practices, as a minimum standard, and strives to ensure its activities are consistent with sound environmental management and conservation practices. We seek to minimise the adverse effects of the by-products of our processes on the natural resources and ecosystems in which we operate. SOCO routinely engages third parties to review our compliance with existing systems and to update systems to reflect project evolution, including the Code and HSE policy.

We are committed to applying good practice in CR management

Management of CR

The Chief Executive Officer is the Director responsible to the Board for HSE and other CR performance. He delegates day-to-day responsibility for managing HSE/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 a monthly operations report and a separate agenda item at each Board meeting addresses any significant HSE/CR issues.

The country managers report to the Board through senior management and are responsible for implementing the Company's CR strategy on a local level. Through its recruitment and training processes, 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 instinctive 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 HSE/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 experience in the relevant area, reviews HSE/CR performance in detail with senior managers and is kept routinely informed of any material performance issues as they arise.

External advisors are utilised to ensure that best practice is achieved and CR objectives are met. Deployment of external, rather than dedicated internal, resources ensures optimal access to sound expertise in each area which is not compromised by management numbers and layers and which would not otherwise be available in a staff of our size.

Engagement with Stakeholders

SOCO maintains an open and active dialogue with its shareholders. The Company maintains a website wherein important information can be 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 have met directly with investment stakeholders on approximately 200 occasions during 2009.

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 regulators and with the wider local population. In Congo (Brazzaville), DRC and Angola, 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 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 Ngarzi 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 dynamic support from the local population for SOCO's recruitment campaign and interest from other stakeholders to invest in the region.

SOCO's corporate website also 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.

Our reporting and participation in public benchmarking activities reflect the size and nature of our operations.

Commitment to our Employees and Contractors

SOCO's policy is to maximise local employment and contract outsourcing in all the operations we control. Whilst realising the positive benefits of this approach, the Company recognises the CR management risks that a highly localised approach can introduce. SOCO manages this area of risk carefully, both in its selection of contractors and the subsequent monitoring of their performance.

We promote 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.

**The Board embraces
the opportunity to
promote sustainable
development**

Corporate Responsibility

continued

**SOCO is dedicated
to improving
the wellbeing of
the people who
are affected by
our presence and
our operations**

We endeavour to facilitate honest, timely and two-way communication and to maintaining avenues for the equitable resolution of employee complaints. In Congo (Brazzaville), a formal representative body has been set up for staff, in accordance with local regulation, and was operational throughout 2009. Its formation involved the election, under the supervision of a state official from the Ministry of Labour, of two workers to act as staff representatives. The representatives are allotted with 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. This has resulted in open and harmonious dialogue between management and employees. A representative body, organised on similar lines, has also been set up for staff working in DRC and has been operational since December 2009.

We promote a workplace culture where each person is treated with fairness and respect

As part of our HSE procedures, processes were put in place to handle potential incidents or emergencies during the drilling campaign. A Level 2 Emergency Response Exercise was successfully carried out in October 2009 to test the effectiveness of these processes. HSE audits were carried out during the Congo (Brazzaville) Manne XI drilling operations and affirmed that there had been no occurrence of lost time accidents or cases requiring medical treatment or first aid.

Our Commitment as a Customer

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. Our tender processes include relevant due diligence measures.

Commitment to Local Communities

SOCO understands that its operational success is highly dependent on the support of the communities in which it operates. 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. Our operations are underpinned with 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 co-operation and capacity building.

In SOCO's operations, virtually all personnel are nationals of the host country. In Vietnam, the JOCs currently have 110 employees and contractors of whom 86 are nationals. Across the Africa region, SOCO has 62 personnel, 58 of whom are nationals, of whom 17 received formal training sponsored by SOCO at various international training centres in Canada, Congo, Dubai, France, Gabon, South Africa, UK and USA during 2009.

SOCO also supports local communities by providing resources to the non-profit sector and by supporting local education. In Vietnam, through the JOCs, SOCO focuses its social development commitment through programmes aimed primarily at projects which serve those most at need in society, particularly children, the elderly and those with limited ability to work. In Africa, in addition to providing access to employment and training, the focus of SOCO's support for the community is through the provision of educational facilities, medical care, provision of fresh drinking water and local infrastructure.

During 2009, SOCO provided support to medical centres and local charities working with children and vulnerable adults in Congo (Brazzaville). SOCO built a maternity ward in Mbomo, a district in the Cuvette-Ouest Region of western Congo (Brazzaville), and purchased medical equipment for two clinics in Pointe-Noire, where SOCO has its offices. In the capital, Brazzaville, electrical and gas stoves were purchased for the Soeurs des Pauvres charity. Donations were also made to Haite Side, an organisation for children orphaned by HIV, and to the National Association for the Blind.

In Angola, the contractor group which includes SOCO provided a medical centre with nurse accommodation at Massabi and assisted in providing fresh drinking water at Dingo by recovering an existing water well, constructing a water distribution branch and installing a generator. A water well was also drilled at Inhuca, where a water tank was re-commissioned and the water distribution system was restored. A primary school with six rooms and accommodation for teachers was provided at Benfica. In DRC, SOCO sponsored the refurbishment and extension of school buildings, which included the headmaster's office and four classrooms.

In the United Kingdom, SOCO donated £10,000 during 2009 to Action for M.E., the UK charity dedicated to improving the lives of people with Myalgic Encephalomyelitis.

Maximised local involvement is our policy in all the operations we control

Commitment to the Environment Emissions

The Company recognises the environmental impact of emissions from both its operated and non-operated activities. Currently, SOCO supports the Operator effort to reduce joint venture emissions, while SOCO currently has minimal operated emissions in terms of carbon dioxide equivalent. As part of its growth in operations, the Company is reviewing the most appropriate means through which the environmental impact of operations is measured, and continues to seek ways of reducing its emissions of greenhouse gases in particular.

Corporate Responsibility continued

Environmental Impact Assessments (EIAs)

EIAs were carried out in Congo (Brazzaville), Vietnam and Thailand during 2009. At the time of this report, an EIA is under way over the Nganzi Block, onshore DRC, and preparations have commenced for an EIA over Marine XIV offshore Congo (Brazzaville).

Commitment to Sustainable Development Sustainable Development in South East Asia

The first flow of crude oil and wet gas from the CNV field, in the Cuu Long Basin offshore Vietnam, occurred in July 2008. The hydrocarbons are transported via a subsea pipeline system to the processing facilities at Bach Ho. Crude oil is processed and then stored in a floating storage and offloading vessel prior to sale. The wet gas is separated offshore and transported to an onshore gas facility for further distribution to meet domestic demand.

The CNV field utilises an unmanned platform that is tied back to the Bach Ho central processing platform. This is the first project in the Vietnam petroleum industry to utilise the existing facilities in order to maximise the life of existing infrastructure, minimise the investment costs and reduce the impact on the environment. Oil production passes to existing offshore facilities, so the principal impact is an extension of the useful life of these assets, thus having a beneficial sustainability influence. The most material environmental issue is the production of significant quantities of associated gas. This represents an important economic asset for the Company and for the Vietnamese people and the Company is party to a gas sales agreement for national use.

In Thailand, the Bualuang oil field, in Block B8/38 in the Gulf of Thailand, commenced oil production in August 2008. The crude oil is processed and then stored in a floating production storage and offloading facility vessel prior to sale. Under the terms of the petroleum licence, SOCO contributes in the form of a petroleum royalty on production to Thailand's Petroleum Fund, which is a monetary reserve used to stabilise the domestic retail price of petroleum. Sustainability initiatives in Thailand supported by SOCO include the Fisheries Resources Conservation Project, involving the release of juvenile fish and shrimp larvae and compensation to fishermen during seismic activity on the Block. SOCO has also supported local fundraising activities to promote tourism in the Chumphon Province, the onshore area adjacent to the Company's offshore interest. In December 2009, prior to the 3D seismic programme which was acquired in the Bualuang field during the first quarter of 2010, compensation of approximately 8 million Thai Baht was paid to local fishermen.

Sustainable Development in the Africa Region

The Nganzi Block is located in the Bas-Congo Province of the DRC. Efficient road and air access was a focal consideration in SOCO's preparation for the seismic campaign and planned drilling programme and the Company invested in the introduction and upgrade of transportation infrastructure across the area. This included the building of a 1,000 metre airstrip with related infrastructure at Kipholo, the construction of six bridges over the Lukunga, Lubuzi and Lemba rivers and the maintenance and improvement of 135 kilometres of road. These building initiatives will provide lasting infrastructure for the local populace and has already inspired indirect socio-economic benefits by opening up the rural area. This has stimulated an increase in trade and other stakeholder interest, including the building of a medical clinic by a non-governmental organisation.

Manpower for both the seismic acquisition work and the related development initiatives was sourced from the local population. Approximately 450 local employees were recruited for geophysical work and given the relevant seismic drilling, topography and recording training. Housing improvements can be seen across the area, reflecting raised employment levels during the seismic campaign.

We continue to develop policies that promote sustainable development

Carbon Footprint in the United Kingdom

Although not qualifying for the CRC Energy Efficiency Scheme in the UK, the Company has measures in place at its UK offices to reduce its energy usage and to enable office equipment, furniture, stationery and packaging to be recycled.

Outlook

As SOCO embarks on its most active drilling campaign in the Company's history, the Board recognises the business imperative to act responsibly and we continue to develop policies and practices that promote sustainable development on an economic, social and environmental level. Our goal is to be a positive presence, building value for our host countries and local communities, as well as our shareholders. Regardless of the success of individual projects, SOCO is dedicated to improving the wellbeing of the people who are affected by our presence and our operations.

Governance

Board of Directors

From left to right

Olivier Barbaroux (54)

Non-Executive Director

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

Ed Story (66)

President and Chief Executive Officer

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

Robert Cathery (65)

Non-Executive Director

- A member of the Board of SOCO International since June 2001 and a member of the Remuneration and Nominations Committees.
- Over 40 years of City experience
- Formerly, 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.
- Currently, a non-executive director of Vostok Energy Limited, Salamander Energy PLC, Indigovision plc and Central Asia Metals Limited

Mike Watts (53)

Non-Executive Director

- A member of the Board of SOCO International plc since August 2009 and a member of the Audit and Nominations Committees.
- Formerly, the CEO and Managing Director of Amsterdam listed Holland Sea Search which was acquired by Cairn Energy PLC in 1995 and holder of senior technical and management roles with Premier, Burmah and Shell
- Currently, Deputy CEO of Cairn Energy PLC

Rui de Sousa (54)

Non-Executive Chairman

- A member of the Board of SOCCO International since July 1999 and Chairman of the Nominations Committee
- Currently, a director of Quantic Limited, a director of Gazprombank-Invest (Lebanon) SAL and Chairman of Carbon Resource Management Ltd.

John Norton (72)

Non-Executive Director

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

António Monteiro (66)

Non-Executive Director

- A member of the Board of SOCCO International plc since June 2009 and a member of the Audit and Remuneration Committees.
- 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)

- 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.
- Currently, 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.

Martin Roberts (66)

Non-Executive Director

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

Roger Cagle (62)

Executive Vice President, Deputy CEO and Chief Financial Officer

- A member of the Board of SOCCO International since April 1997
- Over 30 years of experience in the oil and gas industry including succeeding positions of responsibility with Exxon Corporation and senior management roles with Superior Oil Company

- Formerly, Chief Financial Officer of Snyder Oil Corporation's international subsidiary and of Conquest Exploration Company
- Currently Non-Executive Chairman of Dominion Petroleum Ltd and a non-executive director of Vostok Energy Limited.

Peter Kingston (67)

Non-Executive Deputy Chairman and Senior Independent Director

- A member of the Board of SOCCO International since April 1997 and Chairman of the Remuneration and Audit Committees.
- A petroleum engineer who has worked in the oil and gas industry since 1965 in various roles
- Formerly, a founding director of Enterprise Oil plc, then Managing Director (Technical) and a director of Elf Enterprise Petroleum Ltd
- Currently, Executive Chairman of Tower Resources plc and a director of Plexus Energy Limited, a social and environmental advisory network.

Ettore Contini (36)

Non-Executive Director

- A member of the Board of SOCCO International since December 2001
- Currently a director of Eurowatt-Commerce

The Annual Report of the Directors

**The Directors present
their annual report,
along with the audited
financial statements
of the Group**

The Directors present their annual report, along with the audited financial statements of the Group for the year ended 31 December 2009. The Corporate Governance Report on pages 40 to 47 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, Thailand, 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 fair 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 10 to 12, the Review of Operations on pages 14 to 21, and the Financial Review on pages 22 to 25. The principal risks and uncertainties facing the Group are set out in the Financial Review on page 25 and, in respect of the principal financial risks, in Note 3 to the financial statements. As set out in the Corporate Responsibility Report on pages 26 to 32, which forms part of this report, SOCO is committed to high standards of corporate responsibility. The key performance indicators (KPIs) used by management are set out on pages 16 and 23, and are summarised along with pertinent definitions in the Five Year Summary on page 82. The Company does not currently include personnel, health, safety and environmental measures as reported KPIs, reflecting the small staff size and relatively small size and scope of projects directly operated by the Company. 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 2009 are set out on pages 60 to 81. 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 (2008 – £nil).

The Directors intend to devote the Group's cash resources to its exploration and development activities

Directors

The Directors who served during the year, and the dates of their current service contracts or letters of appointment, which are available for inspection, are listed in the table (above). All Directors held office throughout the year except as noted in the table. Mr Snyder, having determined that he will reduce his business commitments generally, retired from the Board at the 2009 Annual General Meeting (AGM). Relevant details of the Directors, which include their Committee memberships, are set out on pages 34 to 35. 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 48 to 56.

Directors Holding Office during 2009

Director	Date of contract
Rui C de Sousa Chairman	12.07.99
Peter E Kingston* Dep Chairman & Senior Independent Director	14.05.97
Olivier M G Barbaroux*	12.07.99
Roger D Cagle	14.05.97
Robert M Cathery*	19.06.01
Ettore P M Contini	11.12.01
John C Norton*	14.05.97
Martin J D Roberts*	06.09.04
António V Monteiro* (appointed 10 June 2009)	10.06.09
John C Snyder* (resigned 10 June 2009)	14.05.97
Edward T Story	14.05.97
Mike Watts* (appointed 14 August 2009)	21.09.09

* Denotes those determined by the Board to be independent Non-Executive Directors as described in the Corporate Governance Report on pages 40 to 47.

Mr Rui de Sousa and Mr Roger Cagle retire by rotation at the forthcoming AGM. Mr Peter Kingston, Mr Olivier Barbaroux and Mr John Norton, having served on the Board for more than nine years, are subject to annual reappointment and will also retire at the AGM. Ambassador António Monteiro and Dr Mike Watts also retire, having been appointed by the Board since the last AGM. Each of the retiring Directors offers themselves for reappointment, being eligible and having been recommended for reappointment by the Nominations Committee.

The Nominations Committee carefully considered its recommendations regarding the reappointment of retiring Directors with regard to the policies and processes set out in more detail in the Corporate Governance Report on pages 40 to 47, 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 other 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 Annual Report of the Directors continued

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 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.

The appointment of Ambassador Monteiro and Dr Watts has added specific and complementary skills to the Board

Articles of Association

The Directors are proposing specific amendments at the 2010 AGM to the Company's Articles of Association to reflect changes in English company law brought about by the 2006 Act, and as amended by the Companies (Shareholders' Rights) Regulations 2009. Further information regarding these changes is set out in the circular to shareholders accompanying this Annual Report and Accounts.

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.

Charitable 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 26 to 32.

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 20 pence each, all of which are fully paid. However, a resolution will be proposed at the 2010 AGM to approve the sub-division of the ordinary shares already in issue. In recent years the price of the Company's ordinary shares has risen to the point where they are now one of the most highly priced ordinary shares compared with comparator companies quoted on the London Stock Exchange. The closing mid-market price for one ordinary share on 23 March 2010 (the latest practicable date before the publication of this document) was £16.55. The Board believes that it is appropriate to propose the sub-division of each of the ordinary shares into four new ordinary shares of 5 pence each (the "New Ordinary Shares") pursuant to Resolution 12 (the "Share Split"). This should improve the liquidity and may reduce the bid/offer spread of the Company's ordinary shares.

If the proposed Share Split proceeds, it is expected that the price of each New Ordinary Share will become approximately one-quarter of the price of an ordinary share currently in issue. This will reflect the fact that shareholders will own four times as many ordinary shares. Shareholders should however note that, subject to market movements the aggregate value of their shareholdings should remain the same.

The New Ordinary Shares will carry the same rights in all respects as the current ordinary shares, including voting rights and rights to participate in dividends of the Company, and will be transferable in the same manner as the ordinary shares already in issue.

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 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 is, unless the Board decides otherwise, entitled to attend or 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 2010 AGM 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.

Substantial Shareholdings

Name of Holder	Issued Shares		Warrants
	Number	% Held	Number
Pontol Intertrade Limited	19,020,166	23.01	447,171
BlackRock, Inc	9,051,852	10.95	-
Chemsa Ltd	6,346,183	7.68	325,215
Legal & General Group Plc	2,973,214	3.60	-
Ed Story	2,874,459	3.48	-

A resolution will also be proposed at the 2010 AGM to renew the Directors' existing authority to make market purchases of the Company's ordinary share capital, and to limit such authority to purchases of up to 33,065,784 ordinary shares of 5 pence each in the event Resolution 12 is passed, or otherwise, 8,266,446 ordinary shares of 20 pence each, in either case, representing up to approximately ten per cent of the Company's issued ordinary share capital, (excluding treasury shares) at 23 March 2010. Shares purchased under this authority may either be cancelled or held as treasury shares.

Substantial Shareholdings

As at 23 March 2010, the Company had been notified, in accordance with the DTRs, of the interests in the issued share capital of the Company and warrants to subscribe for ordinary shares of the Company (Warrants) as set out in the table above.

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 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 25, 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 in pages 57 to 81, 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
23 March 2010

Cynthia Cagle
Company Secretary



Corporate Governance

**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 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.

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 2009, the Company has complied with the provisions set out in section 1 of the Combined Code

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 34 to 35, 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 37 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

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 they are responsible for promoting the highest standards of integrity and probity

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 take sound decisions

SOCO wins ICSA Hermes Transparency in Governance Award

In November SOCO was awarded the ICSA Hermes Transparency in Governance Award for Best Practice Disclosure on Director Development, Board Evaluation and Succession Planning. The awards involve a rigorous process of evaluation of the disclosure performance of all companies in the FTSE 350 with the aim of identifying and rewarding high standards of disclosure.

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 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

The Company manages a portfolio of long term, complex projects

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 individual professional development needs. Additionally, briefing sessions are provided in the course of regular Board meetings and Committee meetings on relevant issues as deemed appropriate

Corporate Governance continued

Board Balance and Independence

The Board embraces the underlying principles of 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. 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 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 Board seeks to ensure that retention of experience does not result in an insufficient 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 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 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 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 combines to provide an exceptional balance of skills and experience required for the business. Being satisfied of his continued independence, and following a specific review of Board roles undertaken in conjunction with succession, the Board additionally considers that Mr Kingston's time commitment and expertise continue to best position him to provide the independent leadership and guidance required in the continuation of his roles as Senior Independent Director and committee chairmanships. The Board will continue to apply rigorous scrutiny in its assessment to ensure independence remains evident in Board and Committee practice, and in the qualities and behaviours of each of its members.

Reappointment

Directors are subject to reappointment at least every three years. 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, and a term exceeding nine years is subject to annual reappointment. The process for considering reappointments is described more fully in the Nominations Committee section below.

Following this process the Board recommends the reappointment of the retiring Directors, each having offered themselves for reappointment.

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 and benefits from continuity of experience throughout the process. In South East Asia, its Vietnam programme is of major significance to the Company and, with one field now in production, it continues with a large, more complex development phase to be conducted over the next several years. Additionally, the Company is advancing its Africa portfolio further through the exploration phase, and an ongoing exploration drilling programme which commenced in 2009.

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 2009 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. Accordingly, a succession allowing for some refreshment while maximising continuity of experience was considered to be in the best interest of shareholders.

As stated in the Annual Report of the Directors, Mr John Snyder retired at the 2009 Annual General Meeting (AGM) and, as described in the Nominations Committee section below, the Company undertook a process to identify independent Non-Executive Director candidates who could add value to the Board through complementary qualifications. This resulted in the appointments of Ambassador António Monteiro and Dr Mike Watts in June 2009 and August 2009, respectively. While each brings a broad range of valuable skills to the Board, they additionally provide specific complementary qualifications in particular through added expertise within the Africa region and international exploration, respectively. Each was appointed to two Committees in accordance with a review of Committee memberships and Chairmanships undertaken as part of this process. The new Directors will be placed before shareholders for election at the 2010 AGM, being the first AGM following their appointment. The Board benefits from both the additional expertise and the refreshment of Board and Committee membership derived from these appointments. Following a period of induction and assimilation, the Board will continue planning for a phased succession which allows for an appropriate balance of refreshment and continuity.

SOCO's Board comprises a broad range of knowledge, skills and experience

Board Structure and Process

The Board typically has four scheduled meetings a year and holds additional meetings as necessary. During 2009, the Board held four 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 45. 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.

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 (the 2006 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.

Accountability and Audit Directors' and Auditors' Responsibilities

The responsibilities of the Directors and auditors are set out in the Annual Report of the Directors on pages 36 to 39 and in the Independent Auditors' Report on page 59.

Going Concern

The Group's financial statements have been prepared on a going concern basis as described in the Financial Review on page 25 and the Annual Report of the Directors on page 39.

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.

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 in October 2005 (the Turnbull Guidance), for identifying, evaluating and managing the significant risks the Group faces.

Corporate Governance continued

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.

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.

The Board has established clear expectations for the Company's economic, social and environmental conduct

Relations with Shareholders

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

SOCO maintains an open and active dialogue with shareholders. The Company maintains an internet website wherein important information can be posted and disseminated promptly to a wide audience and through which shareholders can electronically interface with executive management. At a minimum, the Company provides three personal communication forums annually – the AGM, the presentation of Annual Results and the presentation of Half Year Results – whereby shareholders can directly interface with Company executive management. Notice of the AGM is circulated to all shareholders at least 21 clear days prior to the meeting, and resolutions are proposed for each substantially separate issue. The result of proxy voting is announced after votes are taken on a show of hands. Directors are available to answer shareholder questions and, in particular, the Chairmen of the Audit, Remuneration and Nominations Committees are in attendance to respond to any specific queries.

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

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 34 and 35. Whilst only Committee members are entitled to attend meetings, other Directors are invited to attend from time to time to ensure the Committees' responsibilities are undertaken with access to the Board's full breadth of knowledge and experience. The Company Secretary ensures that the Company additionally provides such resources as the Committees require in the discharge of their duties.

Meeting Attendance by Directors and Committee Members

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nominations Committee Meeting
R de Sousa	4			3
P Kingston	4	3	2	
O Barbaroux	(1) 3		2	(1) 2
R Cagle	4			
R Cathery*	4		1	2
E Contini	(1) 3			
A Monteiro*	(1) 1	1	1	
J Norton	4	3		3
M Roberts	4	3	2	
J Snyder**	(1)			(1)
E Story	4			3
M Watts*	1	1		1

Number denotes a scheduled meeting attended

Number in brackets denotes a scheduled meeting not attended

* Denotes a Director who was appointed to the Board or to a Committee during 2009

** Denotes a Director who retired from the Board and from a Committee during 2009

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 (appointed 10 June 2009) and Dr Mike Watts (appointed 14 August 2009) who are independent Non-Executive Directors. The qualifications of each of the members are set out on pages 34 and 35. 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. The refreshment of Committee membership through two new appointments has renewed the integrity of its ongoing processes in addition to adding valuable and complementary expertise to bear in particular to its risk management processes.

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 2009 and has conducted one meeting to date in 2010, all of which were attended by executive management and external auditors. A private session, without executives present, was held during three of these meetings. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members, external auditors and the Company's executives and employees.

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 was 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 2010.

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. 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 and of the effectiveness of its own performance.

Corporate Governance continued

External Auditors - Non-Audit Services

In its process to assure continued auditor independence, it is the Committee's policy to review all proposed non-audit services on a case by case basis, rather than by reference to pre-allowed or disallowed services, and regardless of size or scope. In particular, 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 2009, having concluded such services were compatible with auditor independence and were consistent with relevant ethical guidance. Details of these non-audit services are set out in Note 9 to the financial statements.

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 (appointed 10 June 2009) and Dr Mike Watts (appointed 14 August 2009), who are independent Non-Executive Directors. Mr John Snyder served on the Committee until his retirement at the 2009 AGM. 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 2009 and has conducted one meeting to date in 2010. 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 which were developed in consideration of 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 for Board appointments as well as for continuation in office and reappointment of retiring Directors.

Consideration is given to the broad capabilities represented on the Board and the ability of these to meet the unique challenges facing the Company

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, including those offering to stand for reappointment and those standing for election at the first AGM following appointment, 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 are submitted for full Board approval. The Company Secretary facilitates induction upon appointment. The Committee successfully conducted a search utilising this process in 2009 to identify a candidate to replace Mr John Snyder who retired at the last AGM. An additional suitable candidate was subsequently identified and added to the Board. Further details of the process undertaken by the Board in 2009 can be found in the Succession and Appointments section above.

Performance Evaluation

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

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 (appointed 10 June 2009) and Ambassador António Monteiro (appointed 11 August 2009), who are independent Non-Executive Directors. The names and qualifications of each of the members are set out on pages 34 and 35. 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 2009, the Committee conducted a review of its TOR and of the effectiveness of its own performance. Details of the Committee's policies and objectives are set out in the Directors' Remuneration Report on pages 48 to 56.

**The Board
promotes the
highest level
of integrity
and honesty**

The Directors' Remuneration Report

The Remuneration Committee is responsible for determining and agreeing with the full Board a broad remuneration policy that is aligned with the Company's business strategy in the creation of shareholder value

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 59, 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 that was issued in 2008 by the Financial Reporting Council (the Code). 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 pages 34 and 35. 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 requirements for retention of experience with succession and refreshment are set out in the Corporate Governance Report on pages 40 to 47, and included a specific review of the Committee's membership and chairmanship in 2009. In light of this review, Committee membership has been refreshed with the addition of two independent Non-Executive Directors. The Board applies a specific set of focused criteria in the assessment of long tenured Directors and, with careful consideration, 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. Being satisfied of his continued independence, the Board considers that Mr Kingston's chairmanship continues to be in the best interest of the Company, and that his extensive relevant experience and continued attention to evolving market practice best positions him to provide the independent leadership and guidance required by the Committee and, in particular, its new members.

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. Additional information regarding the Committee is contained in the Corporate Governance Report on pages 40 to 47.

The Committee has an ongoing process for monitoring its policies

The Committee is responsible for determining and agreeing with the full Board a broad remuneration policy that is aligned with the Company's business strategy in 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 in particular for 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.

The Directors' Remuneration Report

continued

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, who it considers offers the Committee a valuable perspective on the concerns of shareholders generally in ensuring the strategy to align executive interests with those of shareholders remains properly weighed against the overall quantum of remuneration and the cost to shareholders. The Committee consulted with the Chief Executive on its proposals for the other Executive Director and senior management, and received administrative assistance from the Company Secretary. The Audit Committee is consulted as deemed appropriate in setting and assessing the fulfilment of targets based on financial terms.

Deloitte LLP (Deloitte) was 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 40 to 47. 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 2009. Whilst these policies are envisaged to be consistently applied in the following and subsequent years, the Committee has an ongoing process for monitoring its policies, 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 consultation, review and approval process deemed appropriate to such change.

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 and retain high calibre executives through remuneration which is competitive with that offered in comparable businesses and is appropriate to those individuals' positions, experience and value to the Company.

The Committee aims to design remuneration packages with a significant short and long term performance related element linking appropriate, but significantly greater, rewards for greater achievements. The 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 is committed to taking particular care that remuneration 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 benchmarked against competitive market ranges, taking into consideration the Group's size and complexity, and positioned within those ranges considering the Executive Directors' critical value to the Company and demonstrated performance over time. 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. Year on year results of benchmarking are monitored for indications of potential unwarranted upward ratcheting.

Package Components

Executive remuneration comprises a fixed basic salary and eligibility to receive an annual performance based cash bonus and annual awards under incentive plans approved by shareholders and designed to provide appropriate longer term incentive opportunities. Overall packages are structured to deliver 60% of the projected value of the Directors' total compensation opportunity from performance related elements at performance levels in the middle of the target range, increasing to 80% at exceptional performance levels. Executive Directors are eligible for additional benefits, including money purchase pension scheme contributions, a permanent health insurance scheme, medical insurance, life assurance cover, critical illness cover, travel 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 2009, with effect from 1 January 2010 each Executive Director's basic salary has been increased by 3% (2009 – nil %).

The performance measures for 2010 are intended to focus behaviour and activity towards deploying the Company's strategy

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 ability to 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 2010 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. Goals targeting appropriate stewardship of the Company's resources in the current economic environment will continue to have increased priority. Additionally, objectives over safety and environmental measures have increased in priority in conjunction with commencing drilling operations in Africa. 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.

The prioritised goals for 2009 focused on funding, preparing and progressing the Company's portfolio of projects to the next appropriate stage of execution. An exceptionally active drilling programme is now scheduled to begin in 2010 with potential impact on reserves and production from development, appraisal and exploration projects, which is the culmination of the significant effort and achievement of objectives across the portfolio throughout 2009. The TGT development plan received Government approval, and benchmark targets critical to maintaining the accelerated development on schedule for a 2011 start up were met. The Company successfully planned and executed a two well drilling programme in Africa, achieving a 50% success rate with the results of the Viodo well.

The first well, which represented an opportunity to exceed target performance, was not successful. The measure of corporate goals aimed at ensuring appropriate funding for the Group's programmes is evidenced by the year end cash position and the successful January 2010 placing of 7.2 million shares, which was considered well executed and well received by both the market and shareholders generally. Based on these achievements, performance was measured on target for 2009 and bonuses were awarded to Mr Ed Story and Mr Roger Cagle at the target bonus level of 50% of salary in accordance with the Company's policies.

The Directors' Remuneration Report continued

Long Term Incentive Plan (LTIP)

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. 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 2009, 3.8 million new issue shares (2008 – 3.7 million) may be subject to awards, of which there is available capacity remaining of 1.9 million shares (2008 – 0.9 million).

At the date of grant of an award, the Committee sets appropriate performance criteria to be measured on the third anniversary of the date of grant and deemed fulfilled to the satisfaction of the Committee before the award can be exercised or vest. 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. Award levels will take into account the nature of performance targets to ensure that projected total compensation opportunity at assumed levels of share price growth is appropriate in the prevailing market. 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.

After conducting a specific 2009 review and assessment of alternative performance measures, the Remuneration Committee continues to consider that the Company's relative total shareholder return (TSR) provides the primary basis for determining the value generated for shareholders over the longer term, and is also the primary indicator of the Company's overall corporate performance. No change to the performance measure is proposed, as the Company's long term goals remain unchanged and, despite the potential impact of market volatility on this measure, the Committee considers it will continue to align the executives' interests to those of shareholders. Accordingly, 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, TSR results will continue to be underpinned by additionally considering, in light of any exceptional circumstances during the relevant three year period, whether the TSR results are consistent with the achievement of actual underlying financial and operational performance of the Company. 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.

The Committee's review in 2009 additionally focused on the comparator group, which to date has comprised sector comparators in the UK listed environment. For the December 2009 awards this group has been extended to include other international comparators, focusing primarily on companies in the exploration sector.

2009 focused on funding, preparing and progressing the Company's projects

The enlarged comparator group, which is set out below, has been applied to awards granted in December 2009. In consideration of corporate and individual performance discretionary awards 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 2006 and 2008* and in December 2009 is set out below:

Afren**, Bowleven, Cairn Energy, Coastal Energy**, Dana Petroleum, DNO International**, GulfSands Petroleum**, Hardy Oil and Gas**, Heritage Oil**, JIX 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 original comparator group also included Aminex, and additionally included Burren Energy, First Calgary and Venture Production who have subsequently been de-listed.

**Additional comparator companies for 2009 awards

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 2006, 59% 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 55 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.

Five Year TSR Performance

The performance graph above sets out SOCO's TSR performance over the past five years. The FTSE Oil & Gas Index performance is similarly set out, being a broad market index which is sector specific.

Performance measures will continue to align the executives' interests to those of shareholders

Share Option Plans

At the 2009 AGM, shareholders approved The SOCO 2009 Discretionary Share Option Plan (the Plan), which 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 2009, contributions were paid into two money purchase pension schemes in respect of the Executive Directors. Annual contribution levels are set at 15% of salary. The Company monitors its pension commitments, including Executive Directors' arrangements, in light of pension legislation and taxation in the relevant jurisdictions. 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 to other boards and to retain the associated directors' fees. Under this policy Mr Ed Story serves on the board of Cairn India Limited and previously served on the board of Cairn Energy PLC for which he retained associated fees for 2009 in the amount of £2,500. Mr Roger Cagle serves on the boards of Vostok Energy Limited and Dominion Petroleum Limited and retained associated fees for 2009 in the amount of £56,667.

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.

The Directors' Remuneration Report

continued

Directors' Emoluments (Audited)

	Fees/basic salary \$000's	Benefits in kind \$000's ¹	Annual bonus \$000's	Total 2009 \$000's	Total 2008 \$000's
Executive Directors					
E Story	814	48	407	1,269	1,333
R Cagle	611	47	305	963	1,020
Non-Executive Directors²					
R de Sousa	236	–	–	236	250
P Kingston ³	102	–	–	102	120
O Barbaroux	63	–	–	63	67
R Cathery	63	–	–	63	67
E Contini	63	–	–	63	67
A Monteiro	35	–	–	35	–
J Norton	63	–	–	63	67
M Roberts	63	–	–	63	67
J Snyder	28	–	–	28	67
M Watts	24	–	–	24	–
Aggregate emoluments	2,165	95	712	2,972	3,125

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

² Non-Executive Directors' fees are set in GB pounds and have been reported in US dollars at the annual average exchange rate

³ 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

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 for services remain unchanged from those rates reflected in the table above. 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 renewed 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 37.

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 5, located in eastern Democratic Republic of Congo (Kinshasa). Mr Roger Cagle is the Non-Executive Chairman of Dominion Petroleum Limited, one of the co-venturers.

Directors' Pension Entitlements (Audited)

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

	2009 \$000's	2008 \$000's
E Story	122	129
R Cagle	92	97
	214	226

Directors' Incentive Share Awards (Audited)

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

	As at 1 January 2009	Granted/ awarded	Exercised	Lapsed	As at 31 December 2009	Date potentially exercisable ²	Expiry date
E Story							
Deferred Bonus	160,000	–	–	–	160,000	01.01.03	21.03.11
LTIP ¹	175,140	–	–	–	175,140	24.05.04	23.05.11
	153,840	–	–	–	153,840	10.12.04	09.12.11
	75,600	–	75,600	–	–	20.12.08	–
	55,600	–	–	22,796	32,804	18.12.09	–
	37,700	–	–	–	37,700	12.12.10	–
	–	64,400	–	–	64,400	07.01.12	–
	–	72,200	–	–	72,200	17.12.12	–
R Cagle							
Deferred Bonus	112,000	–	–	–	112,000	01.01.03	21.03.11
LTIP ¹	122,580	–	–	–	122,580	24.05.04	23.05.11
	107,700	–	–	–	107,700	10.12.04	09.12.11
	52,900	–	52,900	–	–	20.12.08	–
	41,700	–	–	17,097	24,603	18.12.09	–
	28,300	–	–	–	28,300	12.12.10	–
	–	48,300	–	–	48,300	07.01.12	–
	–	54,100	–	–	54,100	17.12.12	–

¹ Additional details regarding the LTIP are set out within this report. LTIPs were exercised on 8 January 2009 at a market price of £12.046, resulting in a gain of £0.9 million and £0.6 million on exercise by Mr Ed Story and Mr Roger Cagle, respectively. Those awards set out as exercisable prior to 1 January 2008 are in the form of nil price options to acquire ordinary shares in the Company. Awards exercisable subsequently are in the form of contingent rights to acquire ordinary shares in the Company at no cost. Those awards set out as exercisable prior to 1 January 2010 have been tested against the relevant performance schedules attached to the awards and the balance held as at 31 December 2009 has been determined to be fully vested. Vesting of the awards exercisable subsequently and delivery of shares remains conditional upon performance criteria and consideration of Model Code restrictions. The date of expiry of awards may be delayed in consideration of Model Code restrictions.

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

The market price of the ordinary shares at 31 December 2009 was £13.40 and the range during the year to 31 December 2009 was £9.345 to £14.85

Directors' Interests

The Directors who held office at 31 December 2009 had the following interests (all of which were beneficial except as noted below) in the ordinary shares of the Company (Shares), warrants to subscribe for the same number of Shares (Warrants) and contingent rights or options to acquire Shares (Options) at 31 December 2009

	Number of Shares		Number of Options ¹		Number of Warrants	
	2009	2008	2009	2008	2009	2008
Executive Director						
E Story	2,874,459	2,826,415	696,084	657,880	–	–
R Cagle ²	1,780,769	1,726,843	826,399	774,340	–	–
Non-Executive Director						
R de Sousa ³	770,076	770,076	–	–	1,509,201	1,509,201
P Kingston	4,000	4,000	–	–	–	–
O Barbaroux	20,000	20,000	–	–	–	–
R Cathery	100,000	100,000	–	–	–	–
E Contini	55,000	50,000	–	–	–	–
A Monteiro	–	–	–	–	–	–
J Norton	115,000	115,000	–	–	–	–
M Roberts	5,000	5,000	–	–	–	–
M Watts	6,020	–	–	–	–	–

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

² At 31 December 2009, Mr Roger Cagle's interests included 637,053 Shares (2008 – 614,338) and 328,816 Options (2008 – 309,160) held by Ms Cynthia Cagle, the Options having been granted to her in respect to her services to the Group

³ 48,652 Shares (2008 – 48,652) are held by Mr Rui de Sousa personally 721,424 Shares (2008 – 721,424), 55,336 Warrants (2008 – 55,336) at an exercise price of £0.55 per Share, 925,187 Warrants (2008 – 925,187) at an exercise price of £0.60 per Share and 528,678 Warrants (2008 – 528,678) at an exercise price of £0.65 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 Shares held by the SOCO Employee Benefit Trust (Trust), the table above only includes those Shares which are potentially transferable to the Directors and their families pursuant to Options which have been granted to them under incentive schemes facilitated by the Trust. Details of the Trust and its holdings are set out in Note 26 to the financial statements.

Subsequent to 31 December 2009, 30,000 Shares were acquired by Mr Rui de Sousa personally, 2,000 Shares were acquired by Mr Olivier Barbaroux and 4,665 Shares were acquired by Dr Mike Watts. There have been no other changes in the interests of the Directors between 31 December 2009 and the date of this report. No Director held any other interests in any Group companies

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 the parties have agreed to extend through December 2010, 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.

Approval

This report was approved by the Board of Directors on 23 March 2010 and signed on its behalf by

Peter Kingston
Remuneration Committee Chairman



Financials

Financials

From left:
Robert Harris
Corporate Financial
Controller
Neil Gibson
Manager –
Group Reporting,
Taxation & Treasury

Independent Auditors' Report to the Members of SOCO International plc

We have audited the financial statements of SOCO International plc for the year ended 31 December 2009 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, the Group and parent Company Cash Flow Statements, and the related Notes 1 to 32. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As 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 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 (APB'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 2009 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, and
- 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.

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

Chartered Accountants
and Statutory Auditors
London, United Kingdom
23 March 2010

Consolidated Income Statement for the year to 31 December 2009

	Notes	2009 \$000's	2008 \$000's
Continuing operations			
Revenue	5, 6	131,013	55,340
Cost of sales		(33,777)	(18,948)
Gross profit		97,236	36,392
Administrative expenses		(6,785)	(6,201)
Other operating expenses		-	(19)
Operating profit	9	90,451	30,172
Investment revenue	5	2,554	7,175
Other gains and losses	7	1,715	1,488
Finance costs	8	(1,226)	(1,447)
Profit before tax	6, 9	93,494	37,388
Tax	6, 11	(42,376)	(6,815)
Profit for the year from continuing operations		51,118	30,573
Discontinued operations	12		
Operating profit from discontinued operations		-	36,419
Investment revenue from discontinued operations		-	107
Finance costs of discontinued operations		-	(1)
Profit on disposal		-	356,688
Profit before tax from discontinued operations	6	-	393,213
Tax	6, 11	-	(12,726)
Profit for the year from discontinued operations		-	380,487
Profit for the year	9	51,118	411,060
Earnings per share (cents)	14		
From continuing operations		69.6	42.8
From discontinued operations excluding profit on disposal		-	33.3
From profit on disposal		-	499.2
Basic		69.6	575.3
From continuing operations		61.9	37.9
From discontinued operations excluding profit on disposal		-	28.7
From profit on disposal		-	430.5
Diluted		61.9	497.1

Statements of Comprehensive Income for the year to 31 December 2009

	Notes	Group		Company	
		2009 \$000's	2008 \$000's	2009 \$000's	2008 \$000's
Profit for the year	13	51,118	411,060	6,887	459,358
Transfer from other reserves		4,209	3,196	-	-
Unrealised currency translation differences		98	(884)	55,219	(174,147)
Total comprehensive income for the year		55,425	413,372	62,106	285,211

Balance Sheets as at 31 December 2009

		Group		Company	
	Notes	2009 \$'000's	2008 \$'000's	2009 \$'000's	2008 \$'000's
Non-current assets					
Intangible assets	15	103,462	363,958	-	-
Property, plant and equipment	16	572,735	235,497	162	242
Investments	17	-	-	512,031	448,010
Financial asset	18	36,247	34,383	-	-
Deferred tax assets	19	-	1,251	-	-
		712,444	635,089	512,193	448,252
Current assets					
Inventories	20	23,834	3,911	-	-
Trade and other receivables	21	19,946	31,813	542	298
Tax receivables		270	172	132	85
Liquid investments		151,954	-	-	-
Cash and cash equivalents		155,619	303,433	240	1,143
		351,623	339,329	914	1,526
Total assets	6	1,064,067	974,418	513,107	449,778
Current liabilities					
Trade and other payables	22	(23,721)	(22,512)	(2,657)	(2,651)
Tax payables		(10,686)	(1,773)	(367)	(60)
Convertible bonds	23	(232,674)	-	-	-
		(267,081)	(24,285)	(3,024)	(2,711)
Net current assets (liabilities)		84,542	315,044	(2,110)	(1,185)
Non-current liabilities					
Convertible bonds	23	-	(228,245)	-	-
Deferred tax liabilities	19	(22,821)	(3,219)	-	-
Long term provisions	24	(10,897)	(8,283)	-	-
		(33,718)	(239,747)	-	-
Total liabilities		(300,799)	(264,032)	(3,024)	(2,711)
Net assets		763,268	710,386	510,083	447,067
Equity					
Share capital	25	24,451	24,322	24,451	24,322
Share premium account		71,077	70,369	71,077	70,369
Other reserves	26	11,317	14,697	(58,447)	(58,520)
Retained earnings		656,423	600,998	473,002	410,896
Total equity		763,268	710,386	510,083	447,067

The financial statements of SOCO International plc, registered number 3300821, were approved by the Board of Directors on 23 March 2010 and signed on its behalf by:

Rui de Sousa
Chairman

Roger Cagle
Director



Statements of Changes in Equity for the year to 31 December 2009

		Group				
	Notes	Called up share capital \$000's	Share premium account \$000's	Other reserves \$000's	Retained earnings \$000's	Total \$000's
As at 1 January 2008		23,549	68,355	49,437	187,626	328,967
New shares issued		773	2,014	–	–	2,787
Share-based payments		–	–	(31,769)	–	(31,769)
Transfer relating to share-based payments		–	–	106	(106)	–
Transfer relating to convertible bonds		–	–	(3,302)	3,302	–
Unrealised currency translation differences		–	–	225	(884)	(659)
Retained profit for the year		–	–	–	411,060	411,060
As at 1 January 2009		24,322	70,369	14,697	600,998	710,386
New shares issued	25	129	708	–	–	837
Share-based payments	27	–	–	875	–	875
Transfer relating to share-based payments	27	–	–	(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 31 December 2009		24,451	71,077	11,317	656,423	763,268

		Company				
	Notes	Called up share capital \$000's	Share premium account \$000's	Other reserves \$000's	Retained earnings \$000's	Total \$000's
As at 1 January 2008		23,549	68,355	(25,774)	125,685	191,815
New shares issued		773	2,014	–	–	2,787
Share-based payments		–	–	(32,681)	–	(32,681)
Unrealised currency translation differences		–	–	(65)	(174,147)	(174,212)
Retained profit for the year		–	–	–	459,358	459,358
As at 1 January 2009		24,322	70,369	(58,520)	410,896	447,067
New shares issued	25	129	708	–	–	837
Share-based payments		–	–	50	–	50
Unrealised currency translation differences		–	–	23	55,219	55,242
Retained profit for the year	13	–	–	–	6,887	6,887
As at 31 December 2009		24,451	71,077	(58,447)	473,002	510,083

Cash Flow Statements for the year to 31 December 2009

		Group		Company	
	Notes	2009 \$000's	2008 \$000's	2009 \$000's	2008 \$000's
Net cash from (used in) operating activities	28	77,030	45,056	(6,435)	(18,764)
Investing activities					
Purchase of intangible assets		(38,025)	(128,361)	–	–
Purchase of property, plant and equipment		(35,876)	(89,252)	(6)	(6)
Increase in liquid investments ¹		(151,954)	–	–	–
Investment in subsidiary undertakings		–	–	(8,467)	(418,291)
Dividends received from subsidiary undertakings		–	–	13,352	9,146
Proceeds on disposal of subsidiary	12	–	438,505	–	459,242
Net cash (used in) from investing activities		(225,855)	220,892	4,879	50,091
Financing activities					
Share-based payments	26	–	(30,040)	–	(30,040)
New bank loans raised		–	20,000	–	–
Repayment of borrowings		–	(20,000)	–	–
Proceeds on issue of ordinary share capital	25	837	86	837	86
Net cash from (used in) financing activities		837	(29,954)	837	(29,954)
Net (decrease) increase in cash and cash equivalents		(147,988)	235,994	(719)	1,373
Cash and cash equivalents at beginning of year		303,433	68,337	1,143	424
Effect of foreign exchange rate changes		174	(898)	(184)	(654)
Cash and cash equivalents at end of year¹		155,619	303,433	240	1,143

¹ 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 2009 was \$307.6 million (2008 – \$303.4 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 84. 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 21 and 22 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 Directors on page 39 and in the Financial Review on page 25. 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

In the current year, the following new IFRS and revised IAS have been adopted and have affected the disclosures presented in these financial statements. No prior year adjustments have been made to the amounts included in the Consolidated Income Statement or Balance Sheets.

- IFRS 8 Operating Segments. IFRS 8 is a disclosure IFRS that has resulted in additional disclosures relating to geographical information and changes in the way tax assets are presented (see Note 6).
- IAS 1 (revised 2007) Presentation of Financial Statements has introduced a number of changes in the format and content of the financial statements in particular the requirement to present the Statements of Changes in Equity and the Statements of Comprehensive Income as primary statements.
- Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures) expands the disclosures required in respect of fair value measures and liquidity risk.

The following revised IFRS and IAS have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

- IAS 23 (revised 2007) Borrowing Costs, which eliminates the option to expense all borrowing costs when incurred.
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations, which clarifies the definitions of vesting conditions for the purpose of IFRS 2, introduces the concept of 'nonvesting' conditions and clarifies the accounting treatment for cancellations.

At the date of approval of these financial statements the Group has not applied the following IFRSs, International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations which are in issue but not yet effective.

- IFRS 1 (amended)/IAS 27 (Amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 1 (amended) Additional Exemptions for First-time Adopters
- IFRS 2 (amended) Group Cash-settled Share-based Payment Transactions
- IFRS 3 (revised 2008) Business Combinations
- IFRS 9 Financial Instruments
- IAS 24 (revised 2009) Related Party Disclosures
- IAS 27 (revised 2008) Consolidated and Separate Financial Statements
- IAS 28 (revised 2008) Investment in Associates
- IAS 32 (amended) Classification of Rights Issues
- IFRIC 14 (amended) Prepayment of a Minimum Funding Requirement
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The adoption of these IASs, IFRSs and IFRICs in future periods are not expected to have a material impact on the financial statements of the Group.

(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.

Notes to the Consolidated Financial Statements continued

02 Significant accounting policies continued

(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.

(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 an 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 may be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place. 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.

Notes to the Consolidated Financial Statements continued

02 Significant accounting policies continued

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.

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. 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 profit and net assets for the years ended 31 December 2009 and 2008 would not have been material.

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 assesses 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 2009 would decrease or increase by \$2.6 million (2008 – \$2.5 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.

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.

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. 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.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

Financial asset

Note 2(n) describes the accounting policy with respect to financial assets at fair value through profit or loss. The key sources of estimation uncertainty that impact 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.

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.

Notes to the Consolidated Financial Statements continued

05 Total revenue

An analysis of the Group's revenue is as follows

	2009 \$000's	2008 \$000's
Continuing operations		
Oil and gas sales (see Note 6)	131,013	55,340
Investment revenue	2,554	7,175
	133,567	62,515
Discontinued operations		
Oil sales (see Note 6)	–	43,984
Investment revenue	–	107
	133,567	106,606

06 Segment information

The Group has adopted IFRS 8 Operating Segments, which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance. The Group's operating segments as defined by IFRS 8 are the same as those defined under IAS 14. Amounts reported for the prior year have been presented to comply with the requirements of IFRS 8.

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.

	Continuing operations			Discontinued operations	2009
	SE Asia \$000's	Africa \$000's	Unallocated \$000's	Total \$000's	Group \$000's
Oil and gas sales (see Note 5)	131,013	–	–	131,013	131,013
Profit (loss) before tax ¹	97,080	–	(3,586)	93,494	93,494
Tax charge	42,282	–	94	42,376	42,376
Total assets	607,488	115,897	340,682	1,064,067	1,064,067
Depletion and depreciation	15,974	–	152	16,126	16,126

	Continuing operations			Discontinued operations	2008
	SE Asia \$000's	Africa \$000's	Unallocated \$000's	Total \$000's	Group \$000's
Oil and gas sales	55,340	–	–	55,340	99,324
Profit before tax ¹	36,155	–	1,233	37,388	430,601
Tax charge	6,500	–	315	6,815	19,541
Total assets ³	562,819	73,981	337,618	974,418	974,418
Depletion and depreciation	7,913	–	211	8,124	8,733

¹ 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.

² In April 2008, the Group completed the sale of its Middle East segment which comprised its Yemen interest (see Note 12) and was classified as a discontinued operation.

³ Previously, under IAS 14, tax assets were recorded as unallocated. Under IFRS 8 tax assets are now recorded, as applicable, to their appropriate segment consistent with internal reporting.

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 are revenues of \$61.7 million, \$40.1 million and \$19.2 million (2008 – South East Asia \$27.1 million and \$15.7 million and Middle East \$44.0 million) which arose from the Group's largest individual customers

Geographical information

The Group's revenue and non-current assets (excluding the financial asset and deferred tax assets) 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.

	2009 \$000's	2008 \$000's
United States of America	44,010	–
Australia	25,834	23,216
Vietnam	22,443	–
Thailand	–	35,364
Malaysia	–	12,938
China	–	12,342
Singapore	–	9,948
Other	38,726	5,516
	131,013	99,324

Non-current assets

	2009 \$000's	2008 \$000's
United Kingdom	162	242
Vietnam	551,764	508,119
Other	124,271	91,094
	676,197	599,455

07 Other gains and losses

	2009 \$000's	2008 \$000's
Change in fair value of financial asset (see Note 18)	1,863	1,634
Exchange loss	(148)	(146)
	1,715	1,488

Notes to the Consolidated Financial Statements continued

08 Finance costs

	2009 \$000's	2008 \$000's
Interest payable in respect of convertible bonds (see Note 23)	15,679	15,401
Other interest payable and similar fees	29	509
Capitalised finance costs	(14,736)	(14,607)
Unwinding of discount on provisions (see Note 24)	254	144
	1,226	1,447

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 6.55% (2008 – 6.55%) to the expenditures on the qualifying asset (see Note 4)

09 Profit for the year

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

	2009 \$000's	2008 \$000's
Audit of the Company's annual accounts	124	177
Audit of the Company's subsidiaries pursuant to legislation	14	11
Other services pursuant to legislation	70	73
Audit and audit related services	208	261
Recruitment and remuneration services		
Committee advisory services	54	65
Company share option plan	52	–
Tax services	38	–
Corporate finance services	–	101
Other services	7	17
Total fees	359	444

The amounts payable to Deloitte LLP by the Group in respect of other services pursuant to legislation comprise \$70,000 relating to the Group's half year review (2008 – \$73,000)

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

10 Staff costs

The average monthly number of employees of the Group including Executive Directors was 14 (2008 – 14), of which 11 (2008 – 11) were administrative personnel and 3 (2008 – 3) were operations personnel. The average monthly number of employees directly contracted to the Company was 8 (2008 – 8) of which 7 (2008 – 7) were administrative personnel and 1 (2008 – 1) was operations personnel. Their aggregate remuneration comprised

	Group		Company	
	2009 \$000's	2008 \$000's	2009 \$000's	2008 \$000's
Wages and salaries	5,053	5,454	1,537	1,858
Social security costs	505	1,833	247	196
Share-based payment expense (see Note 27)	875	971	50	59
Other pension costs under money purchase schemes	439	470	124	135
	6,872	8,728	1,958	2,248

In accordance with the Group's accounting policy \$2.5 million of the Group's staff costs were capitalised (2008 – \$3.4 million)

11 Tax

	Continuing operations		Discontinued operations		Group	
	2009 \$000's	2008 \$000's	2009 \$000's	2008 \$000's	2009 \$000's	2008 \$000's
Current tax	21,523	4,728	–	8,689	21,523	13,417
Deferred tax (see Note 19)	20,853	2,087	–	4,037	20,853	6,124
	42,376	6,815	–	12,726	42,376	19,541

UK corporation tax is calculated at 28% (2008 – 28.5%) of the estimated assessable profit for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. During 2009 and 2008 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:

	2009 \$000's	2008 \$000's
Profit before tax on continuing operations	93,494	37,388
Profit before tax on discontinued operations	–	393,213
Profit before tax	93,494	430,601
Profit before tax multiplied by standard rate of corporation tax in the UK of 28% (2008 – 28.5%)	26,178	122,721
Effects of:		
Non-taxable income and non-deductible expenses	(1,719)	(8,037)
Non-taxable profit on disposal	–	(101,656)
Higher tax rates on overseas earnings	18,604	6,515
Adjustments to tax charge in respect of previous years	(687)	(2)
Tax charge for the year	42,376	19,541

The tax charge in future periods may also be affected by these factors. The Group's overseas tax rates are higher than those in the UK, primarily because the profits earned in Vietnam and Thailand are taxed at a rate of 50% and in Yemen were taxed at a rate of 35%.

12 Discontinued operations

In February 2008, the Group entered into a conditional sale agreement to dispose of its wholly owned subsidiary SOCO Yemen Pty Limited (SOCO Yemen), the entity that held the Company's interest in the East Shabwa Development Area (ESDA) in Yemen, to Sinochem Petroleum Limited (Sinochem). The disposal was completed in April 2008 for \$465.0 million, subject to certain financial adjustments (the Disposal). The consideration for the Disposal was paid in cash on completion. The results of the Group's discontinued Yemen interest is shown on the consolidated income statement and in Note 6. Net operating cash flows from discontinued operations are shown in Note 28. Upon completion the Group recognised cash inflow of \$438.5 million, reflecting the \$465.0 million, cash consideration net of the Group's share of cash held by the Yemen interest of \$20.7 million, transaction costs of \$5.3 million and financial adjustments of \$0.5 million, and a gain of \$356.7 million.

13 Profit attributable to SOCO International plc

The profit for the financial year, inclusive of dividends received from subsidiary undertakings, dealt with in the accounts of the Company was \$6,887,000 (2008 – \$459,358,000). As provided by section 408 of the Companies Act 2006, no income statement is presented in respect of the Company.

Notes to the Consolidated Financial Statements continued

14 Earnings per share

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

	2009 \$000's	2008 \$000's
Earnings from continuing operations	51,118	30,573
Effect of dilutive potential ordinary shares Interest on convertible bonds (see Note 8)	943	794
Earnings for the purposes of diluted earnings per share on continuing operations	52,061	31,367
Earnings from discontinued operations	–	380,487
Earnings for the purposes of diluted earnings per share on continuing and discontinued operations	52,061	411,854

	Number of shares	
	2009	2008
Weighted average number of ordinary shares for the purpose of basic earnings per share	73,458,721	71,446,122
Effect of dilutive potential ordinary shares		
Share options and warrants	2,668,757	3,065,499
Ordinary shares of the Company held by the Group (see Note 26)	1,783,840	2,113,936
Convertible bonds (see Note 23)	6,238,000	6,238,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	84,149,318	82,863,557

In January 2010, the Company issued 7,234,347 new ordinary shares which, if they had been issued during 2009, would have increased the weighted average number of ordinary shares for the purpose of basic earnings per share (see Note 32)

15 Intangible assets

Exploration and evaluation expenditure

	Group \$000's
As at 1 January 2008	247,178
Additions	133,758
Transfers to property, plant and equipment	(16,978)
As at 1 January 2009	363,958
Additions	52,830
Transfers to property, plant and equipment (see Note 16)	(313,326)
As at 31 December 2009	103,462

Intangible assets comprise the Group's exploration and evaluation projects which are pending determination. During the year \$313.3 million was transferred to property, plant and equipment (see Note 16) in respect of the Group's Vietnam Block 16-1 project.

16 Property, plant and equipment

			Group	Company
	Oil and gas properties \$000's	Other \$000's	Total \$000's	Other \$000's
Cost				
As at 1 January 2008	305,469	2,307	307,776	1,309
Additions	86,402	20	86,422	6
Disposals	(165,750)	(691)	(166,441)	–
Transfers from intangible assets	16,978	–	16,978	–
Foreign exchange	–	(364)	(364)	(364)
As at 1 January 2009	243,099	1,272	244,371	951
Additions	39,992	20	40,012	6
Transfers from intangible assets (see Note 15)	313,326	–	313,326	–
Foreign exchange	–	117	117	117
As at 31 December 2009	596,417	1,409	597,826	1,074
Depreciation				
As at 1 January 2008	68,375	1,702	70,077	800
Charge for the year	8,522	211	8,733	170
Disposals	(68,984)	(691)	(69,675)	–
Foreign exchange	–	(261)	(261)	(261)
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 31 December 2009	23,887	1,204	25,091	912
Carrying amount				
As at 31 December 2009	572,530	205	572,735	162
As at 31 December 2008	235,186	311	235,497	242

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 2009 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 Exploration (Thailand) Co. Ltd	Thailand	Thailand	Oil and gas exploration and production	99.9
SOCO Congo Limited ¹	Cayman Islands	Congo (Brazzaville)	Investment holding	85
SOCO DRC Limited ²	Cayman Islands	D.R. Congo (Kinshasa)	Investment holding	85
SOCO Vietnam Ltd ³	Cayman Islands	Vietnam	Oil and gas exploration and production	80

¹ 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% minority interest is held by Quantic Limited.

² SOCO DRC Limited (SOCO DRC) owns 99% of SOCO Exploration and Production DRC SpA which holds the Group's working interest in its D.R. Congo (Kinshasa) 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% minority interest is held by Quantic Limited.

³ The remaining 20% minority 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 minority interest including a rate of return on the minority interest's pro rata portion of those distributions.

Notes to the Consolidated Financial Statements continued

17 Fixed asset investments continued

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 Tamsag 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 market 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 market 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 2009 the fair value was \$36.2 million (2008 – \$34.4 million) after accounting for the change in fair value (see Note 7).

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	Other \$000's	Group \$000's
As at 1 January 2008	(1,495)	–	119	187	(1,189)
(Charge) credit to income	(6,902)	–	778	–	(6,124)
Disposal of subsidiary	5,532	–	–	(187)	5,345
As at 1 January 2009	(2,865)	–	897	–	(1,968)
Charge to income (see Note 11)	(8,051)	(11,917)	(885)	–	(20,853)
As at 31 December 2009	(10,916)	(11,917)	12	–	(22,821)

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset)

	2009 \$000's	2008 \$000's
Deferred tax liability	(22,821)	(3,219)
Deferred tax asset	–	1,251
	(22,821)	(1,968)

There is no unprovided deferred taxation at either balance sheet date except for an unprovided deferred tax asset arising in respect of excess management expenses and non-trade credits of the Company that are not expected to be utilised in the amount of £1.2 million, being \$1.9 million (2008 – £7.1 million, being \$10.2 million arising in respect of foreign tax credits).

20 Inventories

Inventories comprise crude oil and condensate

21 Other financial assets

	Group		Company	
	2009 \$000's	2008 \$000's	2009 \$000's	2008 \$000's
Amounts falling due within one year				
Trade receivables	6,610	16,055	–	–
Other receivables	9,339	5,362	86	19
Prepayments and accrued income	3,997	10,396	456	279
	19,946	31,813	542	298

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	
	2009 \$000's	2008 \$000's	2009 \$000's	2008 \$000's
Trade payables	7,998	677	–	–
Other payables	4,378	4,195	554	215
Accruals and deferred income	11,345	17,640	2,103	2,436
	23,721	22,512	2,657	2,651

There is no material difference between the carrying value of trade payables and their fair value. Accruals and deferred income includes interest payable of \$1.4 million (2008 – \$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 from June 2006 until six days before their maturity date of 16 May 2013. At the initial conversion price of £21.847 per share there are 6,238,000 ordinary shares of the Company underlying the bonds. The liability component of the bonds has been reclassified as a current liability on the balance sheet as at 31 December 2009 as the bonds may be redeemed on 16 May 2010 at par at the discretion of each bondholder under the terms and conditions of the bonds. If the bonds have not been previously purchased and cancelled, redeemed or converted, they 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.

	2009 \$000's	2008 \$000's
Liability component at 1 January	229,675	225,524
Interest charged (see Note 8)	15,679	15,401
Interest paid	(11,250)	(11,250)
Total liability component as at 31 December	234,104	229,675
Reported in		
Interest payable in current liabilities (see Note 22)	1,430	1,430
Current liabilities	232,674	–
Non-current liabilities	–	228,245
Total liability component as at 31 December	234,104	229,675

The interest charged for the year is calculated by applying an effective interest rate of 6.55% (2008 – 6.55%) to the liability component for the period since the bonds were issued. 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

	2009 \$000's	2008 \$000's
Within one year	11,250	11,250
Within two – five years	28,125	39,375
Total as at 31 December	39,375	50,625

24 Long term provisions

Decommissioning

	Group \$000's
As at 1 January 2009	8,283
New provisions and changes in estimates	2,360
Unwinding of discount (see Note 8)	254
As at 31 December 2009	10,897

The provision for decommissioning is based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field (currently estimated to be between 10 and 20 years) in the removal and decommissioning of the facilities currently in place

25 Share capital

	2009 \$000's	2008 \$000's
Issued and fully-paid		
75,416,973 ordinary shares of £0.20 each (2008 – 74,978,215)	24,451	24,322

As at 31 December 2009 authorised share capital comprised 125 million (2008 – 125 million) ordinary shares of £0.20 each with a total nominal value of £25 million (2008 – £25 million). The Company issued 438,758 new ordinary shares of £0.20 each during 2009 (2008 – 2,159,148) upon the exercise of certain share options (see Note 27) and warrants at a weighted average exercise price per share of £1.28 (2008 – £0.74). As at 31 December 2009 there were 2,403,543 (2008 – 2,703,351) warrants to subscribe for the same number of ordinary shares of £0.20 each, which are exercisable through 31 July 2010 at a weighted average subscription price per share of £0.59 (2008 – £0.59). Details of outstanding share options are set out in Note 27.

In January 2010, the Company issued 7,234,347 new ordinary shares (see Note 32).

26 Reserves

The Group's other reserves include reserves arising in respect of merger relief, 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 2008 other reserves were reduced by share-based payments comprising the cash settlement of tax liabilities associated with the settlement of certain share options of \$30.0 million offset by the expense recognised in respect of the incentive schemes of \$971,000 (see Note 27).

The number of treasury Shares held by the Group and the number of Shares held by the Trust at 31 December 2009 was 27,500 (2008 – 27,500) and 1,752,680 (2008 – 1,919,680) after using 167,000 Shares for the exercise of certain long term investment plan awards, respectively. The market price of the Shares at 31 December 2009 was £13.40 (2008 – £10.95).

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 48 to 56. 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 48 to 56. The Group recognised total expenses of \$875,000 (2008 – \$971,000) 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 \$740,000 (2008 – \$106,000) 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 are outstanding and exercisable which were granted prior to the introduction of the LTIP. Awards normally expire at the end of ten 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). 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.

	2009 No of share awards	2008 No of share awards
As at 1 January	1,432,220	1,678,320
Granted	308,800	–
Exercised	(167,000)	(246,100)
Lapsed	(51,537)	–
As at 31 December	1,522,483	1,432,220
Exercisable as at 31 December	1,128,483	1,221,320

Awards outstanding at the end of the year have a weighted average remaining contractual life of 3.8 (2008 – 3.9) years. The weighted average market price and estimated fair value of the 2009 grants (at grant date) were £13.02 and £3.76, respectively.

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 ten 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 2009, no awards had been made under that scheme.

Notes to the Consolidated Financial Statements continued

27 Incentive plans continued

Options would normally be equity-settled through newly issued Shares. Options exercised during 2008 over 3,454,420 Shares were partially satisfied by the issue of 2,077,844 Shares. The remaining 1,376,576 options exercised, being the number of Shares that might otherwise be sold in the market, were satisfied by settlement of the option exercise price and cash settlement of the participants' tax liabilities of \$4.6 million and \$30.0 million, respectively. 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 options in cash. Details of options outstanding during the year are as follows:

	No. of share options	2009 Weighted average exercise price £	No. of share options	2008 Weighted average exercise price £
As at 1 January	438,950	3.86	3,893,370	1.10
Exercised	(138,950)	2.73	(3,454,420)	0.75
As at 31 December	300,000	4.39	438,950	3.86
Exercisable as at 31 December	250,000	2.38	388,950	2.51

The weighted average market price at the date of exercise during the year was £12.77 (2008 – £14.08). Options outstanding at the end of the year have a weighted average remaining contractual life of 3.5 (2008 – 3.6) years.

28 Reconciliation of operating profit to operating cash flows

	Group		Company	
	2009 \$000's	2008 \$000's	2009 \$000's	2008 \$000's
Operating profit (loss) from continuing operations	90,451	30,172	(6,462)	(6,034)
Operating profit from discontinued operations	–	36,419	–	–
	90,451	66,591	(6,462)	(6,034)
Share-based payments	875	971	875	971
Depletion and depreciation	16,126	8,733	112	170
Operating cash flows before movements in working capital	107,452	76,295	(5,475)	(4,893)
Increase in inventories	(19,922)	(3,900)	–	–
Decrease (increase) in receivables	14,032	(18,940)	(218)	(65)
(Decrease) increase in payables	(2,819)	5,453	(740)	(13,448)
Cash generated by (used in) operations	98,643	58,908	(6,433)	(18,406)
Interest received	3,577	6,692	1	50
Interest paid	(11,278)	(11,808)	(3)	(408)
Income taxes paid	(13,912)	(8,736)	–	–
Net cash from (used in) operating activities	77,030	45,056	(6,435)	(18,764)
Cash generated from operating activities comprises:				
Continuing operating activities	77,030	14,099	(6,435)	(18,764)
Discontinued operating activities	–	30,957	–	–
	77,030	45,056	(6,435)	(18,764)

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.

29 Operating lease arrangements

	2009 \$000's	2008 \$000's
Minimum lease payments under operating leases recognised in income for the year	506	447

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

	2009 \$000's	2008 \$000's
Within one year	433	508
In two to five years	476	127
	909	635

Operating lease payments mainly represent rentals payable by the Group for certain of its office properties which are fixed for two years

30 Capital commitments

At 31 December 2009 the Group had exploration licence commitments not accrued of approximately \$33.9 million (2008 – \$24.5 million)

31 Related party transactions

During the year, the Company recorded a net credit in the amount of \$0.5 million (2008 – \$2.9 million) in respect of services rendered between Group companies. There were no balances outstanding with Group undertakings as at 31 December 2009. 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 48 to 56.

32 Events after the balance sheet date

In January 2010, the Company announced that it had successfully placed 7,234,347 new ordinary shares of 20 pence each (the Placing Shares) with institutions at a price of 1410 pence 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 represent 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 *par passu* in all respects with the existing ordinary shares of 20 pence 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.

Five Year Summary

	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	Year to 31 Dec 2005 \$000's
Consolidated income statement					
Oil and gas revenues – continuing operations	131,013	55,340	–	–	–
Operating profit – continuing operations	90,451	30,172	(7,858)	(8,802)	(5,999)
Operating profit – discontinued operations ¹	–	36,419	65,645	55,113	37,263
Profit for the year	51,118	411,060	32,314	29,063	20,477

	2009 \$000's	2008 \$000's	2007 \$000's	2006 \$000's	2005 \$000's
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Consolidated balance sheet

Non-current assets	712,444	635,089	517,744	340,527	225,808
Net current assets	84,542	315,044	44,272	181,685	43,021
Non-current liabilities	(33,718)	(239,747)	(233,049)	(226,420)	(2,590)
Net assets	763,268	710,386	328,967	295,792	266,239

Share capital	24,451	24,322	23,549	23,532	23,479
Share premium	71,077	70,369	68,355	68,325	68,221
Other reserves	11,317	14,697	49,437	54,406	54,259
Retained earnings	656,423	600,998	187,626	149,529	120,280
Total equity	763,268	710,386	328,967	295,792	266,239

	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	Year to 31 Dec 2005 \$000's
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Consolidated cash flow statement

Net cash from operating activities	77,030	45,056	49,009	33,230	30,536
Capital expenditure	73,901	217,613	178,590	114,339	76,175

	Year to 31 Dec 2009	Year to 31 Dec 2008	Year to 31 Dec 2007	Year to 31 Dec 2006	Year to 31 Dec 2005
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Financial and operating key performance indicators (continuing and discontinued operations)

Realised oil price per barrel (\$) ²	55.70	66.62	70.69	62.73	50.28
Operating cost per barrel (\$) ³	9.82	10.30	6.93	5.91	4.55
DD&A per barrel (\$) ⁴	5.44	4.25	5.32	3.70	3.40
Basic earnings per share (cents)	69.6	575.3	45.8	41.3	29.3
Diluted earnings per share (cents)	61.9	497.1	40.9	36.9	25.8
Total shareholder return (%) ⁵	22.4	(50.2)	59.2	75.8	102.6
Production (barrels of oil per day) ⁶	6,415	4,464	6,316	6,766	5,684
Total proven and probable reserve additions (mmboe) ⁷	3.4	25.0	2.6	41.8	100.6
Proven and probable reserves (mmboe) ⁸	142.5	144.1	160.9	160.6	133.2

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

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

³ Operating cost per barrel is the average cost incurred to produce a barrel of oil which exclude lifting imbalances and inventory effects.

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

⁵ The total shareholder return is the percentage annual return to the Company's shareholders.

⁶ Average barrels of oil produced per day net to the Group's working interest.

⁷ Comprises additions, revisions to previous estimates and purchase of reserves.

⁸ Reserves are net to the Group's working interest expressed in millions of barrels of oil equivalent (see Reserve Statistics on page 83).

Reserve Statistics

Unaudited, net working interest (mmboe)

Net proven oil and gas reserves

	Total	Vietnam ¹	Thailand	Congo ¹
Reserves as at 31 December 2008	78.1	71.7	1.6	4.8
Changes in the year				
Additions	–	–	–	–
Revision to previous estimates	4.2	–	4.2	–
Purchase of reserves	–	–	–	–
Change of interest	(1.1)	–	–	(1.1)
Sale of reserves	–	–	–	–
Production	(2.3)	(1.0)	(1.3)	–
Reserves as at 31 December 2009	78.9	70.7	4.5	3.7

Net proven and probable oil and gas reserves

	Total	Vietnam ¹	Thailand	Congo ¹
Reserves as at 31 December 2008	144.1	125.2	7.0	11.9
Changes in the year				
Additions	–	–	–	–
Revision to previous estimates	3.4	–	3.4	–
Purchase of reserves	–	–	–	–
Change of interest	(2.7)	–	–	(2.7)
Sale of reserves	–	–	–	–
Production	(2.3)	(1.0)	(1.3)	–
Reserves as at 31 December 2009	142.5	124.2	9.1	9.2

Net proven and probable oil and gas reserves yearly comparison

	2009	2008	2007	2006	2005
Reserves as at 1 January	144.1	160.9	160.6	133.2	90.7
Changes in the year					
Additions	–	7.0	–	–	68.3
Revision to previous estimates	3.4	18.0	2.6	38.8	8.5
Purchase of reserves	–	–	–	3.0	23.8
Change of interest	(2.7)	(11.0)	–	(11.9)	–
Sale of reserves	–	(29.2)	–	–	(56.0)
Production	(2.3)	(1.6)	(2.3)	(2.5)	(2.1)
Reserves as at 31 December	142.5	144.1	160.9	160.6	133.2

Note: mmboe denotes millions of barrels oil equivalent

¹ Reserves are shown before deductions for minority 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 minority interest including a rate of return from the minority interest's pro rata portion of those cash flows.

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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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