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Peter Kingston
Chairman

Dear Shareholder,

With this, SOCO International's first Annual Report and Accounts, I would like to welcome all shareholders who have invested in the Company in its first year. We came to you with a core asset base, a strategy for building on that base and a management team with a proven record of performance. The Company was successfully listed on the London Stock Exchange in May of 1997. It was the largest listing on the London Stock Exchange of an oil and gas exploration and production company since 1984.

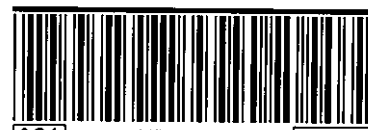
Financial results since listing have been in line with expectations. We reported a modest before-tax profit of £3.2 million, which reflects small profits from our UK and Russian operations and a return on our investment of the proceeds from the flotation of the Company. Because of the high capital requirements of our exploration projects, the Directors believe that reinvestment of this profit is more prudent than distribution through dividends.

From the beginning we have been committed to building and protecting shareholder value. We expect to continue to build value for shareholders by staying focused primarily on the Far East where the Company can take advantage of its strong regional ties, capitalise on opportunities within its sphere of influence and utilise more cost effective equipment and services sourced within the region. In that respect, our exciting Mongolian venture has shown significant progress and we are hopeful of successfully concluding our bid on a highly competitive and prospective block in Vietnam. We intend to balance our higher risk projects via a consolidation of our existing producing interests with other low risk opportunities which could add to current cash flow.

To ensure the safeguarding of shareholder value, Board committees have been extremely active during this formation period putting in place the appropriate framework to ensure that the Company conforms with best practice corporate governance guidelines. There is strong independent representation on your Board of Directors which draws on experience and industry expertise within several disciplines. From technical operations, operations research and engineering, finance and commercial expertise, the Board is well represented to assess the issues which arise and to act appropriately in the best interests of all shareholders.

Building a solid support staff for our core management team, and adding to the strengths of that team, has been a priority. We must exercise strong stewardship over the Company's assets particularly as these assets progress toward the development and production phase.

It is important that we maintain firm control over the growth of the Company. Our approach in doing this is to maintain a small company staff while contracting and managing highly qualified specialists with relevant skills. We have taken steps to align the interests of key consultants with the interests of the Company and to tie their economic success directly to the economic success of the Company.



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Health of the workers and safety in the workplace is of paramount importance as is the quality of the environment in which we operate. In our UK operations we have established a strong health, safety and environmental compliance programme which is accountable directly to me. Elsewhere, our operations tend to be concentrated primarily in developing areas. It is our goal not only to be in strict compliance with prevailing standards but to be a leader in ensuring that our employees enjoy the highest standards reasonably available in what can sometimes be very demanding environments.

Some external circumstances have changed considerably since our listing in May. At that time, Brent Dated crude was posted above US\$19 per barrel. The price has since reached a low below US\$13 per barrel. Some analysts have downgraded the sector as a whole believing that the near term outlook associated with price and supply, combined with the potential adverse impact on demand created by the recent crises in many Asian capital markets, has dimmed prospects for a reasonable return on investment. Our Company has a good balance between short and long term prospects. For us, short term oil price volatility is of secondary importance to the potential value of long term prospects.

We believe that near term changes in the economic and political environment should not change our focus. Our vision is longer term, as we believe it must be in this industry. Our focus is on accelerating the exploration of our Mongolian contract areas; rationalising the Russian assets in accordance with prevailing economics; balancing our reserve base portfolio to reduce risks, yet maintaining our emphasis in Asia and maximising our returns on projects in the production phase.

This report is a mark of our progress and a confirmation of our strategy. Accomplishment to us is setting the standard against which other sector companies measure themselves. We are confident that this and future reports will provide a meaningful measure of our achievements which will reconfirm your belief in SOCO International.

A handwritten signature in black ink, appearing to read 'Pekth' or similar, with a stylized, cursive script.

Peter Kingston Chairman



Ed Story
President and Chief Executive

This period following the listing of SOCO International plc on the London Stock Exchange has been particularly eventful. Our announced strategy of utilising emerging market oil field equipment and services coupled with the development of a strong national identity in our core countries has proven successful. Although we will continue to be opportunistic in areas where we have proven historical advantages, our focus is one of consolidation and enhancement of our position in SOCO's established growth areas. The oil price driven downturn in the industry has created exceptional opportunities to build SOCO shareholder value by increasing our interests in certain properties at attractive prices.

Following our successful listing in May of last year we completed the first flowing oil well in Mongolia, initiated production from the discovery and began the first crude oil exports from Mongolia to China by tank truck. We expanded our contract area in the Tamtsag Basin of Mongolia by 25% to bring the total to over 53,000 square kilometres. In January 1998 we received government approval of an application filed jointly with Territorial Resources, Inc. for a production sharing contract on the 13,800 square kilometre Contract Area 11 in the Gobi Basin.

We took further steps to improve our position in Mongolia by making an offer to merge with Territorial in January of 1998 (see discussion under Pending Transactions in the Financial Review section). Territorial has a direct shareholding in SOCO and a five percent interest in the SOCO Tamtsag Mongolia, Inc. consortium which holds SOCO's Tamtsag Basin interest and in which SOCO has subsequently increased its interest to 56%. Moreover, Territorial has a 15% direct interest in the highly prospective Contract Area 20 and 50% ownership in the recently awarded Contract Area 11. Although the conditions precedent to a final merger will not be met prior to the release of this report, we fully expect a successful completion of this transaction.

The East Shabwa Concession Area in Yemen began production in December at a gross rate of approximately 17,000 barrels of oil per day. First sales in Yemen were well ahead of the date anticipated in the Listing Particulars. In February 1998 we acquired the interests of a minority shareholder in Comeco Petroleum, Inc., an entity 50% owned post acquisition by SOCO through which the interests in Yemen are held. This transaction reflects our confidence that this project will provide attractive economics and a solid cash flow foundation for the Company in the near term.

In December, Petrovietnam advised SOCO that its 70% owned subsidiary, SOCO Vietnam Ltd., had been awarded a 30% interest and the role of co-ordinator of the 50% western interest in the Block 16-1 joint venture offshore Vietnam in the South China Sea. Although the final contract ratification is subject to approval by the Government of Vietnam, SOCO demonstrated its capability as a significant international competitor by its early initial success in the bidding process for this highly contested block.

SOCO's 50% owned Permtex joint venture in European Russia continued to export 100% of its production. Production almost doubled in 1997 over 1996 reflecting the success of our remedial projects and the development drilling programme. Permtex passed concept clearance and initial Operations Committee approval by the European Bank for Reconstruction and Development (EBRD) for a reserve-based financing facility of up to US\$50 million. Successful completion of the EBRD financing will take the Permtex project into the next phase of development, including construction of the northern pipeline. Completion of this pipeline in early 1999 would allow production to be initiated from the northern fields which contain the majority of the venture's reserves. Jointly with our partner, LUKoil Perm, we are evaluating various corporate structures and financial markets in which to place the Permtex joint venture in order to further build shareholder value and liquidity.

SOCO operated a three well exploratory and appraisal drilling programme offshore Thailand in the summer of 1997. The work programme satisfied the concession requirements for both Blocks B4/32 and B8/38. Although two wells encountered oil in the Miocene sand interval, testing has been deferred until a more cost-effective testing programme can be initiated.

The Tunisia development programme progressed with the installation of the Submersible Production System and completion of the Didon #3 horizontal development well. Production tests will begin shortly. Lack of rig availability for the UK onshore development programme delayed commencement of the Storrington horizontal well until December. A second well has been drilled and both will be tested in the second quarter of 1998.

SOCO closed 1997 with a cash balance of approximately £30 million which left the Company poised for an active drilling and exploration programme. This year will be a pivotal year in the history of oil exploration in Mongolia. SOCO will add a second drilling rig in the Tamtsag Basin in order to drill eight wells, a number equal to that drilled in the previous three years. A seismic programme in the Gobi Basin should identify the prospective potential of this new Contract Area.

The anticipated commencement of operations offshore Vietnam will add an entirely new dimension to SOCO's activities. The high level of major international oil and gas company interest in Block 16-1 reflects the industry view of the significant potential of this exploitation project. While the UK and Yemen provide a stable base of production and cash flow, finalising the EBRD financing in Russia would rapidly expand the scope of that development project.

SOCO is well capitalised and particularly well positioned to exploit fully its exploration potential and to significantly grow shareholder value. More importantly, management is committed to that objective. I look forward to communicating with you further as we progress through the year.



Ed Story Chief Executive

In Mongolia we drilled a third well on Contract Area 19 which resulted in the first recorded free flowing oil well in Mongolia's history.

SOCO has operations in six countries – Mongolia, Russia, Yemen, the UK, Tunisia and Thailand. Exploration projects are in Mongolia and Thailand. Development programmes are underway in Russia, Yemen and Tunisia. The Company has current production in Russia, Yemen, the UK and Mongolia. The Company expects final governmental approval later this year of an award on a block offshore Vietnam.

Production, net to the Company in 1997, averaged approximately 3,900 barrels of oil per day (BOPD). For the first quarter of 1998, production averaged approximately 6,300 BOPD. The Group had 33.4 million barrels of proved reserves and 64.2 million barrels of probable reserves at year end.

Mongolia

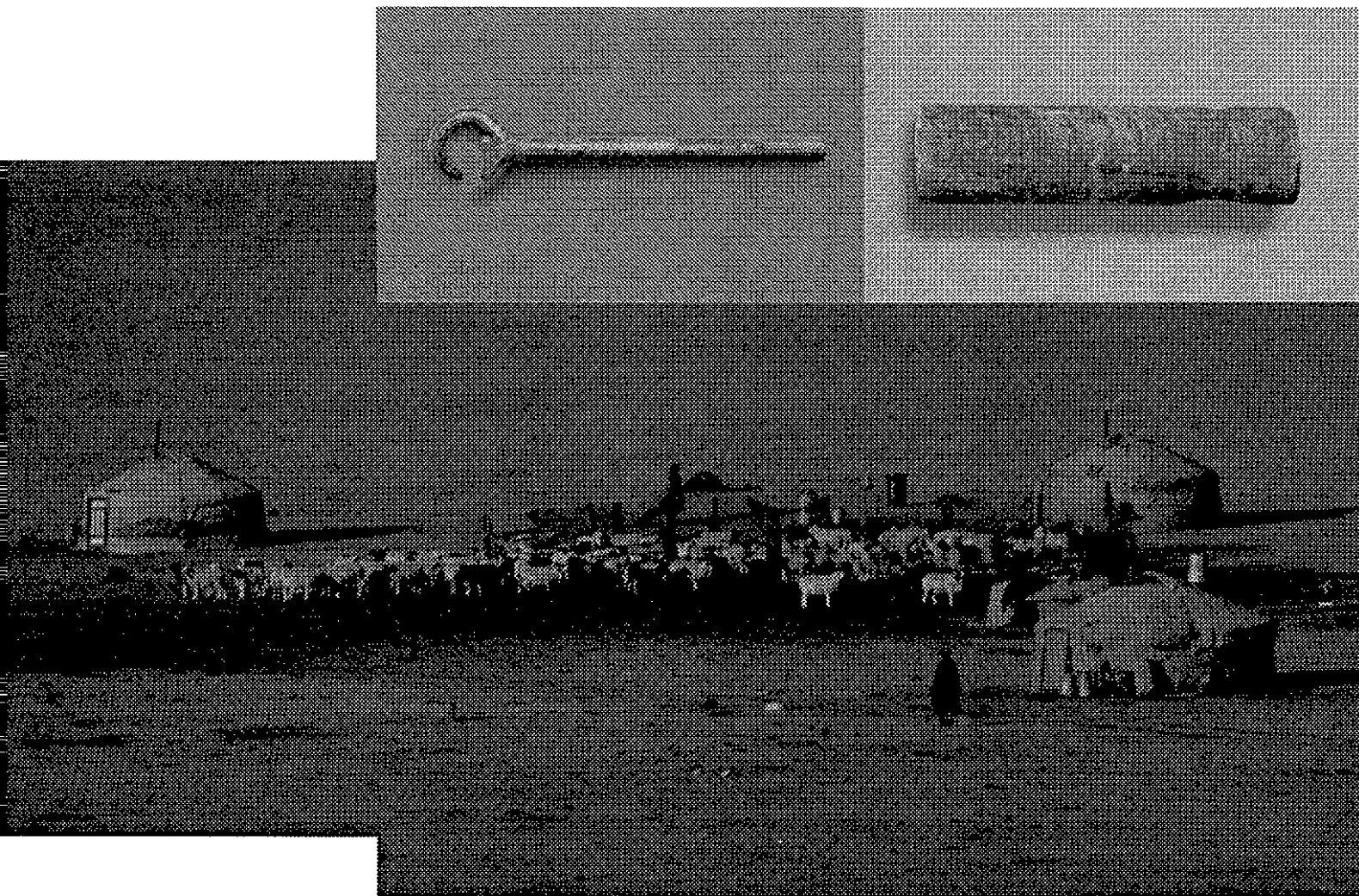
The Company's interests in the Tamtsag Basin in Mongolia containing Contract Areas 19, 20, 21 and 22 are held through SOCO Tamtsag Mongolia, Inc. (SOTAMO) of which SOCO is operator and held an approximate 52% interest in 1997 (increased to 56% in the first quarter of 1998). In late 1997, the Group also acquired small direct interests in Contract Areas 20 and 21 from a defaulting Mongolian working interest owner.

Review of 1997 Results

Four wells were drilled in Mongolia in 1997. The first well, the 21-2, was drilled to a total depth of 2,450 metres. Drill stem tests over a gross interval of 48 metres recovered oil. The well was not put on a production test and was suspended pending installation of completion and production equipment.

After drilling in Contract Area 21, the rig was moved to Contract Area 19 where the second 1997 well and the third well in this Contract Area, the 19-3, was drilled and was a free flowing discovery. This discovery tested stabilised production at approximately 700 BOPD with an equivalent of 47 thousand cubic feet per day of associated solution gas and no water.

Two more wells were drilled in Contract Area 19, the 19-4 and the 19-5. The 19-4 was an appraisal well located approximately 600 metres from the 19-3 discovery. The 19-4 also encountered hydrocarbons but was not put on production test. The sands encountered in the 19-3 well were also



present in the 19-4 well although these sands were not as well developed in the latter. The last well drilled in Mongolia in 1997 was drilled on a large structure disassociated with previous discoveries. The 19-5 encountered hydrocarbons in thin, laminated sands but was plugged and abandoned as a non-commercial well.

Production facilities were constructed near the 19-3 well with the expectation of placing both this well and the 19-2 well on production for sales to China. No wells were put into commercial production in 1997 pending designation of a sales point in China and installation of a commercial border crossing on the Mongolia/China border.

In Mongolia we began trucking crude oil from Contract Area 19 to Aershan, China on 12 February 1998.

In October 1997, SOTAMO entered into an agreement with the Petroleum Authority of Mongolia, subject to final ratification by the Government of Mongolia, to expand Contract Areas 19 and 20. The Government of Mongolia ratified the Contract Area expansions in December. The Contract Area expansions, issued on the same contract terms as those existing under the Production Sharing Contract (PSC) for Contract Area 20, represented an increase of 12,000 square kilometres to the existing approximately 41,000 square kilometres already subject to PSC's, bringing SOTAMO's total to over 53,000 square kilometres in the Tamtsag Basin.

SOTAMO had two crews assigned to acquiring 2 dimensional (2D) seismic in the Tamtsag Basin during 1997. During the year, approximately 1,500 kilometres of seismic were acquired, two-thirds of which were shot in Contract Area 19 with the remaining one-third shot in Contract Area 20. SOTAMO have accumulated approximately 5,000 kilometres of seismic data over the Tamtsag Basin through 1997.

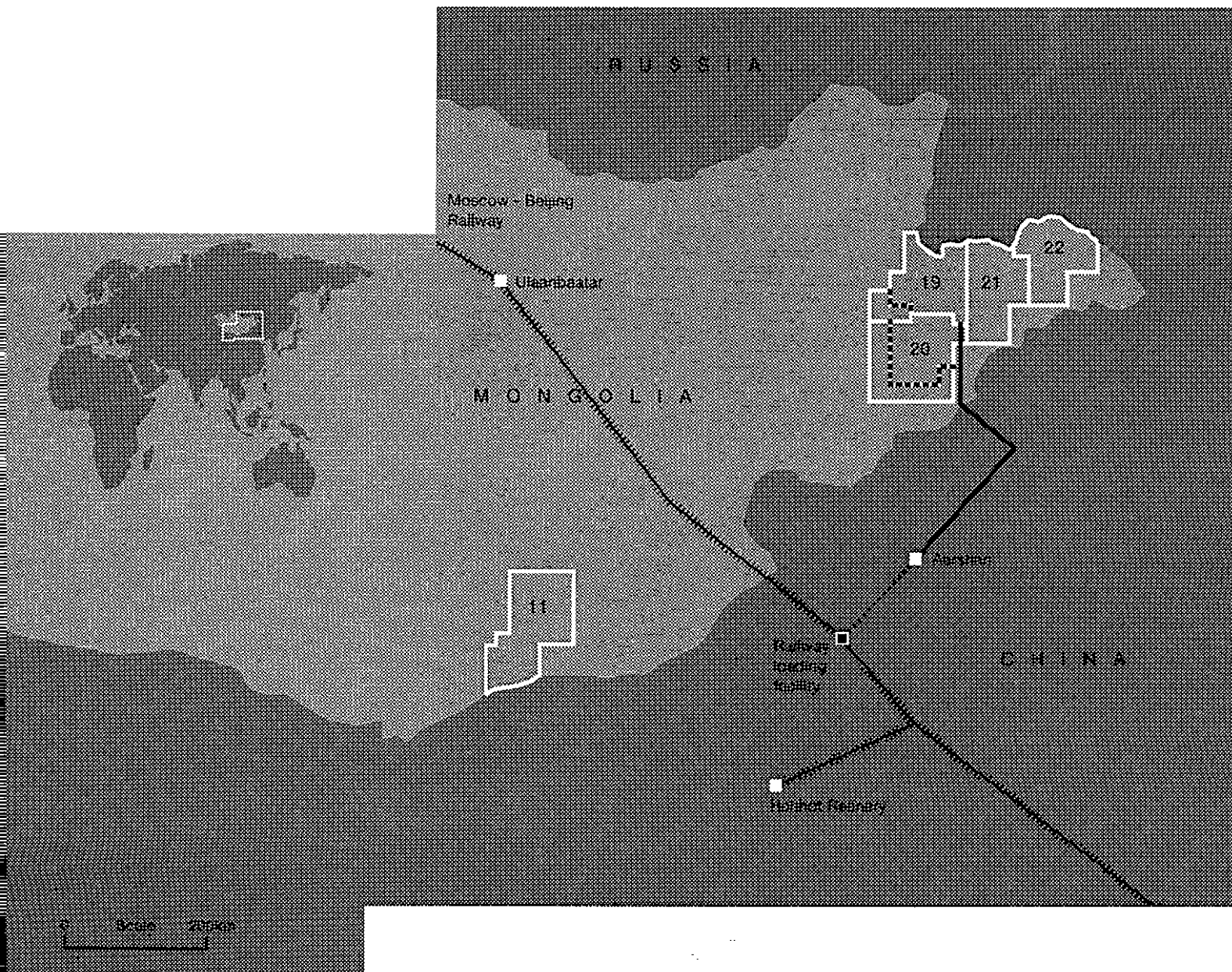
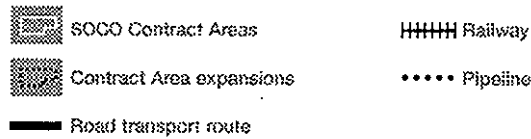
Subsequent Events and 1998 Outlook

In January, SOCO was notified that its 1997 joint application for a PSC on Contract Area 11 in the Mongolian Gobi Basin had received government approval. The joint application was structured with Territorial Resources, Inc. (Territorial), a US registered public company, and SOCO each holding a 50% interest with Territorial designated as operator.

On 29 January 1998, SOCO made an offer to merge a wholly owned, specific purpose subsidiary with Territorial (see discussion under Pending Transactions in the Financial Review section). In addition to its interest in Contract Area 11, Territorial's Mongolia interests include an approximate five per cent shareholding in SOTAMO and a 15% direct interest in Contract Area 20 in the Tamtsag Basin.

A commercial customs point was officially established on the Mongolia/China border on 11 February 1998. SOTAMO began trucking crude oil from Contract Area 19 to Aershan, China on 12 February 1998. Under the terms of a February 1998 sales agreement with a subsidiary of China National Petroleum Company (CNPC) supplemental to the sales contract executed in 1994, SOTAMO is to deliver 10,000 barrels of crude monthly during 1998 for which it will receive the average monthly Daqing posted price less US\$1 per barrel.

SOTAMO has contracted for an eight well drilling programme utilising two Chinese rigs beginning in the first quarter of 1998. The first well in the 1998 drilling programme, the 19-6 in Contract Area 19, was spudded on 15 March. The 20-1 well, the first to be drilled by SOTAMO in Contract Area 20, was spudded 31 March 1998. Drilling will be primarily exploratory and concentrated on Contract Areas 19 and 20. Acquisition of 2D seismic will continue on both these Contract Areas throughout the year and a 3D seismic programme will be conducted on Contract Area 19.



Russia

The Company's interests in Russia are held through its wholly owned subsidiary SOCO Perm Russia, Inc. (SOCO Perm) which holds a 50% interest and is operator of Permtex, a limited liability partnership legally established under the laws of the Russian Federation. Permtex, a joint venture equally held between SOCO Perm and LUKoil Perm, holds six licences under which it can develop, produce and export oil from seven fields in a 306,000 acre Contract Area in the Volga-Urals Basin on the western slopes of the Ural Mountains in European Russia.

In Russia production almost doubled over the previous year with 100% of oil produced going to export markets. In Yemen the first sales from the Kharir field occurred in December.

Review of 1997 Results

In 1997, Permtext drilled nine development wells, all in the Logovskoye Field, the southern most field in the Contract Area. The joint venture added to its storage capability with the completion of construction on a 25,000 barrel storage facility in Logovskoye. In addition to its development drilling efforts, Permtext had a continuous remedial and workover programme underway throughout the year.

Gross crude oil production from the Contract Area averaged approximately 4,100 BOPD, almost doubling last year's average production rate of approximately 2,100 BOPD. Gross production averaged approximately 4,600 BOPD during the first quarter of 1998. At year end, 31 wells were either producing or shut-in awaiting remedial efforts, 27 of these are in Logovskoye field.

Permtext continued 100% exports throughout the year. Exports in 1997 totalled 1.4 million barrels (193.5 thousand tons) net of quality differentials, transportation and processing losses for the year, as compared to 784 thousand barrels (107.4 thousand tons) for the prior year.

The Permtext joint venture received concept clearance by the European Bank for Reconstruction and Development (EBRD) in October of 1997 and passed initial review by the bank's Operations Committee in December. Subject to the negotiation of commercial terms, EBRD has agreed to make available a reserve-based financing facility of up to US\$50 million for the further development of the Contract Area reserves, including a 50 kilometre pipeline to be constructed in the northern part of the Contract Area. The financing will be non-recourse to the joint venture partners.

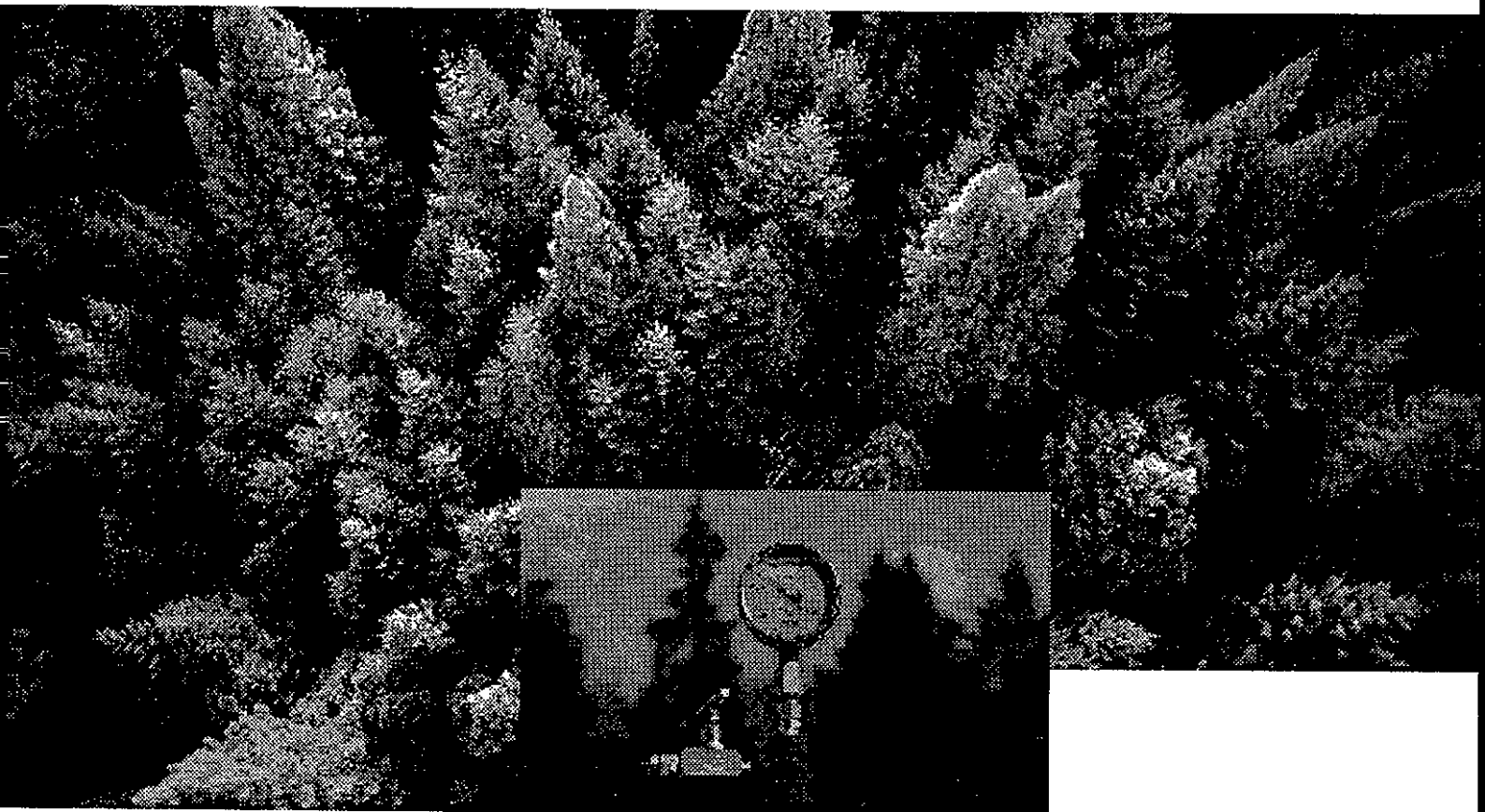
Subsequent Events and 1998 Outlook

Negotiations of the terms and conditions of the EBRD financing is expected to continue into the second quarter of the year. Assuming negotiations are concluded successfully, funding from the EBRD financing is anticipated to be available in the third quarter.

The development drilling programme is expected to continue in 1998 with two rigs operating. Subject to the availability of the EBRD funding, preparations for development of the northern fields of Ozeroye and South Raevskoye could begin later in the year. Also subject to financing availability, construction of the northern pipeline is expected to begin in the winter of 1998.

Yemen

The Company's Yemen interests are in the East Shabwa Development Area, in which it held an indirect interest of 11.785% in 1997. These interests are held through a wholly owned subsidiary, SOCO Yemen Pty Limited, (SOCO Yemen), which during 1997 held a 41.25% shareholding in Comeco Petroleum, Inc. (Comeco). A production sharing agreement over the East Shabwa Development Area is held by a Total Yemen operated joint venture in which Comeco holds a 28.57% stake.



Review of 1997 Results

Production began from the Kharir field in December 1997 at an initial gross rate of approximately 17,000 BOPD. In late December first crude production was sold from the joint venture at an initial gross lifting of 48,000 barrels.

Subsequent Events and 1998 Outlook

In February 1998, SOCO and the other majority owner in Comeco made an offer to buy the 17.5% minority interest in Comeco (see discussion on page 16 in the Financial Review section). Completion of the transaction as proposed will increase SOCO's indirect interest in Yemen to 14.285%.

In Vietnam we have been advised by the national oil company that we were awarded a 30% interest and the role of co-ordinator for Contract Area 16-1. In the UK a drilling programme began in December.

The other two fields in the East Shabwa Development Area, the Atuf NW and the Wadi Taribah, were brought onstream in early 1998. Gross production is projected to average 20,000 BOPD during the year. Due to various mechanical and operational problems associated with start-up actual gross production during the first two months of 1998 was 25% lower than the projected year average. After allowing time to accumulate meaningful production statistics, the joint venture expects to drill additional wells in the Kharir field in 1998.

Vietnam

SOCO's interests in Vietnam are held through its 70% owned entity, SOCO Vietnam (Cayman) Limited.

Review of 1997 Results

In December, the Company was advised by Petrovietnam, the Vietnamese national oil company, that SOCO Vietnam was awarded a 30% interest in Block 16-1, offshore Vietnam in the South China Sea. The award is contingent upon further negotiation of joint terms and conditions with two remaining parties who were awarded minority interests. All awards are made pending final ratification by the Government of Vietnam.

Block 16-1 is contiguous to Block 9 (both in the Cuu Long Basin) which contains the Bach Ho (White Tiger) field which was producing approximately 140,000 BOPD in the first quarter of 1998. In 1989, Vietsovpetro drilled a well in Block 16-1 which discovered oil in the Miocene sand interval and encountered oil in basement. Industry interest in Block 16-1 follows new basement completion practices employed by Petrovietnam which has resulted in prolific well developments in analogous portions of this basin.

Subsequent Events and 1998 Outlook

SOCO continues negotiations with the participants awarded minority interests in Block 16-1. Finalisation of the award and ratification by the Government of Vietnam is pending the negotiation of a successful joint venture bid. SOCO expects to finalise the bid and receive formal ratification later this year. Expectations are that work would commence under a project work obligation in the last six months of 1998.

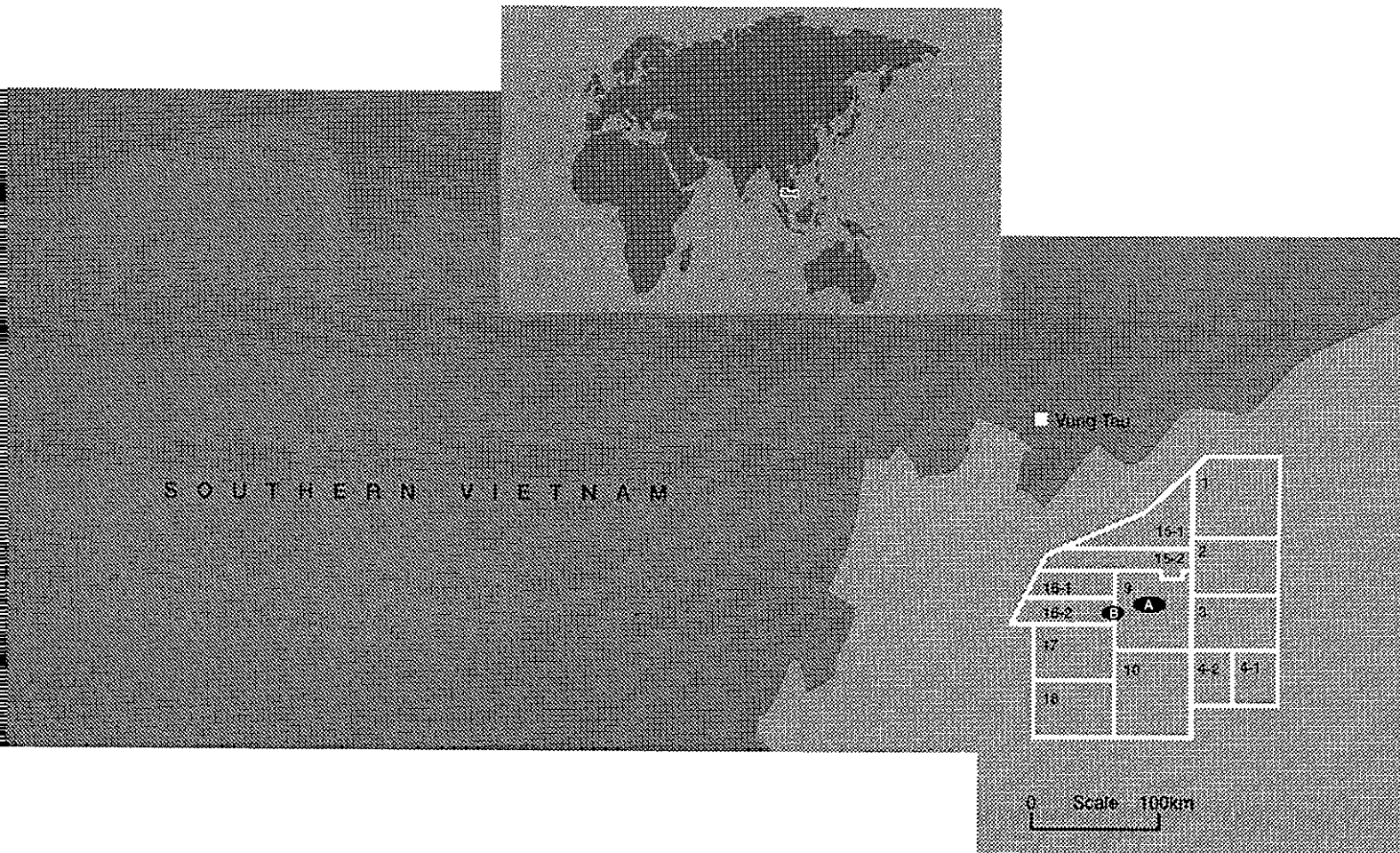
United Kingdom

The Company's interests in the UK are held through SOCO UK Onshore Limited, through which it holds and operates several licences in the Weald Basin in southern England.

Review of 1997 Results

Work on the UK operated properties is focused on appraisal drilling for maintenance of production and extending the life of the producing fields which are in natural decline. During the year, final regulatory approvals were granted for the development of the Storrington and Brockham

A Bach Ho (White Tiger) field
B Bong (Dragon) field



Fields. Due to the limited availability of suitable drilling rigs, drilling in Storrington was delayed from its third quarter projected date until early December. The Storrington STX3 was spudded and had been cased, with the open hole horizontal section being drilled at year end.

Gross oil production from the Company's UK operated interests averaged 2,461 barrels per day for the year from 20 producing wells in 5 fields. Net production to the Company in 1997 reflected the natural decline of the producing fields, down to 1,702 BOPD compared to 1,820 BOPD in 1996.

In Thailand SOCO completed its first operated offshore drilling programme.

Subsequent Events and 1998 Outlook

The STX3 horizontal well in the Storrington Field was completed in January. The target formation came in approximately 20 feet lower than seismic prognosis, but porosity, permeability and saturations were within the expected ranges. The drilling rig was skidded over and drilling began on the STX4 well in the same field. Both wells will be tested following completion of the STX4.

The 1998 drilling programme is expected to continue with wells in the Horndean and Brockham fields following completion of drilling activities in Storrington.

Discussions for a gas storage project are underway between a public power provider and SOCO. Several technical, contractual and regulatory hurdles must be overcome before a project could come to fruition.

Thailand

In 1997 SOCO held interests in two offshore Blocks in the Gulf of Thailand and is operator of both. The Company held a 42.5% working interest in Block B8/38 through its wholly owned subsidiary SOCO Exploration (Thailand) Co., Ltd. (SOCO Thailand) and it held a similar interest in Block B4/32 via SOCO Thaitex, Inc., a 95% owned entity.

Review of 1997 Results

In August the Company conducted a three well drilling programme on Block B8/38. One of the wells was drilled to meet work programme commitments associated with Block B4/32.

Two of the wells were drilled on the Pornsiri structure and suspended as potential oil producers from Miocene sandstone reservoirs at depths of approximately 3,750 feet. Testing has been deferred due to high service costs. A third well was drilled to test a Miocene structure eight miles North of the Pornsiri and was plugged and abandoned without encountering significant oil or gas shows.

Upon fulfilment of the work programme associated with Block B4/32, SOCO filed a letter of relinquishment of this Block to the Thailand Department of Mineral Resources (TDMR). In December, SOCO received official notification from TDMR that the request for relinquishment had been approved and SOCO was released from any future obligations remaining under the Block B4/32 licence.

Subsequent Events and 1998 Outlook

On 29 January 1998, SOCO made an offer to merge a wholly owned, specific purpose subsidiary, with Territorial Resources, Inc. (see discussion under Pending Transactions in the Financial Review section). In addition to its various interests in Mongolia (see preceding Mongolia section), Territorial has a 7.5 per cent interest in Thailand Block B8/38.

Discussions are underway to farm-out all, or a portion of Block B8/38.



Tunisia

SOCO's Tunisian interests comprise a 22.22% working interest in the Zarat permit located 75 kilometres offshore from eastern Tunisia in the Gulf of Gabes. This non-operated interest is held through the Company's wholly owned subsidiary, SOCO Tunisia Pty Limited.

Review of 1997 Results

In 1997 the Didon #3 horizontal well began drilling and was in progress at year end. A floating production, storage and offshore loading vessel was commissioned and moved on site.

Subsequent Events and 1998 Outlook

The Didon #3 well is expected to be tested in the second quarter of 1998. Plans are to continue further development of the Zarat Permit depending on evaluation of production data from the initial well.

The Group's financial performance in this, its start-up period, is best measured in its use of proceeds raised in the initial public offering and the preservation of its financial capacity to progress the projects in the near term without returning to the financial markets. SOCO completed the year with a strong, debt free balance sheet and a cash balance at year end, in US dollars and British pounds sterling, equivalent to £30.6 million compared to £31.5 million as projected in the Listing Particulars.

Review of 1997 Results

The Group had £2.7 million net profit on turnover of £8.5 million. Production for the seven months since listing net to the Group averaged approximately 3,900 barrels of oil per day (BOPD) with an average realised oil price of approximately US\$16.50 per barrel.

Capital expenditures, including investment in associates, totalled £19.7 million primarily reflecting the exploration activities in Mongolia, development drilling in Russia and appraisal projects in Yemen and Tunisia.

Subsequent Events and 1998 Outlook

Commencement of Commercial Production in Mongolia

In February 1998, the Group began its first commercial production from its project in the Tamtsag Basin in Mongolia. Shipments began by tanker truck from the production facilities in Contract Area 19 to Aershan, China. Oil is being sold under a supplemental agreement to a 1994 sales contract executed between SOCO Tamtsag Mongolia, Inc. (SOTAMO) and China National Petroleum Corporation. Under the terms of the agreement, SOTAMO is under contract to deliver 10,000 barrels of oil per month. The oil is sold at a per barrel price of Daqing posting less US\$1. Daqing posted price reflected a per barrel discount during 1997 ranging from US\$0.25 to US\$0.75 to Dated Brent.

SOTAMO projects transportation costs of approximately US\$3.00 per barrel. SOTAMO will also bear certain per barrel notional costs associated with loading, unloading and transportation and contribute US\$10,000 per month to maintain the commercial border crossing at the Mongolia/China border.

Increase in Yemen Interests

In February 1998, SOCO, through its wholly owned subsidiary SOCO Yemen Pty Limited, increased its shareholding in Corneco Petroleum, Inc. (Corneco) from 41.25% to 50.0% by purchasing one half of the shareholding of a 17.5% minority shareholder, Coplex Resources N.L. Corneco is a joint venture partner (28.57% interest) in the East Shabwa Development Area (East Shabwa) in Yemen. East Shabwa began production in December 1997 at a gross daily rate of approximately 17,000 BOPD. Average production for 1998 is projected to be 20,000 BOPD.

SOCO funded the full purchase price of the minority interest of US\$8.8 million, reserving a call until 5 May 1998 on 50% of the purchased shareholding to InterCap Resource Management Corp. (InterCap), conditional upon InterCap's successful funding of its share. InterCap has indicated its intention to exercise the call. Following InterCap funding, each of SOCO and InterCap will own 50% of Comeco, thus holding indirect interests of 14.285% in East Shabwa. By virtue of the call agreement, SOCO will hold voting control in case of a split shareholder vote. In the future, Comeco will be consolidated in the SOCO Group accounts.

Increase in SOTAMO Interest

In early 1998, the other major interest holder in SOTAMO went into default in funding its share of expenditures by the consortium. SOCO agreed to extend the grace period before default until 15 May 1998 in return for a permanent transfer of 40 shares of SOTAMO from the defaulting party to SOCO. With these additional shares, SOCO's interest in SOTAMO increased to approximately 56% in the first quarter of 1998. Curing default requires repayment of the total amount in arrears plus interest accumulated at the default interest rate of approximately LIBOR plus 6%.

Risk Management

Financial

The Chief Financial Officer is directly responsible for SOCO's risk management decisions with oversight by the Audit Committee and approval authorisation by the full Board.

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

Generally, it is the Company's policy to conduct and manage its business in US dollars. Cash balances in Group subsidiaries are held in US dollars or GBP except for small balances which may be held in local currencies to meet immediate operating or administrative expenses. Because of the Company's capitalisation in GBP at the time of listing, short term hedging positions have been taken to protect the dollar value of its cash positions during periods of relatively strong GBP/US dollar relationships with a view toward having sufficient US dollar liquidity to fund projected operational needs for the ensuing six month period. In the longer term, as projects move into development, the Company expects that the majority of its cash holdings will be denominated in US dollars.

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

Investments of Company funds are limited to short term horizons, generally not exceeding six months forward. Investments are generally limited to fixed term deposits in major financial institutions.

Operational

The Group has in place a comprehensive insurance programme which includes property and casualty as well as liability coverages. Placed via a large, independent risk management brokerage group, the policies conform to industry best practice and provide substantial protection against typical industry operational risks. However, it is not practical nor cost effective to obtain coverage for 100% of the potential consequences of adverse circumstances. The Company believes that an appropriate balance between exposure and coverage has been struck.

The Company has no long term marketing contracts with fixed prices. As a consequence production is sold on 'spot' or near term contracts, with prices fixed monthly. Oil prices may fluctuate widely during any particular reporting period. At the present time, the Company profile is more exploration and development oriented than production. As a consequence no price hedging mechanisms were in place during the year. Over time, as production increases, during periods when the Company sees an opportunity to lock-in attractive oil prices, it may engage in limited price hedging.

Many of the Group's projects are in developing countries or countries with emerging free market systems. There is generally a greater risk of political, economic or social upheaval in these environments than would be found in stable, developed economies. The Company has assessed such risks before beginning operations in any particular area and has deemed them commercially acceptable. The Company does not carry political risk nor business interruption coverage to mitigate such risks.

Pending Transactions

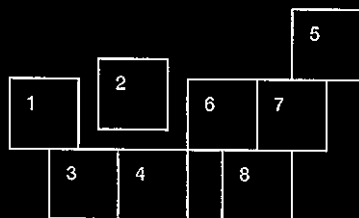
In January 1998, SOCO made an offer via a wholly owned subsidiary of the Company to acquire Territorial Resources, Inc. (Territorial), a company registered in Colorado in the United States. The offer, which is structured as a merger, is contingent upon a restructuring of Territorial, which will reduce its number of shareholders, and the delisting of Territorial as a publicly traded US company. Both of these events require approval by the shareholders of Territorial. Further, the offer is contingent upon a certain minimum number of Territorial shareholders consenting to exchange their Territorial shares for SOCO shares.

Territorial owns 600,000 shares of SOCO stock; has a 5% direct interest in SOTAMO; holds a 15% direct interest in Contract Area 20 in Mongolia's Tamtsag Basin; holds a 50% direct interest in Contract Area 11 in the Gobi Basin in Mongolia; and has a 7.5% working interest in Block B8/38 in the Gulf of Thailand. Additionally Territorial holds some small revenue interests in some producing fields in the US which SOCO does not intend to retain.

Under the terms of the offer, Territorial shares were valued at US\$1.40 each. SOCO will offer exchanging Territorial shareholders the equivalent value of their Territorial shareholdings into shares of SOCO. The share price of SOCO will be valued at the higher of the average mid-market price per share on the ten trading days prior to the closing of the merger or 90% of the mid-market price on the trading day preceding close of the merger. The proposed offer values Territorial at approximately £9.0 million.

Ed Story, the President and Chief Executive Officer of SOCO, holds 471,061 common shares of Territorial, approximately 4.64% of the total shares issued and outstanding. Mr Story was also a director of Territorial until December 1996. Since that time, he has not participated in the corporate affairs of Territorial. Mr Story did not participate in any discussions in relation to the offer, nor did he vote in relation to the proposed offer at the relevant Board meetings of SOCO.

Under the rules of the London Stock Exchange, Mr Story is a related party of Territorial and the acquisition of Territorial is a related party transaction. Mr Story has undertaken to accept the offer with respect to his shareholding in Territorial and will therefore, upon successful closing of the offer, receive the valuation in shares of SOCO equal to approximately US\$659,000, which at the offer date would have equalled 120,923 additional SOCO shares.

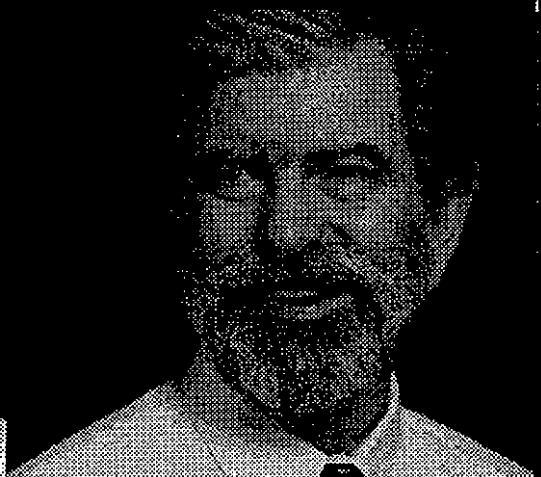


1 Peter Kingston (54)
Non-executive chairman
 Mr Kingston is a petroleum engineer who has worked in the oil and gas industry since 1965 in various roles and was a founding director of Enterprise Oil plc going on to become Managing Director (Technical) and a director of Elf-Enterprise Petroleum Ltd. Mr Kingston is a member of the Remuneration, Audit and Nomination Committees.

2 Ed Story (54)
President and CEO
 Mr Story was President of the international subsidiary of Snyder Oil Corporation, Vice Chairman of Conquest Exploration Company, Vice President and CFO of Superior Oil Company and has held various other positions, including seven years resident in the far east with Exxon Corporation. He is currently a director of Snyder Oil Corporation, Sen Hong Resources Holdings Limited and Cairn Energy PLC.

3 Roger Cagle (50),
Vice President-Finance and CFO
 Mr Cagle previously held the position of Chief Financial Officer with the international subsidiary of Snyder Oil Corporation and Conquest Exploration Company. Since 1975 he has held various managerial positions in the oil and gas industry including Superior Oil Company and Exxon Corporation.

4 Tim Taylor PhD (51),
Vice President-Operations
 Dr Taylor was a Vice President of the international subsidiary of Snyder Oil Corporation. He has worked as a consultant specialising in reservoir engineering and enhanced recovery techniques and held various technical and managerial positions with Gulf Oil Company.

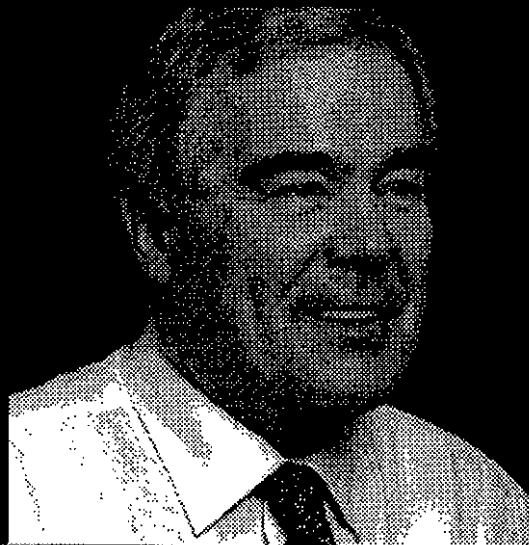


5 **Roger Brittain (60),**
Non-executive director elected in March 1998. Prior to his appointment Mr Brittain served as an alternate for John Snyder. He is a director, Corporate Finance, Guinness Mahon & Co Limited and Managing Director of Guinness Mahon Energy Services Limited. He is also a director of Snyder Oil Corporation and Sen Hong Resources Holdings Limited. Mr Brittain serves on the Audit, Remuneration and Nominations Committees.

6 **John Norton (60),**
Non-executive director. Mr Norton joined the Board in April 1997. He is a Chartered Accountant and was a partner in Arthur Andersen heading its oil and gas practice in Europe, the Middle East and Africa. Mr Norton is a member of the Audit and Nominations Committees.

7 **Pierre Simandoux (62),**
Non-executive director. Mr Simandoux joined the Board in April 1997. He is a director and adviser to the President of the Institut Francais du Petrole where he has worked since 1980 holding a variety of positions. Mr Simandoux is a member of the Remuneration and Nominations Committees.

8 **John Snyder (55),**
Non-executive director. Mr Snyder joined the Board in April 1997. He is a director and Chairman of Snyder Oil Corporation, the predecessor to which he founded in 1978. He is a member of the Remuneration and Nominations Committees.



The Directors present their first annual report on the affairs of the Group, together with the accounts and auditors' report, for the period from 10 January 1997 to 31 December 1997.

Incorporation and change of name

The Company was incorporated on 10 January 1997 as Signtimed Public Limited Company. Its name was changed to SOCO International plc on 13 March 1997.

Principal activity and business review

The Group's principal activity is oil and gas exploration and production. The Group has its headquarters in London and has oil and gas interests in Mongolia, Russia, United Kingdom, Yemen, Thailand and Tunisia. These interests, principally acquired from Snyder Oil Corporation and Cairn Energy PLC, provide the Group with exploration and development projects with significant potential. The subsidiaries and associated undertaking principally affecting the profits or net assets of the Group are listed in Note 13 to the accounts.

With effect from 29 May 1997 the Company's shares became fully listed on the London Stock Exchange and further details of the listing and related transactions are set out in Note 1 to the accounts.

A detailed review of the development of the business and its future prospects is contained in the Chairman's Statement, the Chief Executive's Statement, the Operations Review and the Financial Review on pages 2 to 19.

Results and dividends

The audited accounts for the period ended 31 December 1997 are set out on pages 30 to 47. The Group profit for the period, after taxation and minority interests, was £ 2,737,000.

The Directors intend to devote the Group's cash resources to its exploration and development activities and, consistent with the dividend statement in the Listing Particulars, are not recommending the payment of a dividend.

Directors

The Directors, who were all appointed on 25 April 1997, except as separately stated below, and who served during the period were as follows:

Peter E Kingston* *Chairman*

Edward T Story

Roger D Cagle *(appointed 21 February 1997)*

Timothy D Taylor

John C Norton*

Pierre R Simandoux*

John C Snyder*

Roger W Brittain* *(appointed 27 March 1998)*

Cynthia B Cagle *(appointed 21 February 1997, resigned 25 April 1997)*

Instant Companies Limited *(appointed 10 January 1997, resigned 21 February 1997)*

Swift Incorporations Limited *(appointed 10 January 1997, resigned 21 February 1997)*

*(*denotes non-executive Director).*

In addition Roger W Brittain served as an alternate Director during the period *(appointed 4 August 1997)*.

Details of Directors' interests are included in Note 8 to the accounts.

In accordance with the Articles of Association all the Directors retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Share capital

Details of changes to share capital during the period can be found in Note 19 to the accounts.

Subsequent Events

Details of events occurring after the balance sheet date can be found in Note 25 to the accounts.

Supplier payment policy

The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

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

Substantial shareholdings

On 7 April 1998, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company.

Name of holder	Number	Percentage held
Snyder Oil Corporation	7,822,457	15.85
Mercury Asset Management Limited	6,998,448	14.18
Cairn Energy PLC group companies*	5,142,997	10.42
The Fleming Mercantile Investment Trust PLC	2,473,000	5.01
MG UK Small Company Exempt Fund	1,884,000	3.82

* Cairn Energy Asia Limited, a wholly owned subsidiary of Cairn Energy PLC has an interest in 4,321,448 ordinary shares representing 8.76% of issued share capital.

Auditors

The Directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

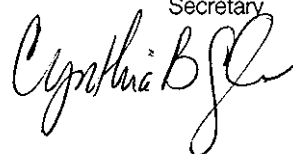
Swan House
32/33 Old Bond Street
London W1X 3AD

7 April 1998

By order of the Board

Cynthia B Cagle

Secretary



The Board

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

The Board has established three Committees, as described below, each having formal terms of reference approved by the Board which comply with the Cadbury Code of Best Practice.

The Remuneration Committee

The Remuneration Committee consists of four non-executive Directors and is responsible for determining the remuneration of the executive Directors and senior management of the Company and Group. The main objective of the Committee is to ensure that individuals are remunerated on a basis which is appropriate to their position, experience and value to the Company and Group whilst recognising that remuneration packages must be set at a level to attract, retain and motivate staff. During the period since the listing of the Company's shares on the London Stock Exchange the committee has met three times. Its report is on page 28.

The Audit Committee

The Audit Committee comprises three non-executive Directors and meets at least twice a year. The Chief Financial Officer and a representative of the external auditors are normally invited to attend meetings. At least once a year the Committee meets with the external auditors without executive board members present. Its primary responsibilities are to review the annual and interim financial statements before they are submitted to the Board, to review the effectiveness of the Company's and Group's systems of internal financial control and to review with the external auditors the nature and scope of their audit and the results of that audit.

The Nominations Committee

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

Directors' Statement on Corporate Governance Matters

The Board is satisfied that the Company and Group have complied throughout the period from 29 May 1997, the effective date of listing of the Company's shares on the London Stock Exchange, to 31 December 1997, with the provisions of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance.

Internal financial control

The Directors are responsible for establishing and maintaining a system of internal financial control which is designed to provide reasonable assurance regarding the reliability of financial information and to safeguard the assets of the Company and Group. Given the inherent limitations in any system of internal financial control such a system can only provide reasonable assurance, and not absolute assurance, 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 financial control systems. Documented policies and procedures are in place for key systems and processes and the authority of the Directors is required for key treasury 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 effectiveness of the Group's internal financial control is reviewed periodically.

Going concern

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

Directors' responsibilities

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

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

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

Auditors' responsibilities

Company law requires auditors to form an independent opinion on the accounts presented by the Directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the companies in the Group have maintained proper accounting records;
- that the accounts are in agreement with the accounting records;
- that Directors' emoluments and other transactions with Directors are properly disclosed in the accounts; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief are necessary for the purpose of their audit.

The auditors' opinion does not encompass the Directors' report on pages 22 to 24. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the Directors' report are inconsistent with the accounts.

Report by the Auditors to SOCO International plc on Corporate Governance Matters

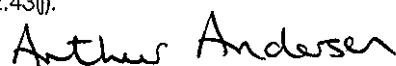
In addition to our audit of the accounts, we have reviewed the Directors' statements on pages 25 and 26 concerning the Company's and Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non compliance with Listing Rules 12.43(j) (Financial Aspects of Corporate Governance) and 12.43(v) (Going Concern).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's or Group's system of internal financial control or its corporate governance procedures nor on the ability of the Company and the Group to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control and going concern on pages 25 and 26, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 25 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).



Arthur Andersen

Chartered Accountants

1 Surrey Street
London WC2R 2PS

7 April 1998

The Remuneration Committee ("the Committee") is responsible for determining the remuneration policy for the Company's executive Directors and senior management. The following non-executive Directors were members of the Committee during the period:

Peter E Kingston (Chairman)

John C Snyder

Pierre R Simandoux

Additionally, Roger W Brittain participated in Committee activities in his capacity as an alternate Director and became a member of the Committee on his appointment to the Board.

The Company has complied throughout the period with Section A 'Remuneration committees' of the best practice provisions on directors' remuneration annexed to the Listing Rules.

The Company's policy on executive Director remuneration is to provide rewards that are competitive with those offered in comparable businesses, bearing in mind the necessity to attract, retain and motivate the high calibre of management vital to the Company's growth and profitability. In framing the Company's remuneration policy, the Committee has given full consideration to Section B 'Remuneration policy, service contracts and compensation' of the best practice provisions.

It is the Committee's policy to review all aspects of remuneration on an annual basis and the 1998 review will occur in June, moving to March in subsequent years. In addition to basic salary, all executive Directors will be eligible to receive an annual cash bonus. The bonus will be awarded at the discretion of the Committee, based on the achievement by each individual of personal goals based on the Company's strategic plan. An executive Director's discretionary annual bonus shall not exceed 100% of basic salary.

The Committee currently operates one share option scheme being the SOCO 1997 Company Share Option Plan. The grant of options to executive Directors and senior management is on the recommendation of the Committee. The Committee recommends, at its discretion, the participants and the number of shares over which their option will be granted. The number of shares over which the option will become exercisable is determined on the basis of the Company's total shareholder return performance within a group of comparator companies in the oil exploration and production sector, determined on or after the third anniversary of the date of grant.

The first grant of options under this plan was on 3 December 1997.

The executive Directors' contracts are terminable by either party on giving one year's notice. The non-executive Directors' appointments are terminable at the will of the parties but are envisaged to establish an initial term of three years from 25 April 1997 after which they will be reviewed annually.

Following the publication of the Hampel Report's comments on non-executive Directors' remuneration, the Board as a whole has determined that arrangements will be made to pay part of non-executive Directors' fees for 1998 and subsequent years in the form of shares in the Company.

Full details of the remuneration packages of individual Directors and information on share options are set out in Note 8 to the accounts.

To the Shareholders of SOCO International plc:

We have audited the accounts on pages 30 to 47 which have been prepared under the historical cost convention and the accounting policies set out on pages 33 and 34.

Respective responsibilities of Directors and auditors

As described on page 26 the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

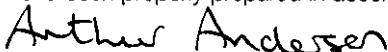
Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1997 and of the Group's profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London WC2R 2PS
7 April 1998

	Notes	£000's
Turnover	2	8,474
Cost of sales	3	(6,586)
Gross profit		1,888
Administrative expenses		(581)
Operating profit	2	1,307
Investment income	4	2,176
Interest payable and similar charges	5	(325)
Profit on ordinary activities before taxation	6	3,158
Tax on profit on ordinary activities	9	(421)
Profit on ordinary activities after taxation		2,737
Minority interests	22	-
Profit for the financial period	20	2,737
Earnings per share	11	5.5p

Consolidated statement of total recognised gains and losses

For the period from incorporation to 31 December 1997 (see Note 1)

	Note	£000's
Profit for the financial period		2,737
Unrealised currency translation differences	20	(806)
Total recognised gains and losses for the period		1,931

The accompanying notes are an integral part of these accounts.

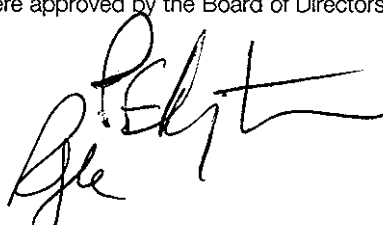
Balance sheets

As at 31 December 1997

	Notes	Group £000's	Company £000's
Fixed assets			
Tangible assets	12	45,888	223
Investments	13	10,390	19,687
		<u>56,278</u>	<u>19,910</u>
Current assets			
Stocks	14	427	-
Debtors: Amounts falling due within one year	15	4,752	2,415
Investments	16	24,719	23,686
Cash at bank and in hand		5,883	5,052
		<u>35,781</u>	<u>31,153</u>
Creditors: Amounts falling due within one year	17	(3,840)	(3,093)
Net current assets		<u>31,941</u>	<u>28,060</u>
Total assets less current liabilities		<u>88,219</u>	<u>47,970</u>
Provisions for liabilities and charges	18	(1,150)	-
Net assets		<u>87,069</u>	<u>47,970</u>
Capital and reserves			
Called-up equity share capital	19	9,870	9,870
Share premium account	20	37,449	37,449
Other reserves	20	29,933	-
Profit and loss account	20	1,931	651
Shareholders' funds		<u>79,183</u>	<u>47,970</u>
Minority interests	22	7,886	-
Total capital employed		<u>87,069</u>	<u>47,970</u>

The accounts on pages 30 to 47 were approved by the Board of Directors on 7 April 1998 and signed on its behalf by:

Peter E Kingston Chairman
Roger D Cagle Director



The accompanying notes are an integral part of these accounts.

Consolidated cash flow statement

For the period from incorporation to 31 December 1997 (see Note 1)

	Notes	£000's	£000's
Net cash inflow from operating activities	23		3,062
Returns on investments and servicing of finance			
Interest received		1,621	
Interest paid		(24)	
			1,597
Taxation paid			(126)
Capital expenditure and investment in associate			
Purchase of tangible fixed assets		16,962	
Sale of tangible fixed assets		(23)	
Investment in associate		2,761	
			(19,700)
Acquisitions			
Cash acquired with subsidiary undertakings			3,565
Cash outflow before management of liquid resources and financing			(11,602)
Management of liquid resources			
Cash placed on short term deposit	24		(24,715)
Financing			
Issue of ordinary share capital		39,973	
Issue of preference shares to minority interests		2,223	
			42,196
Increase in cash in the period	24		5,879

The accompanying notes are an integral part of these accounts.

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

Basis of accounting

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

Basis of consolidation

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

Interests in associated undertakings and joint ventures

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

The Group's oil and gas activities are sometimes conducted in unincorporated joint ventures with other companies. In such cases, the Group accounts for its relevant proportion of production revenues, capital and operating expenditures, assets and liabilities, and cash flows. The Group's 50% interest in PermTex, a limited liability partnership, is accounted for on this basis.

Tangible fixed assets

Oil and gas exploration and development expenditure

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

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

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

Depreciation and depletion

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

Impairment of value

At each year end management assesses the net book value of the Group's oil and gas interests by comparison with the estimated future net cash flows based on year end prices separately for each geographical cost pool.

Other fixed assets

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

Decommissioning

Provision is made for the estimated cost of decommissioning and site restoration calculated for each geographical pool on a unit of production basis, representing the Group's share of the estimated costs which may be incurred in the removal and decommissioning of facilities at the end of the producing life of each field.

Changes in estimates

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

Taxation

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

Foreign currencies

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

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

Exchange differences arising on foreign currency loans drawn down to finance development projects are included in development costs in tangible fixed assets.

1 Commencement of operations

SOCO International plc was incorporated on 10 January 1997. On 29 May 1997, all of the issued share capital of the Company, consisting of 49,348,846 ordinary shares of £0.20 each, was admitted to the Official List of the London Stock Exchange. Substantially all of the shares were issued pursuant to transactions consisting of a placing of shares at a placing price of £2.60 and the acquisition of interests in Mongolia, Russia, Thailand, United Kingdom, Yemen and Tunisia.

The Company's operations commenced on the date of Listing. Accordingly, the profit and loss account, statement of recognised gains and losses and the cash flow statement reflect activity during the period from 29 May 1997 to 31 December 1997. The earnings per share calculations are based on the weighted average number of shares in issue during the period of operations.

2 Segment information

	United Kingdom £000's	Rest of Europe £000's	Rest of World £000's	Unallocated £000's	Group £000's
Turnover by origin	<u>4,053</u>	<u>4,421</u>	<u>-</u>	<u>-</u>	<u>8,474</u>
Operating profit	<u>821</u>	<u>1,067</u>	<u>-</u>	<u>(581)</u>	<u>1,307</u>
Profit on ordinary activities before taxation	<u>905</u>	<u>1,133</u>	<u>174</u>	<u>946</u>	<u>3,158</u>
Net assets	<u>7,388</u>	<u>14,780</u>	<u>36,390</u>	<u>28,511</u>	<u>87,069</u>

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

3 Cost of sales

	£000's
Operating expenses	4,690
Depletion and depreciation	1,801
Decommissioning provision	<u>95</u>
	<u>6,586</u>

4 Investment income

	<u>£000's</u>
Interest receivable	1,971
Realised exchange gain	175
Share of associate's investment income	<u>30</u>
	<u>2,176</u>

5 Interest payable and similar charges

	<u>£000's</u>
Bank loans and overdrafts	24
Share of associate's interest payable	<u>301</u>
	<u>325</u>

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	<u>£000's</u>
Depletion and depreciation	1,812
Auditors' remuneration for audit services	<u>139</u>

The amounts payable to Arthur Andersen by the Company and its UK subsidiary undertaking in respect of non-audit services was £691,000, including £613,000 which was associated with the transactions described in Note 1 and charged to the share premium account.

7 Staff costs

The average monthly number of employees (including executive Directors but excluding contractors and staff of the Permtex joint operations) was 52, of which 45 were operating personnel and 7 were administrative personnel. Their aggregate remuneration comprised:

	<u>£000's</u>
Wages and salaries	1,115
Social security costs	91
Other pension costs under money purchase schemes	<u>102</u>
	<u>1,308</u>

8 Directors' remuneration, interests and transactions

Directors' remuneration

Name of Director	Fees/Basic salary £000's	Benefits in kind ¹ £000's	Money purchase pension contributions £000's	Total £000's
Executive:				
E Story	97.4	5.4	6.5	109.3
R Çagle	74.6	6.9	9.9	91.4
T Taylor	74.6	8.6	3.6	86.8
Non-Executive ² :				
P Kingston ³	52.5	-	-	52.5
J Snyder ⁴	18.8	-	-	18.8
J Norton	18.8	-	-	18.8
P Simandoux	18.8	-	-	18.8
Aggregate emoluments	355.5	20.9	20.0	396.4

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

² These figures do not include amounts paid to Guinness Mahon & Co for consultancy fees in respect of Mr Roger Brittain's services to the Company. Mr Brittain served as an alternate Director in the period and was appointed a non-executive Director effective 27 March 1998.

³ Emoluments receivable by Mr Peter Kingston are paid to Peter Kingston & Associates under an agreement to provide the Company with the services of Mr Kingston. The agreement is for a fixed sum to be paid in respect of the first 24 days in each year that such services are provided and £1,250 for each additional day per year thereafter.

⁴ Emoluments receivable by Mr John Snyder are paid to Snyder Oil Corporation.

A discretionary annual bonus arrangement for executive Directors has been established, however decisions on the amount of awards in respect of 1997 performance have not yet been made.

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

8 Directors' remuneration, interests and transactions (continued)

Directors' share options

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

Name of Director	As at 29 May 1997 ¹	Granted ²	As at 31 December 1997	Exercise price £	Date from which exercisable	Expiry date
E Story	1,973,954	-	1,973,954	2.60	29.05.1997	25.04.2004
	-	89,286	89,286	3.85	03.12.2000	03.12.2004
R Cagle ³	1,480,466	-	1,480,466	2.60	29.05.1997	25.04.2004
	-	128,151	128,151	3.85	03.12.2000	03.12.2004
T Taylor	986,977	-	986,977	2.60	29.05.1997	25.04.2004
	-	68,410	68,410	3.85	03.12.2000	03.12.2004
Total	4,441,397	285,847	4,727,244			

¹ These options are held under the SOCO-sub Unapproved Company Share Option Plan, which were granted prior to the listing of the Company's shares on the London Stock Exchange. No additional grants are available under the plan.

² These grants were made under the SOCO 1997 Company Share Option Plan.

³ Options held as at 29 May 1997 and granted during the period include 493,489 and 59,741, respectively, held by Cynthia B Cagle, having been granted to her in respect of her services to the Company.

The ability to exercise options granted under the SOCO 1997 Company Share Option Plan is determined on the basis of the Company's relative total shareholder return performance against a comparator group.

No options were exercised or lapsed during the period.

The market price of the ordinary shares at 31 December 1997 was £3.64 and the range during the period was £2.345 to £4.045.

Directors' long-term incentive scheme

The Company does not operate any long-term incentive schemes.

Directors' pension entitlements

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

8 Directors' remuneration, interests and transactions (continued)

Directors' interests

The interests (all of which were beneficial) of the Directors of the Company in the ordinary shares of the Company as at 31 December 1997 were:

Name of Director	Number of shares
Executive:	
E Story	869,162
R Cagle	70,000
T Taylor	-
Non-executive:	
P Kingston	2,000
J Snyder	25,000
J Norton	5,000
P Simandoux	-
R Brittain	5,000

There has been no change in any of the beneficial interests between 31 December 1997 and the date of this report except for Mr Roger Brittain who acquired an additional 5,000 ordinary shares of the Company on 3 April 1998.

Directors' transactions

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

9 Taxation on profit on ordinary activities

The tax charge comprises:

	£000's
Corporation tax	295
Overseas taxation	126
	<u>421</u>

The Group has tax losses carried forward amounting to approximately £10,000,000 which can be utilised against oil and gas profits arising in the United Kingdom.

10 Profit attributable to SOCO International plc

The profit for the financial period dealt with in the accounts of the Company was £651,000. As provided by Section 230 of the Companies Act 1985, no profit and loss account is presented in respect of the Company.

11 Earnings per share

The calculation of earnings per share is based on the profit for the financial period and on 49,348,846 ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the period from the commencement of operations, as described in Note 1 to the accounts.

12 Tangible fixed assets

	Group			Company
	Oil and gas properties £000's	Other £000's	Total £000's	Other £000's
Cost				
Acquisition	30,300	1,064	31,364	–
Additions	16,583	379	16,962	234
Disposals	–	(48)	(48)	–
Foreign exchange	(603)	(2)	(605)	–
As at 31 December 1997	<u>46,280</u>	<u>1,393</u>	<u>47,673</u>	<u>234</u>
Depreciation				
Charge for the period	1,710	102	1,812	11
Disposals	–	(27)	(27)	–
As at 31 December 1997	<u>1,710</u>	<u>75</u>	<u>1,785</u>	<u>11</u>
Net book value				
As at 31 December 1997	<u>44,570</u>	<u>1,318</u>	<u>45,888</u>	<u>223</u>

Included within oil and gas properties are costs of £24,808,000 held outside depreciable pools. Other fixed assets comprise plant and machinery, computer equipment and fixtures and fittings.

13 Fixed asset investments

	Group £000's	Company £000's
Subsidiary undertakings	–	19,687
Associated undertaking	10,390	–
	<u>10,390</u>	<u>19,687</u>

Principal Group investments

The parent Company and the Group have investments in the following subsidiary undertakings and associated undertaking which principally affected the profits or net assets of the Group, all of which are indirectly held except for SOCO UK Onshore Limited.

	Country of Incorporation	Country of Operation	Principal Activity	Percentage Holding
Subsidiary undertakings				
SOCO Tamtsag Mongolia, Inc.	USA	Mongolia	Oil and gas exploration	52.0 ¹
SOCO Perm Russia, Inc. ²	USA	Russia	Investment holding	100.0
SOCO UK Onshore Limited	UK	UK	Exploration and production	100.0
SOCO Tunisia Pty Limited	Australia	Tunisia	Oil and gas exploration	100.0
SOCO Yemen Pty Limited	Australia	Yemen	Investment holding	100.0
SOCO Exploration (Thailand) Co. Ltd.	Thailand	Thailand	Oil and gas exploration	100.0
Associated undertaking				
Comeco Petroleum, Inc. ³	USA	Yemen	Exploration and production	41.25

¹ As at 31 December 1997 the Group additionally owned 55% of SOCO Tamtsag Mongolia, Inc. preference shares. Subsequent to 31 December 1997 the Company's percentage holding in SOCO Tamtsag Mongolia, Inc. has increased to 56.3%.

² The Russian interest is held through Permtex, an unincorporated limited liability partnership, which is 50% owned by SOCO Perm Russia, Inc.

³ Comeco Petroleum, Inc. became a subsidiary undertaking in February 1998 (see Note 25).

13 Fixed asset investments (continued)

The Company's subsidiary undertakings and associated undertaking were acquired pursuant to the transactions on 29 May 1997 as described in Note 1. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group at the date of the acquisition:

	Book value £000's	Revaluation £000's	Fair value to Group £000's
Fixed assets			
Tangible	38,732	(7,368)	31,364
Investments	8,494	(235)	8,259
Current assets			
Stocks	318	-	318
Debtors	3,913	-	3,913
Cash	3,565	-	3,565
Total assets	55,022	(7,603)	47,419
Creditors			
Trade creditors	2,921	-	2,921
Other creditors	450	-	450
Provisions			
Decommissioning	1,055	-	1,055
Total liabilities	4,426	-	4,426
Net assets	50,596	(7,603)	42,993
Minority interest			(5,715)
			37,278
Satisfied by:			
Shares issued			37,278

Subsidiary Undertakings

	Company £000's
Cost	
Acquisition	7,345
Additions	12,342
As at 31 December 1997	19,687

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

13 Fixed asset investments (continued)

The subsidiary undertakings earned a profit after taxation and minority interests of £2,896,000 in the year ended 31 December 1997, of which £810,000 arose in the period from 1 January 1997 to 29 May 1997. The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 January 1997 to 29 May 1997, are as follows:

	£000's
Profit and loss account	
Turnover	5,683
Cost of sales	(4,717)
Operating profit	966
Investment income	210
Interest payable and similar charges	(247)
Profit on ordinary activities before taxation	929
Tax on profit on ordinary activities	(119)
Profit for the pre-acquisition period	810

There were no recognised gains or losses other than the profit for the pre-acquisition period.

Associated undertaking

	Group £000's
Cost	
Acquisition of associated undertaking	8,259
Additions	2,761
Share of retained loss for the period	(271)
Foreign exchange	(359)
Net book value as at 31 December 1997	10,390
Comprising:	
Investment in shares	1,853
Loans	8,537
	10,390

Particulars of the issued capital of Comeco Petroleum, Inc. are as follows:

Class A common stock	1,000 at \$0.001
Class B common stock	212 at \$0.001

At 31 December 1997 the Company indirectly held 500 of the Class A common shares. Comeco Petroleum, Inc. became a subsidiary undertaking in February 1998 (see Note 25).

14 Stocks

	Group £000's
Crude oil and condensate	200
Materials and consumables	227
	<u>427</u>

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

15 Debtors: Amounts falling due within one year

	Group £000's	Company £000's
Trade debtors	3,199	–
Amounts owed by Group undertakings	–	2,095
Taxation recoverable	128	118
Other debtors	84	48
Prepayments and accrued income	1,341	154
	<u>4,752</u>	<u>2,415</u>

16 Current asset investments

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

17 Creditors: Amounts falling due within one year

	Group £000's	Company £000's
Trade creditors	2,326	–
Amounts owed to Group undertakings	–	2,323
Taxation and social security	334	295
Other creditors	588	164
Accruals and deferred income	592	311
	<u>3,840</u>	<u>3,093</u>

18 Provisions for liabilities and charges

	Group £000's
Decommissioning	
Acquisition of subsidiary undertaking	1,055
Charge for the period	95
	<u>1,150</u>

19 Called-up equity share capital

	£000's
<i>Authorised</i>	
70,000,000 ordinary shares of £0.20 each	14,000
<i>Allotted, called-up and fully-paid</i>	
49,348,846 ordinary shares of £0.20 each	9,870

During the period the Company allotted 49,348,846 ordinary shares with a nominal value of £0.20 each in connection with the transactions described in Note 1.

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

Number of shares under option	Subscription price per share	Exercise period
4,934,885	£2.60	29.05.1997 – 25.04.2004
317,099	£3.85	03.12.2000 – 03.12.2004

20 Reserves

	Group			
	Share premium account £000's	Other reserves £000's	Profit and loss account £000's	Total £000's
Share issues	37,449	29,933	–	67,382
Loss on foreign currency translation	–	–	(806)	(806)
Retained profit for the period	–	–	2,737	2,737
As at 31 December 1997	37,449	29,933	1,931	69,313

	Company		
	Share premium account £000's	Profit and loss account £000's	Total £000's
Share issues	37,449	–	37,449
Retained profit for the period	–	651	651
As at 31 December 1997	37,449	651	38,100

The other reserves balance, being merger relief, and the share premium arose as a result of the issue of shares associated with the transactions described in Note 1. Flotation costs of £6,901,000 were charged to the share premium account.

21 Reconciliation of movements in Group shareholders' funds

	£000's
Profit for the financial period	2,737
Unrealised currency translation differences	(806)
	<u>1,931</u>
New shares issued	77,252
Closing shareholders' funds	<u>79,183</u>

22 Minority interests

	£000's
Acquisition of subsidiary undertakings	5,715
Issue of preference shares to minority interests	2,223
Foreign exchange	(52)
As at 31 December 1997	<u>7,886</u>

23 Reconciliation of operating profit to operating cash flows

	£000's
Operating profit	1,307
Depletion and depreciation	1,812
Decommissioning provision	95
Increase in stocks	(109)
Decrease in debtors	(488)
Increase in creditors	445
Net cash inflow from operating activities	<u>3,062</u>

24 Analysis and reconciliation of net funds

	Cash flow £000's	Exchange movement £000's	As at 31 December 1997 £000's
Cash at bank and in hand	5,879	4	5,883
Current asset investments	24,715	4	24,719
Net funds	<u>30,594</u>	<u>8</u>	<u>30,602</u>

Current asset investments are term deposits.

25 Subsequent events

Offer to acquire Territorial Resources, Inc.

In January 1998, the Company made an offer via a wholly owned subsidiary to acquire Territorial Resources, Inc. (Territorial), a company registered in Colorado in the United States. The offer, which is structured as a merger, is contingent upon various conditions. The proposed offer values Territorial at approximately £9,000,000.

Territorial's assets include indirect and direct interests in Mongolia, a direct interest in Thailand and 600,000 shares of the Company's stock.

Increase in Yemen Interests

In February 1998 the Company, through its wholly owned subsidiary SOCO Yemen Pty Limited, increased its shareholding in Comeco Petroleum, Inc. (Comeco) by purchasing one half of the shareholding of a 17.5% minority shareholder. This transaction increases the Group's holding in Comeco from 41.25% to 50%. Comeco holds a 28.57% interest as a joint venture partner in the East Shabwa Development Area (East Shabwa) in Yemen.

The Company has funded the full purchase price of US\$8.8 million for the 17.5% minority interest, reserving a call for a period ending 5 May 1998 on 50% of the purchased shareholding to Intercap Resources Management Corp. (Intercap), conditional upon Intercap's successful funding of its share. Intercap has indicated its intention to exercise the call.

Following Intercap funding, the Company and Intercap will each own 50% of Comeco, thus holding indirect interests of 14.285% in East Shabwa. Subsequent to the transaction the Company will have voting control and in the future Comeco will be consolidated in the Group accounts.

26 Related party transactions

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

Net proven oil reserves

	Total	UK	Russia	Mongolia ¹	Thailand	Tunisia	Yemen ²
Reserves as at 31 December 1996 ³	33.0	2.3	24.7	-	2.8	-	3.2
Changes in the year							
Revisions to previous estimates	1.7	0.8	1.2	0.6	(0.9)	-	-
Production - pre-acquisition	(0.5)	(0.3)	(0.2)	-	-	-	-
Production - post-acquisition	(0.8)	(0.3)	(0.5)	-	-	-	-
Reserves as at 31 December 1997	33.4	2.5	25.2	0.6	1.9	-	3.2

Net proven and probable oil reserves

	Total	UK	Russia	Mongolia ¹	Thailand	Tunisia	Yemen ²
Reserves as at 31 December 1996 ³	100.7	3.1	52.6	28.8	5.9	3.0	7.3
Changes in the year							
Revisions to previous estimates	(1.8)	0.8	(0.6)	0.1	(2.1)	-	-
Production - pre-acquisition	(0.5)	(0.3)	(0.2)	-	-	-	-
Production - post-acquisition	(0.8)	(0.3)	(0.5)	-	-	-	-
Reserves as at 31 December 1997	97.6	3.3	51.3	28.9	3.8	3.0	7.3

Note: mmbbls denotes millions of barrels

¹ Of total net proved oil reserves and total net proved and probable oil reserves at 31 December 1997, 0.3 mmbbls and 13.9 mmbbls, respectively, were attributable to minority interests.

² Reserves in Yemen reflect the Group's share of the net oil reserves of its associated undertaking.

³ As reported in the Listing Particulars dated 14 May 1997.

Net proven oil reserves

	Total	UK	Russia	Mongolia ¹	Thailand	Tunisia	Yemen ²
Reserves as at 31 December 1996 ³	33.0	2.3	24.7	–	2.8	–	3.2
Changes in the year							
Revisions to previous estimates	1.7	0.8	1.2	0.6	(0.9)	–	–
Production – pre-acquisition	(0.5)	(0.3)	(0.2)	–	–	–	–
Production – post-acquisition	(0.8)	(0.3)	(0.5)	–	–	–	–
Reserves as at 31 December 1997	33.4	2.5	25.2	0.6	1.9	–	3.2

Net proven and probable oil reserves

	Total	UK	Russia	Mongolia ¹	Thailand	Tunisia	Yemen ²
Reserves as at 31 December 1996 ³	100.7	3.1	52.6	28.8	5.9	3.0	7.3
Changes in the year							
Revisions to previous estimates	(1.8)	0.8	(0.6)	0.1	(2.1)	–	–
Production – pre-acquisition	(0.5)	(0.3)	(0.2)	–	–	–	–
Production – post-acquisition	(0.8)	(0.3)	(0.5)	–	–	–	–
Reserves as at 31 December 1997	97.6	3.3	51.3	28.9	3.8	3.0	7.3

Note: mmbbls denotes millions of barrels

¹ Of total net proved oil reserves and total net proved and probable oil reserves at 31 December 1997, 0.3 mmbbls and 13.9 mmbbls, respectively, were attributable to minority interests.

² Reserves in Yemen reflect the Group's share of the net oil reserves of its associated undertaking.

³ As reported in the Listing Particulars dated 14 May 1997.

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Financial calendar

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

Consort Royal Silk™

Consort Royal Silk is a environmentally responsible approach incorporating 20% recycled fibre from post consumer waste, using totally chlorine free bleaching and dyeing processes. The virgin fibre contained in Consort Royal Silk is totally chlorine free and is sourced only from sustainable managed forests.

Metaphor Wheat

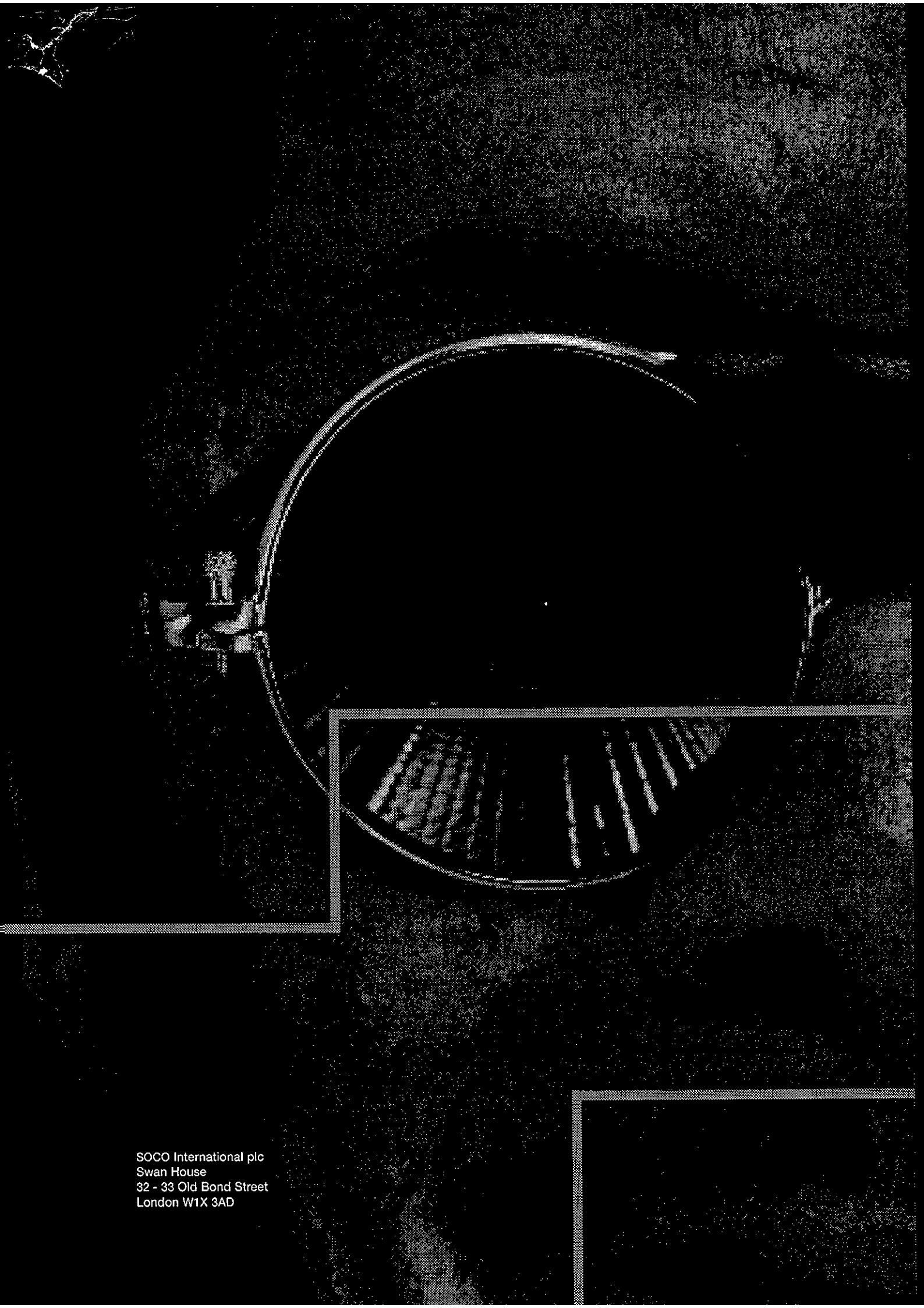
Metaphor Wheat is made entirely from seed and waste paper, which includes 80% recycled post consumer product waste. Due to the high content of post consumer waste and the fact that it is made from 100% recycled fibre the product has been awarded the Star Angel eco-label, which is the oldest eco-label in existence.

Designed and produced by
Gavin Anderson & Company

Front cover photograph by
Liam Bailey

Inside front cover photograph by
David Yarrow

Printed by
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