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SOCO International plc
Annual Report and Accounts 2005



REVIEW OF THE YEAR

Key landmarks in a
pivotal 12 months:

29.01.05

Hoan Vu JOC spuds the CNV-3X appraisal well offshore Vietnam in the Cuu Long Basin initiating the busiest drilling programme in the history of the Company.

18.02.05

The Company announces the 6,500 BOPD results of the KHA 1-09 Basement appraisal well in the Kharir field in the East Shabwa Development Area of Yemen; the Basement targeted programme initiated in 2004 continues to demonstrate dramatic results.

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

Recognising opportunity

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

Capturing potential

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

Realising value

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

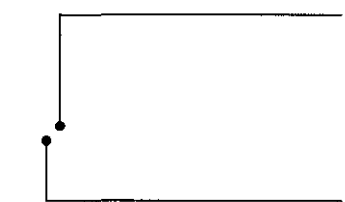
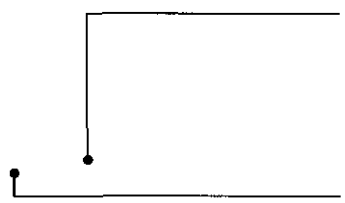
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FINANCIAL HIGHLIGHTS

US\$m	2005	2004	2003
Revenue from continuing operations	57.2	29.4	28.4
Net cash inflow from operating activities	30.5	19.2	27.3
Net cash and deposits	51.0	71.1	58.9
Net assets	266.2	247.2	227.6

SOCO AROUND THE WORLD

	VIETNAM Location: Cuu Long Basin, offshore southeast Vietnam Operational phase: Exploration/appraisal drilling Project partners: Petrovietnam, PTTEP Thailand SOCO Vietnam interest: 25% to 29%
	THAILAND Location: Western Basin, offshore Thailand Operational phase: Field discovery development SOCO Thailand interest: 100%
	YEMEN Location: Say'un-Ai Masilah Basin, eastern Yemen Operational phase: Production/development/exploration Project partners: Total, Occidental, Kufpec SOCO Yemen interest: 17%
	REPUBLIC OF CONGO (BRAZZAVILLE) Location: Congo Basin, offshore Republic of Congo (Brazzaville) Operational phase: Block evaluation Project partners: Société Nationale des Pétroles du Congo, Africa Oil & Gas Corporation SOCO EPC interest: 75%

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

As an exploration led company, the ability to introduce exciting new prospective areas such as Marine XI to the portfolio is key to continuing the momentum resulting from our success in Vietnam and Yemen.

Ed Story

Dear shareholder,

Simply stated, 2005 was a great year for SOCO. We had a 100% success ratio in our Basement drilling programme on Block 10 in Yemen and two wells drilled in the Cuu Long Basin in Vietnam were significant discoveries. Even the third well drilled in Vietnam, which was not classified as a discovery, came with a silver lining as it intersected oil in a previously non-productive interval on Block 9-2. This operational success has led to an impressive addition of approximately 75 million barrels of oil to the Group's net working interest proven and probable reserves in Vietnam and Yemen, resulting in an increase in total reserves of 47% over year end 2004 despite disposal of the Group's Mongolia interest. The result is not only a real numerical increase, but an overall upgrade in terms of the more immediate impact to shareholders. This momentum has carried into the first quarter of 2006 with successful tests reported in both Yemen and Vietnam.

Coupled with the extraordinary drilling result, we reshaped the asset portfolio to focus on high impact, high quality projects and added capacity to our financial capability by agreeing a US\$45 million reserve-based lending facility with the International Finance Corporation (IFC). The importance of having the financial strength to add valuable upside to the portfolio of a smaller company cannot be overemphasised in the current industry environment where promising projects command a high premium for entry.

01.04.05

SOCO enters into a Sale and Purchase Agreement for the sale of its Mongolia interests to Daqing Oilfield Limited Company, a subsidiary of PetroChina, for total consideration of approximately US\$93 million.

Simply stated, 2005 was
a great year for SOCO.

Patrick Maugein

Patrick Maugein, Chairman (left), with Ed Story,
President and Chief Executive

Financial and operating results

After tax profit for the year from continuing operations more than doubled, rising to US\$20.3 million from US\$8.2 million in 2004. After tax profit including discontinued operations fell, reflecting the 2004 disposal of our Tunisia interests that netted US\$21.4 million. The non-current portion of the consideration for the Group's disposal of its Mongolia interests in 2005 is classified as a non-current financial asset.

Production net to the Company's working interest increased, rising to 5,684 barrels of oil per day (BOPD) in 2005 from 5,533 BOPD the prior year. The increase was achieved even though discontinued operations only contributed 155 BOPD during the year from Mongolia, compared to 11 months of Tunisia production (1,237 BOPD) and a full year of Mongolia production (338 BOPD) in the 2004 statistics.

With full year drilling programmes in both Vietnam and Yemen, the Group had its largest capital expenditure programme ever in 2005, with a cash spend of US\$76.2 million almost trebling the previous year's capital expenditures. The result is that year on year cash balances declined from US\$71.1 million at year end 2004 to US\$51.0 million at year end 2005.

Significant events

Consistent with the Company's stated strategy of rationalising its portfolio by monetising non-core assets, SOCO sold the entities holding its Mongolia interests to a subsidiary of PetroChina. The transaction, which closed in August 2005, immediately added approximately US\$30 million to the Group's cash position with an additional US\$10 million receivable placed in escrow. Subsequent compensation of up to approximately US\$53 million associated with future production from the interests sold would bring the total compensation to approximately US\$93 million. Details are described in the Financial Review. Importantly, this transaction allows us additional flexibility in focusing on other projects that may have a greater near term impact.

The Company announced in August that its 85% owned subsidiary, SOCO Exploration and Production Congo (SOCO EPC), signed a production sharing contract with Société Nationale des Pétroles du Congo (SNPC) wherein it acquired an interest in the Marine XI Block, offshore the Republic of Congo (Brazzaville). Previous exploration on this Block led to several discoveries, one of which has been partially delineated with recoverable reserves of 20 to 60 million barrels. However, the full potential of the Block has not been previously explored as there is a thick layer of salt which has impeded seismic interpretation.

Application of newer seismic technology, such as that used in Vietnam, can unlock the potential of the Block. As an exploration led company, the ability to introduce exciting new prospective areas such as Marine XI to the portfolio is key to continuing the momentum resulting from our success in Vietnam and Yemen. Additional details of this asset can be found in the Review of Operations.

2005 operations review

Vietnam

It would be hard to expect a much better scenario than the one that evolved in Vietnam in 2005, but it could be just setting the stage for a better 2006. Last year got off to a resounding start with the Ca Ngu Vang (CNV) appraisal well success on Block 9-2, which tested at 13,040 barrels of oil equivalent per day (BOEPD). This success was followed by a discovery in the Tertiary sediments of a new play trend in a previously undrilled region of Block 16-1. The Te Giac Trang-1X (TGT-1X) tested at 9,432 BOEPD. TGT was the first structure tested in a new play fairway that extends for some 80 kilometres along the eastern and southern regions of Block 16-1.

The second appraisal well on the CNV structure on Block 9-2 offshore Vietnam, CNV-4X, encountered an oil and gas interval with unexpected high pressure in the sandstone sequence overlying the Basement objective, and had to be temporarily suspended. The pressures encountered were significantly higher than those seen previously on the other CNV wells.

The joint venture partners have redesigned the drilling plan for a re-entry into this well in 2006.

Yemen

The Kharir field, where the majority of the consortium's crude oil production is sourced in the East Shabwa Development Area on Block 10 in Yemen, was the focus of the Basement drilling programme for most of 2005. The consortium was rewarded with wells, which extended the limits of the field, testing at rates ranging from 7,300 BOPD from the KHA 1-10 well, testing the eastern extension of the field as then mapped, to 850 BOPD from the KHA 3-07, which was on the previously undrilled Kharir North structure.

In addition to Basement appraisal wells drilled in and around the Kharir field, the consortium initiated step-out exploration wells in the northern area of Block 10. The first of these wells, the Jathma-1 (JAT-01), tested at over 1,900 BOPD, causing considerable optimism when considering that only relatively poor quality 2D seismic data were available and the well was essentially a vertical rather than highly deviated Basement well. The consortium expects to have three rigs working on the exploration/appraisal/development/injector drilling programme in 2006.

The 2005/2006 programme for Block 10 in Yemen also involves de-bottlenecking and other production enhancement efforts. The end result of this is expected to expand the consortium's export capability significantly, eventually reaching around 70,000 BOPD by 2007.

07.04.05

Success continues in Yemen with announcement of the KHA 2-16 Basement well test exceeding 5,500 BOPD.

10.05.05

The sale of the Company's Mongolia assets is overwhelmingly approved by SOCO shareholders at an EGM.

Corporate

In August 2005, SOCO agreed a credit facility with the IFC, the private sector arm of the World Bank. The US\$45 million reserve-based, revolving credit facility has a seven year tenor that will be made available to SOCO in two tranches. The first tranche of US\$25 million is immediately accessible and the second tranche of US\$20 million is a standby loan.

We are pleased to have the involvement of the IFC as they not only bring expertise in the oil and gas sector, but are also leaders on the environmental and social sustainability front. The long term availability of the financing will provide us with additional flexibility to finance our current projects and pursue future opportunities. The IFC is a strong ally in the countries in which we currently operate as well as those frontier countries in which we hope to initiate projects in the future.

Outlook

Operationally, 2006 will be a banner year for SOCO. The capital budget will be the largest in the Group's history, with approximately US\$100 million earmarked. Results from the drill bit will continue to dominate news flow in 2006.

We are off to a very good start to the year in Vietnam. The first drill stem test from the TGT-2X appraisal well flowed at 3,300 BOPD from the Oligocene "C" interval, which was non-productive in the discovery well. Testing operations continue amidst high expectations. Several analogous prospects and leads have been mapped along the fairway and we expect that the success at TGT will be repeated. As we have more successful wells on Block 16-1, we would expect the risk profile of the drilling programme to be reduced as many of the subsurface questions are answered. We expect 2006 to be a watershed year in Vietnam as we move toward development on our projects in the Cuu Long Basin.

In Yemen, the exploration drilling programme, of which an extension of the Kharir field eastward will be a significant part, will give us a good indication of the upside remaining on Block 10. As importantly, the production capacity upgrades will start to have a significant impact as export capability should increase considerably throughout the year.

Having established the presence of oil in the northern extension of Kharir, we will now appraise and develop the pool with inclined wells, which should yield higher flow rates such as those seen in wells in the main part of the field.

There were many positives in 2005 that largely resulted from forces beyond the control of those who benefited the most. We think that external industry influences will remain fairly stable during 2006 and companies that are not positioned to create their own good fortune will be hard pressed to top last year's performance. While SOCO also benefited to a degree from environmental influences, as an exploration led company most of our success was due directly to our own efforts. More importantly, we are well positioned to continue as we have the portfolio in place and the resources to exploit it.

Whilst we do not think such high drilling success ratios are sustainable in the long term, we are definitely well placed to again enjoy substantial success in 2006. We have the people, we have the portfolio and we have the materials and equipment under contract to ensure that this will again be a news driven year.

Last year we spoke of streamlining our portfolio and refocusing our resources. Although the portfolio is in great shape, we would not hesitate to add additional projects that offered material upside to our shareholders. We trust that your confidence in our strategy of recognising opportunity, capturing potential and realising value will again be confirmed throughout the year.

Patrick Maugein
Chairman

Ed Story
President and Chief Executive

COLLABORATION
THE PARTNERSHIPS WE
FORGE ARE INSTRUMENTAL
TO WINNING EARLY ACCESS
TO NEW OPPORTUNITIES IN
EMERGING REGIONS

REVIEW OF OPERATIONS

VIETNAM

23.05.05

The year's first well in the 2005 Vietnam drilling programme is announced as a resounding success with the CNV-3X well drilled into Basement on Block 9-2 testing water-free at a maximum combined rate of approximately 13,040 BOEPD.

Cuu Long Basin

The long anticipated, high impact drilling programmes in Vietnam and Yemen did not disappoint in 2005. Three wells were drilled in Vietnam, with the first two yielding spectacular results. An appraisal well to the 2002 discovery on Block 9-2 on the Ca Ngu Vang (CNV) structure tested at a daily rate of more than 13,000 barrels of oil equivalent (BOEPD). This was followed by the first exploration well to be drilled on the eastern part of Block 16-1, which tested the Te Giac Trang (TGT) structure. The TGT-1X tested at more than 9,400 BOEPD. The third well had to be temporarily suspended after encountering hydrocarbons in an unexpected high pressure environment.

Results from the Yemen appraisal programme were equally impressive beginning with the 6,500 barrels of oil per day (BOPD) test on the Kharir field well KHA 1-09. This was followed by drilling successes at the KHA 2-16 (5,500 BOPD) and the KHA 1-10 well (7,300 BOPD) yielding a 100% success ratio in the Yemen drilling programme.

Yemen is now the only country in which the Company has production following the 2005 disposal of its interests in Mongolia. Even with this reliance on a sole producing asset since the August disposal, crude oil production net to the Group's working interest rose from 5,533 BOPD in 2004 to 5,684 BOPD in 2005.

VIETNAM

SOCO holds its interests in Vietnam, all in the Cuu Long Basin offshore, through its 80% owned subsidiary SOCO Vietnam Ltd (SOCO Vietnam). SOCO Vietnam holds a 25% working interest in Block 9-2, which is operated by the Hoan Vu Joint Operating Company and a 28.5% working interest in Block 16-1, which is operated by the Hoang Long Joint Operating Company (together, JOCs).

Both Blocks are on trend with several major Basement and Tertiary discoveries in the Cuu Long Basin. Both are also contiguous to the Bach Ho field, where 2005 production reportedly averaged approximately 200,000 BOPD and 200

million cubic feet of gas per day (MMCFD), and the Rang Dong field, where production reportedly averaged approximately 48,000 BOPD, primarily from Basement.

Review of 2005 activities

After an almost three year drilling abeyance preparing for this extensive exploration and appraisal programme, the Group resumed drilling in Vietnam with the spudding of the CNV-3X appraisal well on Block 9-2 in January. This well was drilled to a measured depth (MD) of 6,123 metres making it the longest MD well to be drilled in Vietnam. Reaching target depth on 16 April, the well had an extensive clean-up period before testing water-free at a maximum combined rate of 13,040 BOEPD comprising 9,010 BOPD and 22.6 MMCFD. Although the well was suspended as a potential producer, it will more than likely be used as an injector well following the drilling of other shallower development wells before the field goes into production.

Following the CNV-3X test, the rig was towed to Block 16-1 where it spudded the initial wildcat exploration well on the "H" prospect on 2 June. The TGT-1X was drilled to a total MD of 4,478 metres to test several Miocene and Oligocene intervals in a previously undrilled part of Block 16-1. It was drilled significantly deeper than the original prognosis due to the continuing presence of encouraging hydrocarbon shows, reaching target depth in August.

A drill stem test conducted from the Lower Bach Ho formation in the Miocene interval between 2,701 metres and 2,760 metres yielded a combined maximum rate of 9,432 BOEPD comprising 8,566 BOPD of 37 degree API gravity crude and approximately 4.86 MMCFD through a 80/64 inch choke size. The calculated net pay was approximately 31 metres over the test interval. An additional 33 metres of net pay interval were not perforated due to the limited equipment and materials available within the applicable time constraints. Based on the data from the well test, oil samples from wireline formation tests and well logs, the untested interval is considered to be oil bearing and capable of production.

Gordon Graham,
Group Exploration
Manager

A brief test was conducted over a deeper Oligocene interval that also contained significant oil shows, but the formation was determined to be tight and thus unable to flow commercial quantities of hydrocarbons.

The rig was moved immediately back to Block 9-2 to spud the CNV-4X, a follow-up appraisal well to the CNV-3X discovery, on 31 August. The well encountered an oil and gas interval with unexpected high pressure, significantly higher than those seen previously on the other CNV wells, in the Oligocene "E" sequence, the sandstone sequence overlying the Basement objective.

The well encountered a gross 370 metre vertical section of oil shows with attendant gas through the Oligocene "E" sandstone section, based on mud logs, drilling cuttings analysis and "logging while drilling" logs. The use of higher than anticipated mud weights to control the encountered pressures led to problems higher in the open hole section where the drill string became differentially stuck while pulling out of the hole to run casing into the top of Basement. Numerous attempts to fish the stuck drill string were unsuccessful. In December, the well was temporarily suspended following the loss of the 12¼ inch hole section above the granitic Basement reservoir.

Subsequent events and 2006 outlook

An up-dip appraisal well to the 2005 discovery well on the TGT structure on Block 16-1 spudded on 18 January 2006. It reached target depth of 3,436 metres in mid-February after intersecting hydrocarbons in the Miocene and Oligocene intervals. This TGT-2X well flowed 3,300 BOPD from the first drill stem test in Oligocene "C" interval, which failed to flow in the discovery well. At a minimum, additional

flow tests will be conducted from two Miocene intervals, one which was not tested in the discovery well and the other that flowed at 9,342 BOEPD.

The discovery well on the TGT structure confirmed the presence of a highly prospective Lower Miocene play fairway extending for some 80 kilometres across the southern and eastern area of Block 16-1 where several prospects and leads have been mapped. The success of the second TGT well now sets the stage to fast track the development of the field and adds significant upside to the remaining exploration potential. The Hoang Long JOC has contracted to acquire an additional 3D seismic survey in order to evaluate several leads in the area between the initial 3D survey on the western portion of the Block and the 3D survey conducted prior to exploratory operations on the eastern portion of the Block.

The rig currently working is available through July to continue drilling operations in the Cuu Long Basin. It is expected that the majority of the remaining work programme for this rig will be conducted on Block 16-1. The JOCs have contracted the Transocean Triton 9 rig for a nine month period to continue drilling operations on the Blocks after the current rig contract expires, with the expectation that it will become available late in the third quarter of 2006.

Efforts continue towards a declaration of commerciality for the CNV structure. The front-end work required to transition operations from the exploratory phase to the development phase has been completed. Although the timing is uncertain, the CNV-4X will be re-entered in 2006 incorporating a different drilling fluid and casing design to enable the overpressured section to be redrilled safely.

EXPERTISE

A KEY STRENGTH IS OUR
TALENT FOR APPLYING
PROVEN TECHNOLOGY IN
INNOVATIVE WAYS TO DELIVER
EXCEPTIONAL RESULTS

YEMEN

The focus on targeting Basement exploration and appraisal has completely transformed the East Shabwa Development Area (ESDA) from a rapidly declining Cretaceous producer to an asset with expectations of accelerated production through the next several years. The success here has allowed the Company to rely on this asset in the short term as its sole contributor to operating cash flow. ESDA production averaged 32,937 BOPD for 2005 increasing almost 40% from 23,635 BOPD the previous year.

The Group is a 58.75% majority shareholder of Comeco Petroleum, Inc. (Comeco), which holds a 28.57% direct interest in the ESDA. A subsidiary of Occidental Petroleum, which is also a co-venturer in the ESDA with a 28.57% interest, holds the remaining interest in Comeco. Total E&P Yemen, with an interest equal to Comeco's, operates the concession and a subsidiary of Kufpec, the Kuwaiti foreign oil company, holds the remaining 14.29%.

Production from the ESDA, which currently originates primarily from the Kharir field, is transported by pipeline and commingled with production from the neighbouring Masila Block before transportation by pipeline to the coastal Ash Shihr export terminal. SOCO's crude entitlement is sold under a 12-month spot market contract.

Review of 2005 activities

The successful drilling programme that began in 2004 featuring highly deviated wells targeting Basement continued throughout 2005. The three part programme for the year was designed to further appraise the Kharir

Basement structure, to increase reserves through exploration and to increase production.

The consortium enjoyed a 100% success ratio during the year. By the end of 2005, three drilling rigs were working in the ESDA. During the year, the consortium agreed a new well designation scheme proposed by the Yemeni government.

Although the KHA 1-09 well (formerly KHA-403) spudded in December 2004, it wasn't tested until February 2005. The objectives of the well were to delineate the Basement and evaluate reservoir development in the undrilled western extension of the structure. The well reached a total depth of 3,383 metres and produced over 6,500 BOPD when tested.

A second delineation well, the KHA 2-16 (formerly KHA-404), spudded in the northern extension of the Kharir structure on 1 February 2005 and reached a total depth of 3,539 metres. It produced more than 5,500 BOPD when tested in April.

A well drilled to evaluate the eastern extension of the Kharir field spudded at the end of March. The KHA 1-10 well (formerly KHA-405) reached a total depth of 3,755 metres and was tested in June. The test was limited by capacity restrictions in the main production facility but yielded more than 7,300 BOPD.

The third Basement well spudded in the 2005 ESDA drilling programme, the KHA 2-17 (formerly KHA-406), spudded on 11 June and was designed to be a water injection well

28.06.05

In Yemen, the fourth consecutive success in the Kharir Basement drilling programme is achieved as the KHA 1-10 produced over 7,300 BOPD when tested against a 58/64 inch choke; testing is restricted by capacity limitations of the Kharir's main production facilities.

YEMEN

East Shabwa

for pressure maintenance of the reservoir. It was the source of a water injectivity test that began in September.

The KHA 3-07 (formerly KHA-407) was the first well to target Basement on the Kharir North prospect. It spudded at the end of August and reached a total depth of 3,472 metres. The well tested in mid-November and yielded more than 850 BOPD against a 26/64 inch choke.

After primarily focusing on appraisal and step-out wells in and around the Kharir field, the rig was moved to drill the Jathma exploration well (JAT-01) to test a new Basement prospect in the northern area of Block 10. The well spudded on 22 October 2005 and reached a total depth of 3,175 metres. The well tested over 1,900 BOPD against a 56/64 inch choke with an API gravity of 35 degrees.

In December 2005, a second drilling rig was brought in to spud the JAT-02 well at a location in the northern part of the Jathma prospect. A third drilling rig was also commissioned during the month and on 12 December it commenced drilling a production well on the Atuf Northwest field located in the southern area of Block 10, which produces from the Cretaceous Biyad interval.

During the year almost 60% of the production was sourced from the Basement although, historically, production was sourced from the Cretaceous clastic Biyad reservoir. The former has associated gas whilst the latter is characterised by high water cuts as are typical of wells producing from this reservoir in the region. Accordingly, efforts are underway to deal with declining water disposal

requirements and increasing gas disposal capabilities. Work continued during the period on de-bottlenecking production facilities and increasing oil handling capacity.

Subsequent events and 2006 outlook

Although the JAT-02 well encountered a significant oil column, the well did not produce when production tested, which indicated poor fracture development at this location. Further evaluation of the results of this and the JAT-01 test will be carried out to establish the most appropriate scenarios for appraisal and/or development. The JAT-03 well drilled on the western border of Block 10 was plugged and abandoned in March after failing to encounter hydrocarbons in the Basement.

Three drilling rigs are expected to continue operating throughout the year. As at the date of this publication, two rigs are drilling production and injection wells in the Kharir field. A third rig is continuing the evaluation of the Jathma/Wadi Taribah field.

Additional short term production capacity was added on a temporary basis when the consortium leased a portable production unit from another area operator. This will serve to provide a production uplift whilst work continues on permanently expanding current facilities. This, together with adding water injection capability to improve pressure maintenance in the Basement reservoir, should add considerable productive capability from the interval.

Antony Maris,
Group Operations and
Production Manager

CONGO (Brazzaville)

CONGO

Marine XI

16.08.05

Adding strength to the balance sheet, the Company enters into a reserve-based, revolving credit facility of up to US\$45 million with the International Finance Corporation, the private sector arm of the World Bank Group.

The Company has spent more than three years targeting areas that would allow it to focus its expertise, yet provide large enough interests and significant upside to continue its highly successful exploration led strategy. West Africa met all the criteria. As industry exploration efforts in West Africa move into ever deeper waters, the application of new technology provides access to significant reserve potential in under-explored shallow water areas. Thus negotiations began with the appropriate authorities in targeted countries several years ago to establish a foothold in the region. Marine XI was a significant first step, providing a cornerstone in the region.

Review of 2005 activities

The Company announced in August that its 85% owned subsidiary, SOCO Exploration and Production Congo (SOCO EPC), signed a production sharing contract with Société Nationale des Pétroles du Congo (SNPC) wherein it acquired an interest in the Marine XI Block, offshore the Republic of Congo (Brazzaville).

SOCO EPC will be the operator with a 75% working interest in the Block that was licenced to SNPC by presidential decree in July 2005. The exploration and production branch of SNPC (15%) and Africa Oil & Gas Corporation (10%) hold the remaining interests. The Block, located in the Lower Congo Basin, is in shallow water adjacent to the coast with water depths ranging up to 110 metres and covers approximately 1,400 square kilometres. There has been previous exploration activity on the Block resulting in four small oil discoveries, the largest of which has initial recoverable reserves estimated to be in the 30 million barrel range.

The previous discoveries are located in the shallower horizons of the sedimentary section in Marine XI. The deeper section, productive onshore and on trend to the south in Cabinda, has not been adequately evaluated as it could not be accurately mapped using older seismic data.

Subsequent events and 2006 outlook

The Group has issued bid documents for a 3D seismic programme which it expects to conduct in the second half of 2006. By employing the modern seismic techniques that the Company successfully applied in Vietnam to map the Basement reservoir, SOCO EPC expects to exploit the potential of the deeper section.

Although the Group is in discussions with various parties to farm-out a portion of its interests in Marine XI, it would retain a significant portion of the Block and operatorship.

THAILAND

SOCO's 99.93% owned Thailand subsidiary holds a 100% interest in Block B8/38 located offshore in the Gulf of Thailand. The Group filed an application and development plan in 2005 with the Thailand Department of Mineral Fuels to convert the concession to a production licence on the Bualuang (renamed from Pornsiri) discovery on the Block. The application was approved in March 2006.

The preferred development scenario is for the Group to farm-out a portion of its interest to a third party with expertise in development in the region. Accordingly, the Group expects to conclude discussions with various interested parties to begin development of the Bualuang field during 2006.

George Hepler,
Group Technical/
Engineering Manager

OTHER AREAS OF INTEREST

LIBYA

The Group maintains its shareholding in the ODEX Exploration Limited (ODEX) joint venture. The ODEX shareholding comprises SOCO North Africa Ltd. (34%), and subsidiaries of Oilinvest (Netherlands) B.V. (46%) and Joint Stock Bank of the Gas Industry Gazprombank (20%). From SOCO's standpoint, the niche for ODEX was to participate with one or more indigenous Libyan companies in exploiting existing but problematic development opportunities. With the recent focus of the Libyan National Oil Company on open exploration bid rounds, significant progress in other areas is unlikely to be made in the near term.

Accordingly, the Group will continue to assess its participation in the consortium in light of reasonable expectations of success. It is anticipated that ODEX will continue to be the vehicle through which the Group will explore various opportunities that may arise in Libya and certain parts of Africa as the consortium is well placed to take advantage of its strong regional relationships.

WEST AFRICA

The Group is interested in extending its holdings in West Africa beyond the Republic of Congo (Brazzaville) and is in various stages of negotiations with other sovereignties in the region. Under a memorandum of understanding signed with the Democratic Republic of Congo (Kinshasa), the Company carried out an initial aeromagnetic gravity survey in 2005 to further delineate prospective potential in certain areas of the country. Work continues on interpreting the results of the survey.

MONGOLIA

In April 2005, the Company entered into an agreement to sell the whole of its Mongolia interest to Daqing Oilfield Limited Company, a subsidiary of PetroChina. The transaction was approved by SOCO shareholders at an EGM on 10 May 2005 and was completed on 18 August 2005. Further details of this transaction are included in the Financial Review.

18.08.05

SOCO receives the first tranche of cash consideration of approximately US\$29.6 million following completion of the sale of its Mongolia assets; the second tranche of cash consideration of US\$10 million is paid into an escrow account.

VALUE

TO ENSURE WE MAXIMISE THE
RETURNS ON OUR
INVESTMENTS, WE LOCK IN
VALUE AT EVERY PHASE OF
THE PROJECT CYCLE

22.08.05

In Vietnam, the additional prospectivity of the Miocene play on Block 16-1 is confirmed with the initial wildcat exploration well on the TGT structure on the previously undrilled "H" prospect on Block 16-1 testing water-free at a combined maximum rate of 9,432 BOEPD.

CORPORATE RESPONSIBILITY

SOCO's commitment to high standards of corporate responsibility (CR) is a core business priority. The Company supports the principle that whilst a Board has a primary responsibility to its shareholders, it should also take full account of other stakeholders' interests. SOCO believes that integrating CR and sustainable development good practice into its management culture will lower the Company's risk profile and promote new opportunities. This report focuses on our CR management and explains how this supports SOCO's overall business performance.

SOCO does not have an expansive set of policy documents and procedures, which is reflective of the relatively small scale and nature of the Company's activities and size of organisation. Currently, the Company only directly participates in the operation of exploration and appraisal activities, which are offshore in Vietnam and the Republic of Congo (Brazzaville). In both cases, environmental and social impacts are relatively minor. Environmental impact assessments are nevertheless carried out and independent performance monitoring is standard practice.

Where SOCO operates or participates as a major interest holder or co-venturer in a project, we can directly influence operations and decision-making. However, where SOCO holds a minority interest, as an investor or participant in a project, our influence is less direct. In both cases, our expectations for CR are clearly established, communicated and monitored. The Company has had a health, safety and environment (HSE) policy conforming to best practice since the first year of its existence, and has tailored HSE management systems for its Vietnam operations. New operations in West Africa will be undertaken using bespoke management systems specific to the types of environment and operations. The Company also deploys external advisors to ensure that good practice is achieved.

Thien Nghiep Medical Station, Binh Thuan province, Vietnam, which opened in early 2006

25.08.05

The Group adds a 75% interest in the Marine XI Block, offshore the Republic of Congo (Brazzaville) in West Africa, refreshing its exploration portfolio with a project that offers the potential for exponential exploration reserve growth that SOCO has demonstrated in Vietnam and Yemen.

SOCO's approach to CR begins with the recruitment of key managers and operations personnel. It is a priority consideration that every relevant employee understands the importance of CR management and has knowledge of what constitutes best practice, which can foster informed decision-making and an instinctive appreciation of the relevant business implications associated with each operation. There is no restriction on the use of external advisors to ensure that corporate objectives are met. This approach of utilising external, rather than dedicated internal resources, can be highly effective in a company of SOCO's size because corporate objectives are not compromised by management numbers and layers. Another core element of SOCO's business culture, which is a source of potential benefit, is the practice of maximising local employment and contract outsourcing.

Local involvement is our policy in all operations that we control. Such an approach has significantly benefited operations and has been a major factor in SOCO winning access to opportunities on the strength of the relationships it has forged (for example, in Vietnam). A highly localised approach does, however, introduce additional risks. An ever-present risk is that contractors may not, in practice, share an operating company's commitment to high CR standards. This can be critical where contractors have a large degree of control over day-to-day activities, and act as the main interface with members of government and local communities. This applies particularly to locally based contractors and subcontractors whose histories and cultures may have demanded different social and environmental standards.

The Company's Code of Business Conduct and Ethics (the Code) was drawn up in response to rising expectations in the wider community, including among many institutional shareholders, regarding social, environmental and ethical management and is available to view on the Company's website. Approved by the Board in June 2004, the Code documents and encapsulates the Company's culture and objectives and addresses the three pillars of sustainable development: economic, environmental and social performance. It is designed to be a dynamic policy that will evolve as the Company expands its activities. SOCO will continue to communicate its CR activities using its annual report and corporate website to complementary effect.

31.08.05

The KHA 3-07 spuds as the first well designed to evaluate Basement on the Kharir North prospect in Yemen.

12.10.05

Bridgeway Securities Limited is appointed as Financial Advisor and Corporate Broker.

SOCO manages this area of risk carefully, both in its selection of contractors and the subsequent monitoring of their performance. This will become more of an issue for any development activities, where social and environmental impact would normally be much greater than that arising from SOCO's current exploration focus.

Recent activity and outlook

SOCO's interest in Vietnam has given the Company the opportunity to demonstrate its commitment. In September 2005, the construction work on the Hoa Hong Kindergarten in Binh Chanh was completed. The school opened in time for the new school term for some 400 schoolchildren. In Binh Thuan province, the Tien Loi Primary School renovation project for some 550 children was also fully completed with our additional support for further expansion of classrooms. The official opening ceremony was held on 10 September 2005. Other activities during 2005 involved contributions towards the building of a medical station at Thien Nghiep, Binh Thuan province, and towards the construction of the Dang Thuy Tram hospital at Duc Pho, Quang Ngai province. Support for the latter project will continue in 2006.

Also in 2006, we have agreed to participate in financing the construction of a rehabilitation centre for Agent Orange victims in Vinh Phuc Province. The construction work should commence shortly.

Our operations in Mongolia, of which we have now disposed, were always underpinned by the Company's strong commitment to building skills among local communities, which has the effect of generating positive economic benefits, both locally and nationally. Virtually all of the people who worked for us in the country, whether employees or contractors, were Mongolian nationals and their association with SOCO gave them access to training of a high international standard. The benefits of our commitment to local communities in Mongolia worked both ways. As well as reducing SOCO's costs and risk exposure, it attracted ongoing support from the Mongolian authorities. During the sale of its Mongolia assets, the Company worked with the Mongolian government to preserve and enhance local involvement, an approach which SOCO believes the new Chinese owners are committed to progress.

SOCO's activities in Yemen have greatly increased with the discovery of additional reserves. Increased oil production has led to an increase in associated gas production which has resulted in increased gas flaring, rising to 12 million cubic feet per day (MMCFD). SOCO has encouraged and supported the operator in addressing this issue in three ways:

- Installation by mid-2006 of temporary gas injection facilities having a capacity of 10 MMCFD.
- Installation by early 2007 of gas injection facilities having 60 MMCFD capacity.
- Installation of gas fired power generation as soon as possible which will utilise up to 3 MMCFD and displace existing diesel generators. The latter produce more harmful emissions than gas and the fuel requires transportation to site by road tankers.

SOCO's interest in Vietnam has given the Company the opportunity to demonstrate its commitment.

Successful exploration and appraisal offshore Vietnam has resulted in the formation of plans for development. Full impact assessments will be undertaken, although impacts are likely to be minor. Oil production will pass to existing onshore facilities, so the principal impact will be an extension of the useful life of these assets, thus having a beneficial sustainability influence. The most material environmental issue will be the production of significant quantities of associated gas. This represents an important economic asset for the Company and the Vietnamese people. Current plans are based on the successful sale of this gas for national use, passing through existing facilities. In the event that satisfactory arrangements cannot be achieved in the development timescale, the gas will be temporarily injected until commercial contracts can be agreed.

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 agreed by many international lending banks is the basic benchmark SOCO has adopted. As well as representing good international practice, this approach has two key advantages:

- SOCO is involved in developing countries and, in conjunction with joint venture partners, would expect to raise loan finance from international aid donor agencies and Equator Principles banks.
- It should be more straightforward for SOCO to agree, with governments and other critical stakeholders, a set of standards with wide international recognition rather than standards with a proprietary component.

In this context, SOCO has, during the last year, raised a credit facility from the International Finance Corporation (IFC), which is the private sector arm of the World Bank Group. As part of the due diligence process, IFC personnel visited all of SOCO's sites to assess our environmental and social management practice. We intend to build on this new relationship with the IFC, whose guidelines are in line with international best practice, to ensure that operations in all of our projects meet high standards of environmental and social management. This will demonstrate a commitment to sustainable development through the allocation of benefits to local communities in its area of operations in the form of the creation of jobs, the creation and expansion of local infrastructure, support for local primary education and support for training and capacity building for local personnel.

SOCO is committed to transparency in its activities and would expect to set up project-dedicated websites for any major operated activities. These would be designed to manage communication with stakeholders, particularly local communities, and to highlight employment and contractor opportunities arising from direct operations as well as any indirect socio-economic activities.

While World Bank guidelines will be the operating benchmark, SOCO would expect to provide information to the wider public, either in public reports or on the Company website, in line with the guidance provided by the Global Reporting Initiative and other widely respected guidelines.

The Chief Executive is responsible to the Board for HSE and other CR performance. He delegates day-to-day responsibility for managing such issues to the Group Operations and Production Manager, who is invited to all Board Meetings. These issues are reported to all Board Members in a monthly operations report and there is a Board agenda item which addresses all significant HSE and CR issues.

The Audit Committee is responsible for reviewing all areas of corporate risk assessment on an annual basis and HSE/CR is identified as a specific issue for assessment. The Senior Independent Director, who has experience in the relevant area, reviews HSE/CR performance in detail with senior managers annually and is kept routinely informed of any material performance issues as they arise.

22.10.05

The JAT-01 exploration well spuds on a new Basement prospect in the northern area of Block 10 in Yemen.

24.11.05

The KHA 3-07 Kharir North step-out well tests over 850 BOEPD, thus further extending the limits of the Kharir Basement productive area and making it the fifth consecutive Basement success in the continuing Yemen drilling programme.

FINANCIAL REVIEW

Review of 2005 results

This is the first Annual Report and Accounts in which SOCO is reporting under International Financial Reporting Standards (IFRS) as required by the European Union. The 2005 Interim Report was also prepared under IFRS. The financial statements include the Group's revised accounting policies under IFRS and a reconciliation of UK GAAP to IFRS for applicable prior year periods in order to provide comparative financial information.

The Group has adopted US dollars as its presentation currency reflecting the primary economic environment in which the Group operates. Financial information for comparative periods has been translated to US dollars in the IFRS reconciliations published on the Company's website and is also reproduced in Note 32 to the financial statements.

Roger Cagle,
Deputy Chief Executive
and Chief Financial Officer

Historically high crude oil prices realised by the Group during 2005 increased the average oil sales price per barrel from continuing operations to US\$50.28 from US\$37.18 in 2004. Production from Yemen, net to the Group's working interests, increased in 2005 to 5,529 barrels of oil per day (BOPD) versus 3,958 BOPD in 2004. This, combined with the higher oil prices, increased revenue from continuing operations by US\$22.6 million which, along with an adjustment for lifting imbalances arising in prior periods amounting to US\$5.2 million, increased the revenue from continuing operations for 2005 to US\$57.2 million compared to US\$29.4 million in 2004.

Cost of sales on continuing operations in 2005 of US\$19.6 million compared to US\$11.3 million for 2004, the difference arising primarily due to the adjustment for lifting rebalancing, which increased operating expenses from continuing operations by US\$5.2 million, as well as higher production and transportation costs.

Operating expenses on a per barrel basis (excluding lifting imbalances and inventory) from continuing operations dropped from approximately US\$5.40 in 2004 to approximately US\$4.55 per barrel in 2005. This is primarily due to the dilution of per barrel fixed operating costs resulting from increased production in Yemen.

Depreciation, depletion and decommissioning costs (DD&A) on continuing operations increased by US\$2.2 million compared to last year reflecting the increased production along with the addition of future development costs and an increase in Basement reserves in Yemen. On a per barrel basis, DD&A on continuing operations increased to approximately US\$3.40 per barrel compared to approximately US\$3.20 during the equivalent period last year.

Administrative expenses increased from US\$4.0 million in 2004 to US\$5.3 million in the current year. This is mainly due to lower costs in 2004 associated with reversing the amortisation of share awards with performance periods ending in 2004 that were no longer anticipated to vest and a reduction in anticipated taxation obligations under the share option scheme. Exploration expenses associated with pre-licence costs fell to US\$1.0 million in 2005 compared to US\$1.9 million last year reflecting the Company's success in acquiring an interest in its new core area in West Africa. In 2004 SOCO sold its interest in OILSOC Investment Company Limited netting a gain of US\$2.2 million under IFRS.

As a result of the above, the Group's operating profit from continuing operations increased by 120% to US\$31.3 million from US\$14.2 million last year.

Higher average cash balances as a result of the sale of the Group's Tunisia interest in December 2004 and the sale of the Group's Mongolia interest in August 2005 as well as higher oil revenues caused investment revenue to rise from US\$0.7 million in the prior year to US\$2.0 million in 2005. Other gains and losses increased from a gain of US\$0.1 million in 2004 to a gain of US\$0.9 million in 2005 mostly due to the unwinding of the discount relating to the financial asset (see below) and foreign exchange gains. Finance costs increased from US\$0.1 million in 2004 to US\$0.5

million in 2005 primarily due to charges associated with securing the financing facility referred to below.

The tax charge on continuing operations increased from US\$6.7 million in 2004 to US\$13.4 million in the current year consistent with the increase in operating profit.

As discussed below, during 2005 the Group disposed of its Mongolia interest which has been reclassified as a discontinued operation in the financial statements. Revenue from the Mongolia interest arose from test production during an appraisal programme and an amount was charged from appraisal costs to cost of sales so as to reflect a zero net margin. A gain on disposal of the Mongolia asset of US\$0.2 million has been recognised in the current period, and the subsequent payment amount has been recorded as a financial asset at fair value through profit or loss (see below and Note 12 to the financial statements). Certain finance costs relating to Mongolia are included in discontinued operations. Discontinued operations in 2004 comprise the Group's Tunisia interest which was sold in December of that year and its Mongolia interest.

Net profit for the year was US\$20.5 million, compared to US\$29.6 million in 2004, which included a US\$15.9 million gain on the disposal of the Tunisia interests. Net profit from continuing operations increased by approximately 150% from US\$8.2 million in 2004 to US\$20.3 million in 2005.

Major drilling programmes in both Vietnam and Yemen, facility upgrades in Yemen and the addition of Marine XI caused capital expenditure to increase to US\$76.2 million from US\$27.6 million in 2004 despite the absence of Tunisia from this year's capital programme and reduced activity in Mongolia pending completion of the sale. Accordingly, SOCO's cash and cash equivalents were reduced from the year end 2004 amount of US\$71.1 million to US\$51.0 million at 31 December 2005 reflecting the investment in capital projects, offset by strong operating cash flow and cash proceeds from disposals.

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

The SOCO Employee Benefit Trust (the Trust) was established in 2001 to administer a Long Term Incentive Plan. At the end of 2005, the Trust held 2,273,300 shares, unchanged from 2004 and representing 3.13% of the issued share capital. The number of treasury shares held by the Company also remained unchanged at 150,000.

The Group's reserve statistics found on page 68 of this report are presented on a working interest rather than entitlements basis. The change was made to accommodate an easier comparison to peer companies, to aid in an analysis of the Group's position, and to reduce volatility of the period comparisons. With a number of the Group's assets being under production sharing agreement regimes and the uncertainty of the impacts of major development scenarios in Vietnam, this presentation now excludes much of the volatility of entitlements reporting. Entitlement volumes are still used as the basis for calculating DD&A, and accordingly entitlement volumes for the Group's producing asset are disclosed as a footnote to the reserve statistics on page 68.

Corporate events

Sale of Mongolia assets

On 18 August 2005, SOCO announced the completion of the sale of its entire interests in the Tamtsag Basin in Mongolia to Daqing Oilfield Limited Company (Daqing or the Buyer), a subsidiary of PetroChina, pursuant to a Sale and Purchase Agreement announced on 1 April earlier that year. The transaction was approved by SOCO shareholders at an EGM on 10 May 2005.

In the transaction, SOCO disposed of its entire shareholding in its wholly owned subsidiaries, SOCO Mongolia Ltd and SOCO Tamtsag Mongolia, LLC, which held interests in three Production Sharing Contracts over Contract Areas XIX, XXI and XXII in the Tamtsag Basin of Mongolia (the Contract Areas). Daqing acquired the whole of SOCO's Mongolia interests from SOCO International Operations, LLC and SOCO International (Cayman) Limited (the Sellers).

Following completion of the sale, the Company received the first tranche of consideration of approximately US\$29.6 million, following the applicable settlement adjustments. As agreed the second tranche of consideration of US\$10 million was paid into an escrow account for release to the Company in 18 months from completion, assuming satisfaction of the condition that no material undisclosed additional liabilities are discovered in the interim period. A subsequent payment of up to US\$53 million will be tied to future total crude oil production from the divested interests.

The subsequent payment amount is in respect of all crude oil produced from the three Contract Areas in aggregate subsequent to 1 January 2005 in excess of 27.8 million barrels. This subsequent payment amount is equivalent to an amount which the Mineral Resources and Petroleum

Authority of Mongolia (MRPAM) approves as recoverable costs and expenses incurred in respect of the Contract Areas in the period to 31 December 2004, which subject to a final audit by MRPAM, is currently estimated at US\$53 million. Once the 27.8 million barrels threshold has been exceeded, the Buyer will be obliged to pay to the Sellers an amount equal to the total aggregate production for that month multiplied by the average monthly posted market price for Daqing crude oil multiplied by 20%. Based upon the 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 estimated amount of US\$53 million will be payable to the Sellers. 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 be accurately predicted.

The subsequent payment amount is included in non-current assets as a financial asset at fair value through profit or loss. The fair value was determined using a valuation technique as there is no active market against which direct comparisons can be made. 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 US\$31.5 million. As at 31 December 2005, the fair value was US\$31.9 million after accounting for the unwinding of the discount. In future periods the fair value will be revised based on updated assessments of the factors discussed above with the resultant movement being recorded in the income statement.

Working interest production to the Group from its Mongolia interest averaged 233 BOPD in 2005 to the date of disposal compared to 338 BOPD in 2004. Revenue attributable to the Mongolia interest up to the date of completion was US\$1.5 million (2004 – US\$3.2 million). Immediately prior to the sale, the Group's share of net assets held by the Mongolia interest was US\$68.8 million (2004 – US\$65.4 million). Immediately after the completion of the sale the Group recognised cash inflow of US\$29.6 million, other receivables of US\$10.0 million, a gain of US\$0.2 million based on the fair value of the financial asset of US\$31.5 million (see above) and transaction costs of US\$2.1 million.

Credit facility

In August 2005, SOCO agreed a credit facility with the International Finance Corporation (IFC), the private sector arm of the World Bank. The US\$45 million reserve-based, revolving credit facility has a seven year tenor that is available to SOCO in two tranches. The first tranche of

US\$25 million is immediately accessible and the second tranche of US\$20 million is a standby loan. As at year end, the Company had not drawn on the facility.

Appointment of broker

During the year, SOCO undertook a review of certain of its corporate advisor relationships. This review led to the appointment of Bridgeway Securities Limited as the Company's corporate broker and financial advisor with effect in October 2005.

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.

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. The Group may take short term hedging positions to protect the value of any cash balances it holds in non-US dollar currencies.

SOCO remains free of debt. However, it has an established credit facility with the IFC and may employ debt financing to meet future capital requirements or to fund operations. The Group will seek to minimise the impact that any financings may have on its balance sheet by negotiating borrowings in matching currencies. As with the IFC facility, these are expected to be in US dollar denominations.

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

Operational

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

01.12.05

In Vietnam, the CNV-4X appraisal well on Block 9-2 is temporarily suspended after encountering hydrocarbons in a significantly higher pressure environment than seen previously on other CNV wells in the sandstone sequence overlying the Basement objective.

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 a monthly 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.

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 to 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.

BOARD OF DIRECTORS

Patrick Maugein (58)

Non-Executive Chairman

- A member of the Board of SOCO International since July 1999 and Chairman of the Nominations Committee.
- Has developed a portfolio of private investments in several industries.

Peter Kingston (63)

Non-Executive Deputy Chairman and Senior Independent Director

- A member of the Board of SOCO 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, going on to become Managing Director (Technical) and a director of Elf Enterprise Petroleum Ltd.
- Currently, Chairman of Tower Resources plc and a Director of Plexus Energy Limited, a social and environmental advisory network.

John Snyder (64)

Non-Executive Director

- A member of the Board of SOCO International since April 1997 and a member of the Nominations Committee.
- Formerly, Chairman of the Board of Santa Fe Snyder Corporation and founder of its predecessor company, Snyder Oil Corporation.
- Currently, an advisory director for 4D Global Energy Advisors and a director of Texas Capital Bancshares.

Ettore Contini (31)

Non-Executive Director

- A member of the Board of SOCO International since December 2001.
- Currently, a director of Eurowatt-Commerce and a director of Italiana Energia e Servizi SpA.

Robert Cathery (61)

Non-Executive Director

- A member of the Board of SOCO International since June 2001.
- 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 director of Afren plc, Salamander Energy Ltd and Indigovision plc.

Ed Story (62)

President and Chief Executive Officer

- A member of the Board of SOCO International since April 1997 and a member of the Nominations Committee.
- Formerly, 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 director of Cairn Energy PLC.

Rui de Sousa (50)

Non-Executive Director

- A member of the Board of SOCO International since July 1999.
- Chief Executive Officer of the Toro Group for over a decade.
- Currently, Chairman of Mediterranean Oil Supply and Trading Limitada, a director of Quantic Limited and a director of New Falcon Oil Limited.

Martin Roberts (61)

Non-Executive Director

- A member of the Board of SOCO 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 and projects, until his retirement in 2002.

Roger Cagle (58)

Executive Vice President, Deputy CEO and Chief Financial Officer

- A member of the Board of SOCO 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.

John Norton (68)

Non-Executive Director

- A member of the Board of SOCO 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.
- A former member of the Oil Industry Accounting Committee.
- Currently, a director of the Arab-British Chamber of Commerce.

Olivier Barbaroux (50)

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 Dalkia and a member of the Executive Committee of Veolia Environnement.

31.12.05

The year closes with additional Basement exploration success in Yemen with the JAT-01 in the northern part of Block 10 testing at over 1,900 BOPD.

THE ANNUAL REPORT OF THE DIRECTORS

The Directors present their annual report, along with the audited financial statements of the Group for the year ended 31 December 2005.

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, Yemen, Thailand and the Republic of Congo (Brazzaville). The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 17 to the financial statements.

Cynthia Cagle,
Vice President
and Company Secretary

A detailed review of the development of the business and its future prospects, including the principal risks and uncertainties, is contained in the Chairman's and Chief Executive's Statement, the Review of Operations and the Financial Review on pages 2 to 14 and 20 to 23.

Results and dividends

The audited financial statements for the year ended 31 December 2005 are set out on pages 44 to 66. The policies for managing the principal financial risks affecting the Group are set out in Note 3 to the financial statements. 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 (2004 – £nil).

Directors

The Directors, all of whom held office throughout the year, and the dates of their current service contracts or letters of appointment, which are available for inspection, are as follows:

Director	Date of contract
Patrick C J Maugein (Chairman)	12.07.99
Peter E Kingston*	14.05.97
(Deputy Chairman and Senior Independent Director)	
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
John C Snyder*	14.05.97
Rui C de Sousa	12.07.99
Edward T Story	14.05.97

*Denotes those determined by the Board to be independent Non-Executive Directors.

Relevant details of the Directors, which include their Committee memberships, are set out on pages 24 and 25. Details of Directors' interests and Directors' transactions are included in the Directors' Remuneration Report on pages 35 to 41.

In accordance with the Articles of Association and the July 2003 Combined Code on Corporate Governance, Mr Patrick Maugein, Mr Edward Story and Mr John Norton will retire by rotation at the forthcoming Annual General Meeting (AGM). The retiring Directors, each being eligible and having been recommended for reappointment by the Nominations Committee, offer themselves for reappointment. The Chairman, having given consideration to the results of the Board's formal evaluation process and other relevant factors, is satisfied that the retiring Non-Executive Director, Mr John Norton, continues to demonstrate a commitment level appropriate to the effective fulfilment of the responsibilities of the role.

SOCO has provided liability insurance for its Directors and officers. Cover was placed by the same brokerage group which placed most of the Group's other insurance cover. The annual cost of the cover is not material to the Group. With effect from 6 April 2005, changes in legislation permit companies to provide greater protection for their directors and officers from potential liabilities and the costs of defending proceedings. The changes address concerns that exposure to such liabilities was affecting the recruitment and behaviour of directors. A special resolution will be placed before the upcoming AGM to amend the Company's Articles of Association in line with the amended legislation.

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 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 charitable programmes, which are principally carried out in the countries where the Group has operations, is contained in the Corporate Responsibility Report on pages 16 to 19.

Share capital

Details of changes to share capital during the period are set out in Note 23 to the financial statements.

A special resolution will be placed before the forthcoming 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 7,248,000 shares representing up to 10% of the Company's issued share capital, excluding treasury shares. Shares purchased under this authority may either be cancelled or held as treasury shares.

Two resolutions will also be placed before the AGM to replace the Directors' existing authorities to allot securities. One resolution will seek authority under Section 80 of the Companies Act 1985 (the Act) to allot relevant securities up to a maximum aggregate nominal value of £4,832,196 representing one third of the Company's issued share capital, excluding treasury shares. If approved, an additional resolution will seek authority under Section 95 of the Act to allot equity securities for cash and to sell treasury shares for cash without first offering them to existing shareholders on a pro rata basis, either in connection with a rights issue or, for other purposes, up to a maximum aggregate nominal value of £724,829 representing 5% of the Company's issued share capital, excluding treasury shares.

These authorities are intended to provide flexibility and would only be exercised if considered to be in the best interests of the Company generally and, for purchases of the Company's share capital, if expected to result in an increase in earnings per share upon cancellation or while held in treasury.

Substantial shareholdings

Name of holder	Issued shares		Warrants
	Number	% Held	Number
Pontoil Intertrade Limited	15,076,764	20.76	487,823
Chemsa Ltd*	5,921,435	8.15	325,215
Fidelity International Limited	4,309,747	5.93	–
Lansdowne Partners Limited Partnership	4,353,524	5.99	–
Opale SA	4,100,225	5.65	–
Joint Stock Bank of the Gas Industry Gazprombank (Closed Joint Stock Company)	3,571,430	4.92	–
SOCO Employee Benefit Trust*	2,273,300	3.13	–
Legal & General Investment Management Limited	2,173,265	2.99	–

*Details of Directors' interests in these holdings are included in the Directors' Remuneration Report on pages 35 to 41.

As at 7 March 2006, the Company had been notified, in accordance with Sections 198 to 208 of the Act, 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 & Touche 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 auditor.

By order of the Board

Cynthia Cagle

Company Secretary

8 March 2006



CORPORATE GOVERNANCE

The Group has applied the Principles set out in Section 1 of the July 2003 Combined Code on Corporate Governance (the Combined Code or the Code), as described below and, in connection with Directors' remuneration in the Directors' Remuneration Report.

Board composition and independence

The Board of Directors, whose names and biographical details are set out on pages 24 to 25, comprises ten Directors in addition to the Chairman. Five of these ten, including the Senior Independent Director, have been identified in the Directors' Report on page 27 as independent Non-Executive Directors in accordance with the Board's responsibility for determining whether a director is independent in character and judgement. Notwithstanding this, 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.

The Board assesses the independence of each Non-Executive Director at least annually, giving full consideration to those circumstances that the Code states may appear relevant. In considering tenure exceeding 9 years, the Board seeks to ensure this is not applied arbitrarily, but with full regard to appropriateness and relevance to the independence of the individual Director involved.

In conducting its current assessment the Board has considered whether each Director continues to exhibit those qualities and behaviours it considers essential for Non-Executive Directors to be considered independent. Consideration was additionally given to the results of individual evaluation and continued satisfactory performance. Particular scrutiny was applied in assessing the continued independence of Mr Peter Kingston, Mr John Norton, and Mr John Snyder, each having served 9 years as of the upcoming AGM date. The Board has determined that each of these Directors, in addition to Mr Olivier Barbaroux and Mr Martin Roberts, are independent in character and judgement and free from any relationships or circumstances which are likely to affect, or could appear to affect, their judgement. The Board believes the varied experience of these five independent Non-Executive Directors provides an exceptional balance of skills and knowledge required for the business.

Board structure and process

The Board has four scheduled meetings a year and holds additional meetings as necessary. 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 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. Directors are subject to reappointment at least every three years, giving consideration to their continued effectiveness as well as the balance of the Board's composition.

The Chairman and the Chief Executive collectively are responsible for the leadership of the Company. The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness. The Chief Executive is responsible for leading the executives and ensuring their

effectiveness in the running of the Company's business. Their division of responsibilities is set by the Board. Together they are responsible for promoting the highest standards of integrity and probity.

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 Non-Executive Directors 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 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. The Non-Executive Directors review management's performance and ensure that the systems in place provide adequate and effective financial control 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 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'

Attendance at Board and Committee Meetings

The following table sets out the attendance of Directors at scheduled Board meetings and attendance of members at meetings of the Audit, Remuneration and Nominations Committees.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	●● ●●	●● ●●	●● ●●	●
Number of meetings attended				
Patrick C J Maugein	●● ●			
Peter E Kingston	●● ●●	●● ●●	●● ●●	
Olivier M G Barbaroux	●● ●		●●	
Roger D Cagle	●● ●●			
Robert M Cathery	●● ●●			
Ettore P M Contini	●● ●●			
John C Norton	●● ●	●● ●●		●
Martin J D Roberts	●● ●●	●● ●●	●● ●●	
John C Snyder	●● ●			●
Rui C de Sousa	●● ●●			
Edward T Story	●● ●●			●

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.

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 24 to 25. 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.

The Remuneration Committee

The Remuneration Committee is chaired by Mr Peter Kingston, the Senior Independent Non-Executive Director, and additionally comprises Mr Olivier Barbaroux and Mr Martin Roberts, both of whom are independent Non-Executive Directors. The names and qualifications of each of the members are set out on pages 24 to 25. The Committee is responsible for recommending for approval by the full Board the remuneration of the Chairman, the Executive Directors and officers of the Company and Group. During 2005, 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 35 to 41.

The Audit Committee Report

The Audit Committee is chaired by Mr Peter Kingston, the Senior Independent Non-Executive Director, and additionally comprises Mr John Norton and Mr Martin Roberts, both of whom are independent Non-Executive Directors. The names and qualifications of each of the members are set out on pages 24 to 25. 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. The

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'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, which it conducts at least annually. It has been delegated the responsibility for advising the full Board on compliance with the Combined Code, including its internal control requirements, as well as compliance with evolving guidance on corporate governance issues generally.

The Committee held four meetings in 2005 and has conducted one meeting to date in 2006, all of which were attended by executive management and external auditors. Other Non-Executive Directors were in attendance at a portion of these meetings by invitation. A private session, without executives present, was held during two of these meetings. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members, external auditors and the Company's executives and employees. 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 the Group's transition to International Financial Reporting Standards (IFRS) and 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 Committee approved the non-audit services provided by the external auditor, having concluded such services were compatible with auditor independence and were consistent with relevant ethical guidance. Details of these services are set out in Note 9 to the financial statements. The Board concurred with the Committee's recommendation for the reappointment of Deloitte & Touche LLP as the Company's auditors for 2006.

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 Internal Control section of the Corporate Governance 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 interim reports, financial information presented upon first time adoption of IFRS and financial information presented related to the proposed disposal of the Group's Mongolia interests. The Committee considered and recommended the adoption of US dollars as the Group's presentation currency, reflecting the primary economic environment in which the Group operates. 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.

The Nominations Committee Report

The Nominations Committee is chaired by Mr Patrick Maugein, the Non-Executive Chairman of the Company, other than when convened to consider a successor as Chairman. It additionally comprises Mr Ed Story, the Chief Executive Officer, and Messrs. Olivier Barbaroux, John Norton and John Snyder, who are independent Non-Executive Directors. The Committee meets at least once a year. Its primary responsibilities include making recommendations to the Board regarding the appointment and reappointment of Directors and Committee memberships. It is responsible for review and recommendations regarding overall Board structure and composition, succession planning and establishing an ongoing process for evaluating the Board and its members.

The Committee held one meeting in 2005 and has conducted one meeting to date in 2006. 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 in particular in regards to tenure. The results of these reviews were in turn utilised in developing the Committee's recommendations for continuation in office and reappointment of Directors retiring by rotation.

Although no vacancies arose during the year, 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 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.

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

SOCO maintains an open and active dialogue with shareholders.

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 Interim Results – whereby shareholders can directly interface with Company executive management. Notice of the AGM is circulated to all shareholders at least 20 working days prior to the meeting, and resolutions are proposed for each substantially separate issue. The result of proxy voting is announced after votes are taken on a show of hands. Directors 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 mid-term and full-year results, between fund managers and Company executive management.

A broker's briefing is presented 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.

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

In compliance with Provision 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 reviewed at least annually 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. 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 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. Messrs. Peter Kingston, John Norton and Martin Roberts undertake specific review processes in the areas of technical and operating, financial and audit, and commercial and legal, respectively, and report the results of their work to the full Committee and to the Board. 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 expects to outsource any internal audit needs.

Statement of compliance with Code of Best Practice

The Company has complied throughout the year with the provisions set out in Section 1 of the July 2003 Combined Code on Corporate Governance.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements, including a Directors' Report and Directors' Remuneration Report in compliance with the requirements of the Companies Act 1985. Financial statements are prepared in accordance with IFRS both for the Group, as required, and for the Company, by election. Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985, and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements for each financial year fairly present the financial position, financial performance and cash flows of the Group. The Directors are required to faithfully represent the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses in accordance with the relevant framework set out by the IAS Board. The Directors are also required to: properly select and apply accounting policies; present information in a manner that provides relevant, reliable, comparable and understandable information; and provide additional disclosures when compliance with IFRS requirements is insufficient to enable the user to fully understand the impacts on the entity's financial position and financial performance.

The Directors are required to prepare financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. After making enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

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. 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. The Directors are responsible for the maintenance and integrity of the Company website.

Auditors' responsibilities

The auditors' responsibilities are set out in the Independent Auditors' Report on pages 42 to 43.

DIRECTORS' REMUNERATION REPORT

The Directors' Remuneration Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 and the relevant requirements of the Financial Services Authority (FSA). The disclosures contained in this report that are specified for audit by the Directors' Remuneration Regulations FSA are covered in the scope of the Independent Auditors' Report on pages 42 to 43. A resolution to approve the report will be proposed at the forthcoming Annual General Meeting. The Company has complied throughout the period with the provisions set out in the July 2003 Financial Reporting Council Combined Code (the Code) and has applied the principles set out in Code provisions and in Schedule A to the Code relating to Directors' remuneration as described below.

Remuneration Committee

The independent Non-Executive Directors who serve on the Remuneration Committee are Mr Peter Kingston (Chairman), Mr Olivier Barbaroux and Mr Martin Roberts. 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. Additional information regarding the Committee is contained in the Corporate Governance Report on pages 29 to 34.

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 officers of the Group. 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.

In discharging its duties during the year, the Committee consulted with the other Non-Executive Directors, and received full Board approval for its proposals. In particular, the Committee has sought advice as it considers appropriate from Mr Rui de Sousa, who it considers offers the Committee a valuable perspective as a substantial shareholder, in ensuring the strategy to align executive interests with those of

shareholders is 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 & Touche LLP (Deloitte) was 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. 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. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence.

Remuneration policy

The policies described in this report have been applied throughout 2005. 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. Any proposed change would only be 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 of 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.

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' packages are benchmarked to 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. 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. The annual cash bonus range is structured to provide an appropriate balance between basic salary and the performance related element of annual cash remuneration. 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 benefits and car benefits.

Basic salary

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 2005, with effect from 1 January 2006 each Executive Director's basic salary has been increased by 6%, and the Deputy Chief Executive's salary has been repositioned in consideration of increased demands and responsibilities of the role and in line with benchmark data, resulting in a further 7% increase.

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 for exceptional performance.

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 specific targets set against these measures are considered to be commercially sensitive and are therefore not set out herein. The actual achievement of each goal is ranked against a scale of expectations. The Committee retains discretion over the amount of bonus paid out to ensure that appropriate consideration is given to the relative importance of the achievements in the year and the actual contribution of these towards furthering the Company's strategic plan.

Achievements measured against 2005 goals were led by the outstanding results of the Group's drilling programmes in Yemen and Vietnam. Aggressive targets were set, well above industry averages, for drilling success ratios and production tests, all of which were surpassed. Accordingly, targeted reserve additions for the year were exceeded and provide a clear link between the success of these programmes and building shareholder value. Targeted progress towards an accelerated Vietnam development plan was achieved, despite suspension of the CNV-4X well which was the year's only performance measure that did not meet or exceed expectations. Targeted infrastructure improvements in Yemen have resulted in a significant increase in production capacity. Portfolio goals were met, in particular by the monetisation of the Group's Mongolia interest and the addition of an exploration Block in the Group's targeted new core area. Additionally, achievements were made against certain corporate goals, including in particular agreeing a financing facility. Based on measurement of the year's achievements against the targets set out, and in consideration of their individual contributions, bonuses were

awarded to Mr Story and Mr Cagle at 75% of salary, midway between the target and maximum bonus level.

Incentive plans

The Committee currently operates a Long Term Incentive Plan (LTIP) and a share option scheme (the Plans). The participants and the level of awards granted, which is discretionary, are set in consideration of both corporate and individual performance and take into account awards made under both Plans. Awards under the Plans 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 the Plans within the more restrictive annual limit of 200% of the executive's base salary.

The aggregate number of new issue shares which may be subject to award under the Plans shall not exceed 5% of the ordinary share capital of the Company. Accordingly, at 31 December 2005, 3.1 million new issue shares (2004 – 3.1 million) may be subject to award under the Plans, of which there is available capacity remaining of 0.5 million shares (2004 – 0.5 million). 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. Charges which have been reflected in the Group's income statement in respect of the Plans are set out in Note 26 to the financial statements.

At the date of grant of an award, the Committee sets appropriate performance criteria which must be achieved before the award can be exercised or vest. 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. Measurement of the Company's performance criteria is carried out with reference to external data sources by the Committee's remuneration advisors to ensure its independence.

The Remuneration Committee considers 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. Accordingly, performance targets for awards under the Plans since their approvals have been set with reference to

the Company's relative TSR performance over a three year period within a range of comparator companies in the oil exploration and production sector. Once 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.

Further details of incentive share awards are set out in the table on page 40 and in Note 26 to the financial statements.

Five year TSR performance

The performance graph below 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.

LTIP

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. Shares awarded under the Plan are subject to performance criteria to be measured on the third anniversary of the date of grant, and deemed fulfilled to the satisfaction of the Committee.

If the TSR ranking exceeds the median, the award will become capable of vesting as to 30% of the shares subject to award. A vesting schedule sets the next higher ranking position at 40% vesting, with proportionally greater vesting for each higher ranking position up to 100% for performance in the top 17 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. The comparator group comprises Aminex, Burren Energy (from 2004), Cairn Energy, Dana Petroleum, Dragon Oil, Paladin

Resources, Premier Oil, Ramco Energy, Regal Petroleum (from 2004), ROC Oil (having replaced Paladin from 2005), SOCO, Tullow Oil and Venture Production. For awards granted prior to 2004, if the TSR ranking exceeds the median, the award will become capable of vesting as to 40% of the shares subject to award, with proportionally greater vesting for each higher ranking position up to 100% for performance in the top 20 percentile.

Additionally, the Committee may give consideration, in light of any exceptional circumstances during a relevant three year period, whether the recorded TSR is consistent with the achievement of actual underlying financial and operational performance which, for awards to date, shall primarily be assessed, on the basis of appropriate external advice, in terms of the additions to and the management and quality of the Group's oil and gas reserves in view of goals set by the Board.

Following measurement in 2005, it was determined that performance criteria attached to awards granted in 2002 were not sufficiently satisfied. In accordance with Plan rules, those awards have therefore lapsed.

Option scheme

The Committee currently operates one share option scheme, being the SOCO 1997 Company Share Option Plan. No options have been granted to the Directors since 1999, prior to introduction of the LTIP. All options held by Directors, having been measured against the relevant three year performance criteria set at the date of grant, are 100% vested and exercisable. Any future grants to Directors will be subject to vesting and performance criteria set with reference to best practice guidelines and fully disclosed to shareholders.

Pre-float option scheme

The Directors hold share options under the SOCO-sub Unapproved Share Option Plan which were granted prior to the 1997 listing of the Company's shares on the London Stock Exchange and are fully vested and exercisable. No additional grants are available under the plan.

Pension contributions

Contributions are 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 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 Story has been released to serve as a Non-Executive Director for Cairn Energy PLC and retains the associated annual fees in the amount of £45,000.

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 determined by the Board as a whole, within the aggregate limits set out in the Company's Articles of Association and approved by shareholders. 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. Based on these factors, the annual fees for services as Directors payable to the Chairman, the Deputy Chairman and the remaining Non-Executive Directors were set at £75,000, £60,000 and £30,000, respectively, with effect from 1 April 2005. 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 Committee has a duty to prevent the requirement to make payments that are not strictly merited, and endorses the principle of mitigation of damages on early termination of a service contract. Any payment on early termination will be assessed on the basis of the particular circumstances, but in any event will not be in respect of any period beyond the one year specified by contract. The Non-Executive Directors' appointments are terminable at the will of the parties but are envisaged to establish an initial term of three years after which they will be reviewed annually. The dates of the Directors' service contracts or letters of appointment, which may not coincide with their initial date of appointment, are set out in the Directors' Report on page 27.

Audited information

Directors' emoluments

	Fees/basic salary £000's	Benefits in kind ¹ £000's	Annual bonus £000's	Total 2005 £000's	Total 2004 £000's
Executive Directors					
E Story	373	19	279	671	551
R Cagle	261	29	196	486	394
Non-Executive Directors					
P Maugein	70	–	–	70	55
P Kingston ²	59	–	–	59	55
O Barbaroux	29	–	–	29	25
R Brittain ³	–	–	–	–	9
R Cathery	29	–	–	29	25
E Contini	29	–	–	29	25
J Norton	29	–	–	29	25
M Roberts	29	–	–	29	8
J Snyder	29	–	–	29	25
R de Sousa	29	–	–	29	25
Aggregate emoluments	966	48	475	1,489	1,222

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

² Emoluments receivable by Mr Peter Kingston are paid to Peter Kingston & Associates under an agreement to provide the Company with the services of Mr Kingston.

³ Emoluments in 2004 include amounts receivable by Mr R Brittain prior to his resignation on 5 May 2004.

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

Directors' pension entitlements

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

	2005 £000's	2004 £000's
E Story	55	53
R Cagle	39	37
	94	90

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' incentive share awards

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

	As at 1 January 2005	Granted/ Awarded	Exercised	Lapsed	As at 31 December 2005	Exercise price £	Date from which option may become exercisable ⁴	Expiry date
E Story								
Pre-IPO share plan ¹	1,973,954	–	–	–	1,973,954	0.750	29.05.97	25.04.07
SOCO share plan ²	284,253	–	284,253	–	–	0.725	15.09.01	15.09.05
	695,195	–	–	–	695,195	0.590	13.07.02	13.07.06
Deferred bonus ³	160,000	–	–	–	160,000	–	01.01.03	21.03.11
LTIP ³	175,140	–	–	–	175,140	–	24.05.04	23.05.11
	153,840	–	–	–	153,840	–	10.12.04	09.12.11
	118,800	–	–	118,800	–	–	04.12.05	03.12.12
	121,000	–	–	–	121,000	–	19.12.06	18.12.13
	111,400	–	–	–	111,400	–	09.12.07	08.12.14
	–	75,600	–	–	75,600	–	20.12.08	19.12.15
R Cagle								
Pre-IPO share plan ¹	986,977	–	–	–	986,977	0.750	29.05.97	25.04.07
SOCO share plan ²	198,977	–	198,977	–	–	0.725	15.09.01	15.09.05
	448,073	–	–	–	448,073	0.590	13.07.02	13.07.06
Deferred bonus ³	112,000	–	–	–	112,000	–	01.01.03	21.03.11
LTIP ³	122,580	–	–	–	122,580	–	24.05.04	23.05.11
	107,700	–	–	–	107,700	–	10.12.04	09.12.11
	83,100	–	–	83,100	–	–	04.12.05	03.12.12
	84,800	–	–	–	84,800	–	19.12.06	18.12.13
	77,900	–	–	–	77,900	–	09.12.07	08.12.14
	–	52,900	–	–	52,900	–	20.12.08	19.12.15

¹ Options held under the SOCO-sub Unapproved Company Share Plan were granted prior to the listing of the Company's shares on the London Stock Exchange.

² Based on TSR performance against a comparator group, all options conditionally exercisable under the 1997 Company Share Plan have been tested against the relevant performance schedules attached to the awards and have been determined to be fully vested. Additional details regarding the plan are set out within this report. Options were exercised on 8 June 2005 at a market price of £5.0675, resulting in a gain of £1.2 million and £0.9 million on exercise by E Story and R Cagle, respectively.

³ These conditional awards are in the form of contingent rights or nil price options to acquire ordinary shares in the Company. Those awards set out as exercisable from on or before 31 December 2005 have been tested against the relevant performance schedules attached to the awards and the balance held as at 31 December 2005 has been determined to be fully vested. Those awards set out as potentially exercisable from a date subsequent to 31 December 2005 remain conditional upon performance criteria. The deferred bonus and the LTIP were set out in the Annual Report and Accounts 2000 prior to seeking shareholder approval of the LTIP. Additional details regarding the LTIP are set out within this report.

⁴ 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 2005 was £7.86 and the range during the year to 31 December 2005 was £3.88 to £8.34.

Directors' transactions

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

In January 2001, the Group entered into an agreement (the Option Agreement) with Mr Rui de Sousa wherein, in exchange for consideration in the amount of US\$400,000, the Group has secured an option to acquire a 30% shareholding in a special purpose entity created by Mr de Sousa to pursue a specific field development and to hold any rights as may be acquired for such development. The Option Agreement, which was negotiated on an arm's length basis, was extended during the year for nil consideration and expires on 31 December 2006 unless extended prior to that date by the Group.

Directors' transactions (continued)

With effect from July 2004 the Group entered into a consulting agreement with Quantic Limited (Quantic), a company in which Mr Patrick Maugein and Mr Rui de Sousa have an interest. Under the terms of the agreement, Quantic is entitled to a consulting fee in the amount of US\$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 for a period of 24 months, after which time the consulting agreement will be reviewed.

Directors' interests

The interests (all of which were beneficial except as noted below) of the Directors 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 2005 were as follows:

	Number of Shares		Number of Options ¹		Number of Warrants	
	2005	2004	2005	2004	2005	2004
Executive Director						
E Story	1,149,254	994,456	3,466,129	3,793,582	-	-
R Cagle ²	262,209	70,000	3,169,998	3,580,646	-	-
Non-Executive Director						
P Maugein ³	6,806,860	6,510,804	-	-	365,867	365,867
P Kingston	4,000	4,000	-	-	-	-
O Barbaroux	20,000	10,000	-	-	-	-
R Cathery	70,000	70,000	-	-	-	-
E Contini	60,000	20,000	-	-	-	-
J Norton	115,000	115,000	-	-	-	-
M Roberts	5,000	5,000	-	-	-	-
J Snyder ⁴	500,000	500,000	-	-	-	-
R de Sousa ⁵	1,293,635	1,219,987	-	-	1,549,853	1,549,853

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 Mr Roger Cagle's interests include 83,850 Shares (2004 - 70,000) and 1,177,068 (2004 - 1,358,539) Options held by Cynthia Cagle, the Options having been granted to her in respect of her services to the Group.

³ Mr Patrick Maugein's interests are held by Chemsal Limited, which is owned by a trust company whose potential ultimate beneficiary is the family of Mr Maugein, and by Upper Ground Limited, of which Mr Maugein beneficially owns 100% of the issued share capital. Chemsal Limited holds 5,921,435 (2004 - 5,791,435) Shares and 325,215 (2004 - 325,215) Warrants at an exercise price of £0.55 per Share. At 31 December 2005, Upper Ground Limited held 885,425 (2004 - nil) Shares and 40,652 (2004 - nil) Warrants at an exercise price of £0.55 per Share. Subsequent to 31 December 2005, Upper Ground Limited disposed of 300,000 Shares.

⁴ Mr John Snyder's interest is held by Snyder Family Investments, L.P., which is owned by Mr Snyder and other partnerships and trusts of which Mr Snyder and members of his family are owners and/or beneficiaries.

⁵ Mr Rui de Sousa's interests are held by Palamos Limited, which is owned by a trust company whose potential ultimate beneficiary is the family of Mr de Sousa, and by New Falcon Oil Limited, of which Mr de Sousa owns 100% of the issued ordinary share capital. Palamos Limited holds 721,424 (2004 - 605,368) Shares, 528,678 (2004 - 528,678) Warrants at an exercise price of £0.65 per Share, 925,187 (2004 - 925,187) Warrants at an exercise price of £0.60 per Share and 55,336 (2004 - 55,336) Warrants at an exercise price of £0.55 per Share. New Falcon Oil Limited holds 572,211 (2004 - 614,619) Shares and 40,652 (2004 - 40,652) Warrants at a price of £0.55 per Share.

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 24 to the financial statements.

Subsequent to 31 December 2005, Upper Ground Limited, which is 100% beneficially owned by Mr Patrick Maugein, disposed of 300,000 Shares. There have been no other changes in the interests of the Directors between 31 December 2005 and the date of this report. No Director held any other interests in any Group companies.

Approval

This report was approved by the Board of Directors on 8 March 2006 and signed on its behalf by:

Peter Kingston Deputy Chairman and Senior Independent Director



INDEPENDENT AUDITORS' REPORT

To the shareholders of SOCO International plc

We have audited the Group and individual Company financial statements (the financial statements) of SOCO International plc for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated and individual Company balance sheets, the consolidated and individual Company cash flow statements, the consolidated and individual Company statements of recognised income and expenses, the statement of accounting policies and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' Report is not consistent with the financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and

explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the annual report including the unaudited part of the Directors' Remuneration Report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, 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 financial statements and the part of the Directors' Remuneration Report described as having been audited 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 financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the individual Company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the individual Company's affairs as at 31 December 2005;
- the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS

As explained in Note 2, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

United Kingdom

8 March 2006

CONSOLIDATED INCOME STATEMENT

for the year to 31 December 2005

	Notes	2005 \$000's	2004 \$000's
Continuing operations			
Revenue	5, 6	57,160	29,386
Cost of sales		(19,588)	(11,347)
Gross profit		37,572	18,039
Administrative expenses		(5,295)	(4,039)
Exploration expenses		(1,013)	(1,946)
Gain on disposal of exploration venture		-	2,156
Operating profit from continuing operations	6, 9	31,264	14,210
Investment revenue	5	2,042	659
Other gains and losses	7	853	113
Finance costs	8	(497)	(95)
Profit before tax from continuing operations	9	33,662	14,887
Tax	11	(13,366)	(6,686)
Profit for the year from continuing operations		20,296	8,201
Discontinued operations			
Operating profit from discontinued operations	6,12	-	9,261
Other expenses from discontinued operations	12	(13)	(249)
Profit on disposal	12	194	15,856
Profit before tax from discontinued operations		181	24,868
Tax	11	-	(3,498)
Profit for the year from discontinued operations		181	21,370
Profit for the year	9	20,477	29,571
Earnings per share (cents)	14		
Basic			
Profit from continuing operations		29.0	11.8
Profit from discontinued operations		0.3	30.6
Profit		29.3	42.4
Diluted			
Profit from continuing operations		25.6	10.4
Profit from discontinued operations		0.2	27.1
Profit		25.8	37.5

BALANCE SHEETS

as at 31 December 2005

		Group		Company	
	Notes	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's
Non-current assets					
Intangible assets	15	151,213	152,990	-	-
Property, plant and equipment	16	29,988	25,273	737	821
Investments	17	-	-	179,690	187,555
Financial asset	12	31,882	-	-	-
Other receivable	12	10,134	-	-	-
Deferred tax assets	18	2,591	2,118	-	-
		<u>225,808</u>	<u>180,381</u>	<u>180,427</u>	<u>188,376</u>
Current assets					
Inventories	19	310	205	-	-
Trade and other receivables	20	6,285	8,327	244	204
Tax receivables		1,138	999	104	58
Cash and cash equivalents		50,967	71,122	360	113
		<u>58,700</u>	<u>80,653</u>	<u>708</u>	<u>375</u>
Total assets	6	284,508	261,034	181,135	188,751
Current liabilities					
Trade and other payables	21	(15,233)	(10,588)	(974)	(2,210)
Tax payables		(446)	(62)	(446)	(59)
		<u>(15,679)</u>	<u>(10,650)</u>	<u>(1,420)</u>	<u>(2,269)</u>
Net current assets		43,021	70,003	(712)	(1,894)
Non-current liabilities					
Long-term provisions	22	(2,590)	(3,197)	-	-
Total liabilities	6	(18,269)	(13,847)	(1,420)	(2,269)
Net assets		266,239	247,187	179,715	186,482
Equity					
Share capital	23	23,479	23,348	23,479	23,348
Share premium account	24	68,221	67,877	68,221	67,877
Other reserves	24	54,259	53,502	(658)	(689)
Retained earnings	24	120,280	102,460	88,673	95,946
Total equity	25	266,239	247,187	179,715	186,482

The financial statements were approved by the Board of Directors on 8 March 2006 and signed on its behalf by:

Patrick Maugein Chairman

Roger Cagle Director



CASH FLOW STATEMENTS

for the year to 31 December 2005

	Notes	Group		Company	
		2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's
Net cash from (used in) operating activities	27	30,536	19,157	(5,409)	(3,686)
Investing activities					
Purchase of intangible assets		(65,268)	(19,572)	-	-
Purchase of property, plant and equipment		(10,907)	(8,011)	(150)	(834)
Investment in subsidiary undertakings		-	-	(12,883)	(37,845)
Dividends received from subsidiary undertakings		-	-	20,617	20,833
Proceeds on disposal of subsidiary undertaking	12	27,510	17,743	-	20,196
Proceeds on disposal of exploration venture		-	2,156	-	-
Net cash (used in) from investing activities		(48,665)	(7,684)	7,584	2,350
Financing activities					
Share-based payments	26	(1,837)	-	(1,837)	-
Proceeds on issue of ordinary share capital	23	14	660	14	660
Net cash (used in) from financing activities		(1,823)	660	(1,823)	660
Net (decrease) increase in cash and cash equivalents		(19,952)	12,133	352	(676)
Cash and cash equivalents at beginning of year		71,122	58,893	113	693
Effect of foreign exchange rate changes		(203)	96	(105)	96
Cash and cash equivalents at end of year		50,967	71,122	360	113

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

for the year to 31 December 2005

		Group		Company	
		2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's
Profit for the year	13, 24	20,477	29,571	15,372	44,915
Unrealised currency translation differences	24	(363)	341	(20,351)	9,969
Total recognised income (loss) for the year		20,114	29,912	(4,979)	54,884

1 General information

SOCO International plc is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is given inside the back cover. 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 7 to 14 and 20 to 23, respectively.

2 Significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in Note 32. The financial statements have also been prepared in accordance with IFRS 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 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost basis. For the first time 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 now presented in US dollars. The principal accounting policies adopted are set out below.

IFRS 6 Exploration for and Evaluation of Mineral Resources has been adopted early for 2005. At the date of approval of these financial statements the Group has not applied the following IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations which are in issue but not yet effective:

IFRS 7 Financial Instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures

IFRIC 4 Determining whether an Arrangement contains a Lease

IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IFRIC 8 Scope of IFRS 2

The adoption of these IFRS and IFRICs in future periods is not expected to have a material impact on the financial statements of the Group.

(b) 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.

(c) Investments

Except as stated below, non-current investments are shown at cost less provision for impairment.

(d) 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.

(e) 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.

(f) Revenue

Revenue represents the fair value of the Group's share of oil and gas sold during the year. 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.

2 Significant accounting policies continued

(g) 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, 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. 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 that 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 exploration and evaluation 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 proven and probable 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 expected to be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place. The cost of recognising the decommissioning provision is included as part of the cost of the relevant property, plant and equipment and is thus charged to the income statement on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current assets. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included in finance costs.

(h) 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.

(i) Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Overlifts and underlifts of crude oil are recorded at market value.

(j) 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.

2 Significant accounting policies continued

(k) Share-based payments

In accordance with the transitional provisions, the Group has applied the requirements of IFRS 2 to all grants after 7 November 2002 that were unvested as of 1 January 2005. Under these requirements, 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.

(l) 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.

(m) 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.

There are no material financial assets and liabilities for which differences between carrying amounts and fair values are required to be disclosed.

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.

Equity instruments

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

(n) Foreign currencies

Transactions in currencies other than US dollars are recorded in US dollars at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US dollars 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.

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. Other foreign exchange differences are taken to the income statement.

(o) 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.

3 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 assets that are subject to credit risk comprise a financial asset at fair value through profit or loss and other receivables, both arising in respect of the Group's disposal of its Mongolia interest (see Note 12). 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 multinational 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 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.

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 will seek to minimise the impact that any debt financings may have on its balance sheet by negotiating borrowings in matching currencies.* Primarily, these are expected to be in US dollar denominations. 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.

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.

4 Critical judgements and accounting estimates

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. In particular Note 2(g) describes the judgements necessary to implement the Group's policy with respect to the carrying value of intangible exploration and evaluation assets. Management considers these assets for impairment at least annually with reference to indicators in IFRS 6. Note 15 discloses the carrying value of intangible exploration and evaluation assets.

Note 2 also discusses 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. In particular Note 2(m) describes the accounting policy with respect to financial assets at fair value through profit or loss. The key assumptions described in Note 12 that are used in calculating the fair value of the Group's financial asset arising on the disposal of its Mongolia interest are reviewed at least annually.

5 Total revenue

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

	2005 \$000's	2004 \$000's
Continuing operations		
Oil sales	57,160	29,386
Investment revenue	2,042	659
	<u>59,202</u>	<u>30,045</u>
Discontinued operations		
Oil sales	1,498	16,601
Investment revenue	-	13
	<u>60,700</u>	<u>46,659</u>

6 Segment information

Geographical segments

Geographical segments form the basis on which the Group reports its primary segment information.

	Continuing operations				Discontinued operations ¹		2005
	Middle East \$000's	SE Asia \$000's	Unallocated \$000's	Total \$000's	Central Asia \$000's	N Africa \$000's	Group \$000's
Oil sales	57,160	–	–	57,160	1,498	–	58,658
Operating profit	37,263	–	(5,999)	31,264	–	–	31,264
Assets	39,950	125,346	119,212	284,508	–	–	284,508
Liabilities	8,696	5,498	4,075	18,269	–	–	18,269
Capital additions	11,845	41,825	28,250	81,920	(630)	–	81,290
Depletion and depreciation	7,149	–	176	7,325	–	–	7,325

	Continuing operations				Discontinued operations ¹		2004
	Middle East \$000's	SE Asia \$000's	Unallocated \$000's	Total \$000's	Central Asia \$000's	N Africa \$000's	Group \$000's
Oil sales	29,386	–	–	29,386	3,188	13,413	45,987
Operating profit	17,815	–	(3,605)	14,210	–	9,261	23,471
Assets	33,323	84,170	71,277	188,770	72,264	–	261,034
Liabilities	4,702	4	2,183	6,889	6,958	–	13,847
Capital additions	4,912	8,613	931	14,456	6,614	2,592	23,662
Depletion and depreciation	4,943	–	159	5,102	–	1,359	6,461

¹ In December 2004 the Group disposed of its North Africa segment which comprised its Tunisia interest. In August 2005 the Group disposed of its Central Asia segment which comprised its Mongolia interest (see Note 12). The results of these segments are therefore included in discontinued operations.

Business segment

The Group has one principal business activity being oil and gas exploration and production. Revenue by destination does not materially differ from revenue by origin. There are no inter-segment sales.

7 Other gains and losses

	2005 \$000's	2004 \$000's
Unwinding of discount on financial asset (see Note 12)	382	–
Exchange gain	471	113
	<u>853</u>	<u>113</u>

8 Finance costs

	2005 \$000's	2004 \$000's
Interest payable and similar fees (see Note 28)	460	52
Unwinding of discount on provisions (see Note 22)	37	43
	<u>497</u>	<u>95</u>

9 Profit for the year

Profit for the year is stated after charging:

	2005 \$000's	2004 \$000's
Auditors' remuneration for audit services		
UK companies	258	93
Overseas companies	178	60
	<u>436</u>	<u>153</u>
Auditors' remuneration for non-audit services		
UK companies	111	136
Overseas companies	–	40
	<u>111</u>	<u>176</u>

The amounts payable to Deloitte & Touche LLP by the Group in respect of audit services include US\$127,000 (2004 - nil) in respect of the IFRS transition audit and US\$109,000 (2004 - nil) in respect of audit-related regulatory reporting related to disposals. The amounts payable in respect of non-audit services related to IFRS advice in the amount of US\$46,000 (2004 - nil), remuneration advice in the amount of US\$65,000 (2004 - US\$74,000), tax compliance and advisory of nil (2004 - US\$80,000) and advice in respect of disposals of nil (2004 - US\$22,000).

10 Staff costs

The average monthly number of employees of the Group including Executive Directors was 15 (2004 - 15), of which 12 (2004 - 12) were administrative personnel and 3 (2004 - 3) were operations personnel. The average monthly number of employees directly contracted to the Company was 7 (2004 - 7) of which 6 (2004 - 6) were administrative personnel and 1 (2004 - 1) was operations personnel.

Their aggregate remuneration comprised:

	Group		Company	
	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's
Wages and salaries	4,280	3,568	1,133	815
Social security costs	554	(44)	126	95
Share-based payment expense (see Note 26)	521	55	39	38
Other pension costs under money purchase schemes	337	313	87	64
	<u>5,692</u>	<u>3,892</u>	<u>1,385</u>	<u>1,012</u>

A proportion of the Group's staff costs are capitalised in accordance with the Group's accounting policy.

11 Tax

	Continuing operations		Discontinued operations		Group	
	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's
Current tax	13,839	5,889	–	3,135	13,839	9,024
Deferred tax (see Note 18)	(473)	797	–	363	(473)	1,160
	<u>13,366</u>	<u>6,686</u>	<u>–</u>	<u>3,498</u>	<u>13,366</u>	<u>10,184</u>

UK corporation tax is calculated at 30% (2004 - 30%) of the estimated assessable profit for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. During 2004 and 2005 both current and deferred taxation have arisen in overseas jurisdictions only.

11 Tax continued

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

	2005 \$000's	2004 \$000's
Profit before tax on continuing operations	33,662	14,887
Profit before tax on discontinued operations	181	24,868
	<u>33,843</u>	<u>39,755</u>
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%)	<u>10,153</u>	<u>11,927</u>
Effects of:		
Expenses not expected to be utilised as a tax loss	1,423	1,186
Non taxable profit on disposal	(58)	(4,758)
Utilisation of tax credits	-	(205)
Higher tax rates on overseas earnings	1,906	2,469
Adjustments to tax charge in respect of previous years	(58)	(435)
Tax charge for the year	<u>13,366</u>	<u>10,184</u>

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 Yemen are taxed at a rate of 35% and those earned in Tunisia were taxed at a rate of 50%.

12 Disposal of Mongolia interest

In April 2005 the Group entered into a Sale and Purchase Agreement (Agreement) with an economic effective date of 1 January 2005, to sell its 100% owned subsidiaries SOCO Tamtsag Mongolia, LLC (SOTAMO) and SOCO Mongolia Ltd (SOCO Mongolia) to Daqing Oilfield Limited Company (Daqing), a subsidiary of PetroChina. Together SOTAMO and SOCO Mongolia held the Group's Mongolia interest. In August 2005 the Group completed the transaction. Under the terms of the Agreement the Group will receive consideration of up to approximately US\$93.0 million comprised of cash consideration of US\$40.0 million plus a subsequent payment based on total crude oil produced from the Mongolia interest after the effective date in excess of 27.8 million barrels of oil.

The US\$40.0 million cash consideration was payable in two tranches. The first US\$30.0 million was paid, less applicable settlement adjustments of US\$0.4 million, in August 2005 upon completion. The second tranche of US\$10.0 million was paid into an interest bearing escrow account by Daqing upon completion to be released to the Group 18 months later upon the satisfaction of the condition that no material undisclosed additional liabilities are discovered and is disclosed in the balance sheet under non-current assets as an other receivable. The remaining consideration is payable, once cumulative production reaches 27.8 million barrels of oil as described above, at the rate of 20% of the average monthly posted marker price for Daqing crude multiplied by the aggregate production for that month, up to a total of approximately US\$53.0 million based on the estimated recoverable costs incurred to 31 December 2004, as approved by the Mineral Resources and Petroleum Authority of Mongolia.

The subsequent payment amount is included in non-current assets as a financial asset at fair value through profit or loss. The timescale for the production of crude oil in excess of 27.8 million barrels and the price of Daqing marker crude oil are factors that cannot accurately be predicted. However, based upon the Directors' current estimates of proven and probable reserves from the Mongolia interests and the development scenarios as discussed with the buyer, the Directors believe that the full subsequent payment amount will be payable. The fair value of the subsequent payment amount was determined using a valuation technique as there is no active market against which direct comparisons can be made. 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 US\$31.5 million. As at 31 December 2005 the fair value was US\$31.9 million after accounting for the unwinding of the discount (see Note 7).

As the Group's Mongolia asset is now classed as a discontinued operation the revenue and cost of sales have been removed from continuing operations. There is no impact on operating profit as revenue arose from test production during an appraisal programme and an amount was charged from appraisal costs to cost of sales so as to reflect a zero net margin. Revenue attributable to the Mongolia interest up to the date of completion was US\$1.5 million (2004 - US\$3.2 million). Immediately prior to the sale the Group's share of net assets held by the Mongolia interest was US\$68.8 million (2004 - US\$65.4 million) comprising intangible assets of US\$71.0 million (2004 - US\$71.6 million), current assets of US\$ nil (2004 - US\$0.7 million), current liabilities of US\$0.4 million (2004 - US\$5.2 million) and long-term provisions of US\$1.8 million (2004 - US\$1.7 million). Immediately after completion of the sale the Group recognised cash inflow of US\$29.6 million, other receivables of US\$10.0 million, a gain of US\$0.2 million based on the fair value of the financial asset of US\$31.5 million (see above) and transaction costs of US\$2.1 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 US\$15,372,000 (2004 - US\$44,915,000). As provided by Section 230 of the Companies Act 1985, no income statement is presented in respect of the Company.

14 Earnings per share

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

	2005 \$000's	2004 \$000's
Earnings from continuing operations	20,296	8,201
Earnings from discontinued operations	181	21,370
	<u>20,477</u>	<u>29,571</u>
	Number of shares	
	2005	2004
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>70,003,067</u>	<u>69,740,521</u>
Effect of dilutive potential ordinary shares:		
Share options and warrants	<u>7,010,483</u>	<u>6,597,168</u>
Ordinary shares of the Company held by the Group (see Note 24)	<u>2,423,300</u>	<u>2,475,000</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>79,436,850</u>	<u>78,812,689</u>

The denominators used for the purposes of calculating earnings per share on both continuing and discontinued operations are the same.

15 Intangible assets

	Group \$000's
Exploration and evaluation expenditure	
As at 1 January 2004	137,726
Additions	15,264
As at 1 January 2005	152,990
Additions	69,164
Disposals (see Note 12)	(70,941)
As at 31 December 2005	<u>151,213</u>

Intangible assets comprise the Group's exploration and evaluation projects which are pending determination. This includes US\$111.8 million (2004 - US\$70.9 million) in respect of the Vietnam project at 31 December 2005.

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 2004	78,146	1,751	79,897	562
Additions	7,804	594	8,398	834
Disposals	(21,970)	(430)	(22,400)	(430)
Foreign exchange	-	90	90	90
As at 1 January 2005	63,980	2,005	65,985	1,056
Additions	11,845	281	12,126	150
Foreign exchange	-	(119)	(119)	(119)
As at 31 December 2005	75,825	2,167	77,992	1,087
Depreciation				
As at 1 January 2004	46,078	1,068	47,146	500
Charge for the year	6,108	353	6,461	122
Disposals	(12,508)	(430)	(12,938)	(430)
Foreign exchange	-	43	43	43
As at 1 January 2005	39,678	1,034	40,712	235
Charge for the year	7,113	212	7,325	148
Foreign exchange	-	(33)	(33)	(33)
As at 31 December 2005	46,791	1,213	48,004	350
Carrying amount				
As at 31 December 2005	29,034	954	29,988	737
As at 31 December 2004	24,302	971	25,273	821

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 2005 which principally affected the profits or net assets of the Group, all of which are indirectly held.

	Country of incorporation	Country of operation	Principal activity	Percentage holding
SOCO Yemen Pty Limited ¹	Australia	Yemen	Investment holding	100.0
SOCO Exploration (Thailand) Co. Ltd	Thailand	Thailand	Oil and gas exploration	99.9
SOCO Vietnam Ltd ²	Cayman Islands	Vietnam	Oil and gas exploration	80.0

¹ The Yemen interest, which is in production, is held through Comeco Petroleum, Inc. (Comeco), a jointly controlled entity, in which SOCO Yemen Pty Limited held 58.75% of the ordinary share capital at 31 December 2005 (2004 - 58.75%). As at 31 December 2005 Comeco had non-current assets of US\$53.5 million (2004 - US\$44.7 million), current assets of US\$14.5 million (2004 - US\$8.7 million), current liabilities of US\$10.6 million (2004 - US\$5.5 million), non-current liabilities of US\$4.4 million (2004 - US\$2.5 million) and for the year to 31 December 2005 Comeco had revenue of US\$97.3 million (2004 - US\$50.0 million), operating and administration expenses of US\$33.8 million (2004 - US\$11.5 million) and a tax expense of US\$22.7 million (2004 - US\$6.7 million).

² 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 plus accrued interest from the minority interest's pro rata portion of those distributions.

The Company's investments in subsidiary undertakings include contributions to the SOCO Employee Benefit Trust (see Note 24) and are otherwise held in the form of share capital.

18 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:

	Group				
	Accelerated tax depreciation \$000's	Decelerated tax depreciation \$000's	Tax losses \$000's	Other \$000's	Total \$000's
At 1 January 2004	(2,640)	2,222	161	207	(50)
Credit (charge) to income (see Note 11)	(499)	(1,149)	38	450	(1,160)
Disposal of subsidiary	3,139	-	-	189	3,328
At 1 January 2005	-	1,073	199	846	2,118
Credit (charge) to income (see Note 11)	-	787	-	(314)	473
At 31 December 2005	-	1,860	199	532	2,591

The deferred tax asset principally arises in respect of fixed asset temporary differences and unutilised tax losses. The deferred tax asset is recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred taxation asset can be recovered in future periods based upon economic models of each operation. There is no material unprovided deferred taxation at either balance sheet date except for an unprovided deferred tax asset arising in respect of tax losses that are not expected to be utilised.

19 Inventories

Inventories comprise crude oil and condensate.

20 Other financial assets

	Group		Company	
	2005 £000's	2004 \$000's	2005 \$000's	2004 \$000's
Amounts falling due within one year				
Trade receivables	3,871	3,387	-	-
Other debtors	409	550	10	7
Prepayments and accrued income	2,005	4,390	234	197
	6,285	8,327	244	204

There is no material difference between the carrying amount of trade and other receivables and their fair value.

21 Other financial liabilities

	Group		Company	
	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's
Trade payables	6,439	1,759	–	–
Amounts due to Group undertakings	–	–	–	1,469
Other payables	671	205	411	132
Accruals and deferred income	8,123	8,624	563	609
	<u>15,233</u>	<u>10,588</u>	<u>974</u>	<u>2,210</u>

There is no material difference between the carrying value of trade payables and their fair value.

22 Long-term provisions

	Group \$000's
Decommissioning	
As at 1 January 2005	3,197
New provisions and changes in estimates	1,126
Disposals (see Note 12)	(1,770)
Unwinding of discount (see Note 8)	37
As at 31 December 2005	<u>2,590</u>

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

23 Share capital

	2005 \$000's	2004 \$000's
Issued and fully-paid		
72,632,939 ordinary shares of £0.20 each (2004 - 72,276,932)	<u>23,479</u>	<u>23,348</u>

As at 31 December 2005 authorised share capital comprised 125 million (2004 - 125 million) ordinary shares of £0.20 each with a total nominal value of £25 million (2004 - £25 million). The Company issued 356,007 new ordinary shares of £0.20 each during 2005 (2004 - 297,086) upon the exercise of certain share options at a weighted average exercise price per share of £0.726 (2004 - £1.220). Details of outstanding share options are set out in Note 26.

As at 31 December 2005 there were 2,825,307 (2004 - 2,825,307) warrants to subscribe for the same number of ordinary shares of £0.20 each, which are exercisable through 13 July 2010 at a weighted average subscription price per share of £0.59.

24 Reserves

	Group			
	Share premium account \$000's	Other reserves \$000's	Retained earnings \$000's	Total \$000's
As at 1 January 2004	67,323	53,610	72,548	193,481
New shares issued (see Note 23)	554	-	-	554
Share-based payments (see Note 26)	-	55	-	55
Unrealised currency translation differences	-	(163)	341	178
Retained profit for the year	-	-	29,571	29,571
As at 1 January 2005	67,877	53,502	102,460	223,839
New shares issued (see Note 23)	344	-	-	344
Share-based payments (see Note 26)	-	521	(2,294)	(1,773)
Unrealised currency translation differences	-	236	(363)	(127)
Retained profit for the year	-	-	20,477	20,477
As at 31 December 2005	68,221	54,259	120,280	242,760
	Company			
	Share premium account \$000's	Other reserves \$000's	Retained earnings \$000's	Total \$000's
As at 1 January 2004	67,323	(730)	41,062	107,655
New shares issued (see Note 23)	554	-	-	554
Share-based payments (see Note 26)	-	38	-	38
Unrealised currency translation differences	-	3	9,969	9,972
Retained profit for the year (see Note 13)	-	-	44,915	44,915
As at 1 January 2005	67,877	(689)	95,946	163,134
New shares issued (see Note 23)	344	-	-	344
Share-based payments (see Note 26)	-	39	(2,294)	(2,255)
Unrealised currency translation differences	-	(8)	(20,351)	(20,359)
Retained profit for the year (see Note 13)	-	-	15,372	15,372
As at 31 December 2005	68,221	(658)	88,673	156,236

The Group's other reserves include reserves arising in respect of merger relief and upon the purchase of the Company's own ordinary shares (Shares) held in treasury and held by the SOCO Employee Benefit Trust (Trust). The number of treasury Shares held by the Group and the number of Shares held by the Trust at 31 December 2005 was 150,000 (2004 - 150,000) and 2,273,300 (2004 - 2,273,300), respectively. The market price of the Shares at 31 December 2005 was £7.860 (2004 - £3.880).

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 26 and in the Directors' Remuneration Report on pages 35 to 41. 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.

25 Reconciliation of movements in Group total equity

	2005 \$000's	2004 \$000's
As at 1 January	247,187	216,722
New shares issued (see Note 23)	475	661
Share-based payments (see Note 26)	(1,773)	55
Unrealised currency translation differences	(127)	178
Retained profit for the year	20,477	29,571
As at 31 December	266,239	247,187

26 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 35 to 41. The Group recognised total expenses of US\$521,000 (2004: US\$55,000) in respect of the schemes during the year, a proportion of which was capitalised in accordance with the Group's accounting policies.

Awards administered under the SOCO Employment Benefit Trust (Trust)

The Company operates a long term incentive plan (LTIP) for senior employees of the Group. Awards vest over a period of 3 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 10 years following the date of grant, subject to the requirement to exercise certain awards prior to 15 March of the year following vesting.

Awards would normally be equity-settled through a transfer at nil consideration of the Company's own shares held by the Trust (see Note 24). The Company has no legal or constructive obligation to repurchase or settle awards in cash. At the beginning of the period 1,837,020 (2004 - 2,297,000) awards were outstanding. During the period 167,000 (2004 - 246,100) awards were granted, no awards were exercised (2004 - 51,700) and 267,900 (2004 - 654,380) awards lapsed. The market price and the estimated fair value of awards at date of grant were £8.180 (2004 - £3.120) and £2.610 (2004 - £0.805), respectively. The weighted average market price at the date of exercise in 2004 was £3.205. Of the 1,736,120 (2004 - 1,837,020) awards outstanding at the end of the period, 1,054,320 (2004 - 1,054,320) were exercisable. Awards outstanding at the end of the year have a weighted average remaining contractual life of 6.81 (2004 - 7.54) years.

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 31.9% (2004 - 25.8%) has been 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.

26 Incentive plans continued

Share options

The Company operates a discretionary share option scheme for key employees of the Group. 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 3 years, subject to performance criteria based on the Company's TSR relative to a range of comparator companies. Additional share options are outstanding and exercisable that were granted under a previous plan. Unexercised options expire at the end of a 7 or 10 year period, in accordance with the plan rules. Options are normally forfeited if the employee leaves the Group before the options vest.

Options would normally be equity-settled through newly issued shares. Options exercised during 2005 over 646,201 (2004 - 297,086) shares resulted in 356,007 (2004 - 297,086) shares being issued. The remaining 290,194 (2004 - nil) options exercised, being the number of shares that might otherwise be sold in the market to satisfy the participants' obligations for exercise price and tax liabilities, of US\$840,000 and US\$1,837,000, respectively, were satisfied by the Group through the settlement of those obligations. The Board decided in this 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:

	2005		2004	
	No. of share options	Weighted average exercise price £	No. of share options	Weighted average exercise price £
As at 1 January	5,936,458	0.823	6,527,525	0.958
Granted	–	–	100,000	2.920
Exercised	(646,201)	0.726	(297,086)	1.219
Expired	–	–	(393,981)	3.290
As at 31 December	5,290,257	0.835	5,936,458	0.823
Exercisable as at 31 December	4,910,257	0.703	5,556,458	0.706

The weighted average market price at the date of exercise during the year was £5.058 (2004 - £3.179). The market price and the estimated fair value of options at the date of grant during 2004 were £2.920 and £0.390, respectively. Options outstanding at the end of the year have a weighted average remaining contractual life of 1.30 (2004 - 2.13) years.

The fair value of options granted in 2004 has been estimated using a binomial option pricing model, based on the market price at date of grant and exercise price set out above. An expected future share price volatility of 43% has been utilised based on the calculated historical volatility over the previous 5 years. Additional inputs to the model include a risk free discount rate of 5%, a dividend yield of nil% and an expected average option life of 5.26 years based on the contractual life adjusted as deemed appropriate for the effects of non-transferability, exercise restrictions and behavioural considerations. The future vesting proportion of 28.9% has been 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.

27 Reconciliation of operating profit to operating cash flows

	Group		Company	
	2005 \$000's	2004 \$000's	2005 \$000's	2004 \$000's
Operating profit (loss) from continuing operations	31,264	14,210	(5,150)	(3,866)
Operating profit from discontinued operations	–	9,261	–	–
	31,264	23,471	(5,150)	(3,866)
Share-based payments	521	55	521	55
Depletion and depreciation	7,325	6,461	148	122
Gain on disposal of exploration venture	–	(2,156)	–	–
Operating cash flows before movements in working capital	39,110	27,831	(4,481)	(3,689)
Increase in inventories	(172)	(599)	–	–
(Increase) decrease in receivables	(710)	(649)	(140)	73
Increase (decrease) in payables	4,754	(1,886)	(681)	(111)
Cash generated by operations	42,982	24,697	(5,302)	(3,727)
Interest received	1,943	653	12	50
Interest paid	(460)	(52)	(119)	(9)
Income taxes paid	(13,929)	(6,141)	–	–
Net cash from operating activities	30,536	19,157	(5,409)	(3,686)
Cash generated from operating activities comprises:				
Continuing operating activities	30,536	9,663	(5,409)	(3,686)
Discontinued operating activities	–	9,494	–	–
	30,536	19,157	(5,409)	(3,686)

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 with a maturity of three months or less.

28 Financing facility

In August 2005, SOCO agreed a credit facility with the International Finance Corporation, the private sector arm of the World Bank. The US\$45 million reserve-based, revolving credit facility has a seven year term that will be made available to SOCO in two tranches. The first tranche of US\$25 million will be immediately accessible and the second tranche of US\$20 million is a standby loan. Arrangement and commitment fees paid are included under finance costs (see Note 8). No amounts were drawn down under this facility as at 31 December 2005.

29 Operating lease arrangements

	2005 \$000's	2004 \$000's
Minimum lease payments under operating leases recognised in income for the year	426	338

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:

	2005 \$000's	2004 \$000's
Within one year	499	573
In two to five years	—	502
	499	1,075

Operating lease payments mainly represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of eight years with break clauses every two years and rentals fixed for an average of four years.

30 Capital commitments

At 31 December 2005 the Group had exploration licence commitments not accrued of approximately US\$0.6 million (2004 - US\$2.3 million).

31 Related party transactions

During the year the Company rendered services to Group undertakings in the amount of US\$47,000 (2004 - US\$323,000). Balances with Group undertakings are disclosed in Note 21. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Transactions with the Directors of the Company are disclosed in the Directors' Remuneration Report on pages 35 to 41.

32 Transition to IFRS

This is the first year that the Group and Company have presented financial statements under IFRS. The following disclosures, including reconciliation between IFRS and UK GAAP upon implementation of the standards described below, are required in the year of conversion. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of the transition to IFRS was therefore 1 January 2004. The amounts described as UK GAAP have been reclassified to conform with IFRS format.

IFRS 2 Share-based Payments

The Group operates a share option plan and a long term incentive plan under which equity-settled share-based awards are granted to employees. In accordance with the transitional provisions, the Group has applied the requirements of IFRS 2 to all grants after 7 November 2002 that were unvested as of 1 January 2005. Under these requirements, awards are measured at fair value at the date of grant and recognised on a straight-line basis over the performance period. Fair value is measured using an option pricing model taking into consideration management's estimate of the expected life of the option and the estimated number of shares that will eventually vest. Under UK GAAP, the intrinsic value of the awarded shares at grant date was recognised over the performance period. The costs of the share schemes are either recognised in the income statement or capitalised according to the nature of the employee services.

IFRS 6 Exploration for and Evaluation of Mineral Resources

Under UK GAAP all costs incurred prior to obtaining a licence were capitalised to Intangible Assets. These pre-licence costs are specifically excluded from IFRS 6 and as such general guidance under IFRS regarding asset recognition must be applied.

In most cases this will lead to such costs being expensed as incurred. Prior to 1 January 2004 the Group had capitalised pre-licence costs of US\$6,013,000. Intangible Assets have therefore been reduced for these costs. In the year to 31 December 2004 pre-licence costs of US\$1,946,000 capitalised under UK GAAP were expensed. Further, income of US\$2,156,000 relating to the sale of OILSOC Investment Company Limited that was previously credited to Intangible Assets has been recorded as a gain on the disposal of this exploration venture. The net effect is a credit to the Income Statement of US\$210,000 in the year ended 31 December 2004. These adjustments result in reclassification within the cash flow statement however there is no change to cash and cash equivalents.

Prior to 1 January 2004 the Group assessed Intangible Assets for impairment under UK GAAP with reference to the oil industry Statement of Recommended Practice (SORP). Under the SORP costs capitalised pending determination of whether or not commercial reserves have been found were specifically exempt from the detailed rules of Financial Reporting Standard 11 Impairment of Fixed Assets and Goodwill. As such these costs were pooled with similar costs by geographical region. Under IFRS, the Group has applied a lower level of aggregation of intangible assets for the purposes of assessing impairment in accordance with IFRS 6. As a result the Group has reduced Intangible Assets by US\$4,722,000 being costs incurred prior to 1 January 2004 on specific licences that were previously relinquished but remained capitalised under UK GAAP.

32 Transition to IFRS continued

(a) Restated Group balance sheet as at transition date

Consolidated balance sheet
as at 1 January 2004

	UK GAAP £000's	\$000's	IFRS 2 \$000's	IFRS 6 \$000's	IFRS \$000's
Non-current assets					
Intangible assets	82,311	147,342	(127)	(10,735)	136,480
Property, plant and equipment	18,973	33,997	-	-	33,997
Deferred tax assets	1,629	2,915	-	-	2,915
	<u>102,913</u>	<u>184,254</u>	<u>(127)</u>	<u>(10,735)</u>	<u>173,392</u>
Current assets					
Inventories	40	72	-	-	72
Trade and other receivables	2,718	4,863	-	-	4,863
Tax receivables	416	745	-	-	745
Cash and cash equivalents	32,898	58,893	-	-	58,893
	<u>36,072</u>	<u>64,573</u>	<u>-</u>	<u>-</u>	<u>64,573</u>
Total assets	<u>138,985</u>	<u>248,827</u>	<u>(127)</u>	<u>(10,735)</u>	<u>237,965</u>
Current liabilities					
Trade and other payables	(8,528)	(15,271)	-	-	(15,271)
Tax payables	(58)	(103)	-	-	(103)
	<u>(8,586)</u>	<u>(15,374)</u>	<u>-</u>	<u>-</u>	<u>(15,374)</u>
Net current assets	<u>27,486</u>	<u>49,199</u>	<u>-</u>	<u>-</u>	<u>49,199</u>
Non-current liabilities					
Deferred tax liabilities	(1,656)	(2,964)	-	-	(2,964)
Long-term provisions	(1,623)	(2,905)	-	-	(2,905)
	<u>(3,279)</u>	<u>(5,869)</u>	<u>-</u>	<u>-</u>	<u>(5,869)</u>
Total liabilities	<u>(11,865)</u>	<u>(21,243)</u>	<u>-</u>	<u>-</u>	<u>(21,243)</u>
Net assets	<u>127,120</u>	<u>227,584</u>	<u>(127)</u>	<u>(10,735)</u>	<u>216,722</u>
Equity					
Share capital	14,396	23,241	-	-	23,241
Share premium account	41,325	67,323	-	-	67,323
Other reserves	33,366	54,044	(434)	-	53,610
Retained earnings	38,033	82,976	307	(10,735)	72,548
Total equity	<u>127,120</u>	<u>227,584</u>	<u>(127)</u>	<u>(10,735)</u>	<u>216,722</u>

32 Transition to IFRS continued

(b) Restated Group financial information for the year to 31 December 2004

Consolidated income statement
for the year to 31 December 2004

	UK GAAP £000's	\$000's	IFRS 2 \$000's	IFRS 6 \$000's	IFRS \$000's
Continuing operations					
Revenue	15,962	29,386	–	–	29,386
Cost of sales	(6,231)	(11,394)	47	–	(11,347)
Gross profit	9,731	17,992	47	–	18,039
Administrative expenses	(2,412)	(4,423)	384	–	(4,039)
Exploration expenses	–	–	–	(1,946)	(1,946)
Gain on disposal of exploration venture	–	–	–	2,156	2,156
Operating profit from continuing operations	7,319	13,569	431	210	14,210
Investment revenue	358	659	–	–	659
Other gains and losses	59	113	–	–	113
Finance costs	(52)	(95)	–	–	(95)
Profit before tax from continuing operations	7,684	14,246	431	210	14,887
Tax	(3,623)	(6,686)	–	–	(6,686)
Profit for the year from continuing operations	4,061	7,560	431	210	8,201
Discontinued operations					
Operating profit from discontinued operations	5,119	9,261	–	–	9,261
Other expenses from discontinued operations	(135)	(249)	–	–	(249)
Profit on disposal	8,391	15,856	–	–	15,856
Profit before tax from discontinued operations	13,375	24,868	–	–	24,868
Tax	(1,937)	(3,498)	–	–	(3,498)
Profit for the year from discontinued operations	11,438	21,370	–	–	21,370
Profit for the year	15,499	28,930	431	210	29,571
Earnings per share					
Basic					
Profit from continuing operations	5.8p	10.9c	0.6c	0.3c	11.8c
Profit from discontinued operations	16.4p	30.6c	0.0c	0.0c	30.6c
Profit	22.2p	41.5c	0.6c	0.3c	42.4c
Diluted					
Profit from continuing operations	5.2p	9.6c	0.5c	0.3c	10.4c
Profit from discontinued operations	14.5p	27.1c	0.0c	0.0c	27.1c
Profit	19.7p	36.7c	0.5c	0.3c	37.5c

32 Transition to IFRS continued

(b) Restated Group financial information for the year to 31 December 2004 continued

Consolidated balance sheet
as at 31 December 2004

	UK GAAP £000's	\$000's	IFRS 2 \$000's	IFRS 6 \$000's	IFRS \$000's
Non-current assets					
Intangible assets	85,161	163,830	(315)	(10,525)	152,990
Property, plant and equipment	13,296	25,273	-	-	25,273
Deferred tax assets	1,103	2,118	-	-	2,118
	99,560	191,221	(315)	(10,525)	180,381
Current assets					
Inventories	106	205	-	-	205
Trade and other receivables	4,336	8,327	-	-	8,327
Tax receivables	520	999	-	-	999
Cash and cash equivalents	37,046	71,122	-	-	71,122
	42,008	80,653	-	-	80,653
Total assets	141,568	271,874	(315)	(10,525)	261,034
Current liabilities					
Trade and other payables	(5,514)	(10,588)	-	-	(10,588)
Tax payables	(33)	(62)	-	-	(62)
	(5,547)	(10,650)	-	-	(10,650)
Net current assets	36,461	70,003	-	-	70,003
Non-current liabilities					
Long-term provisions	(1,665)	(3,197)	-	-	(3,197)
Total liabilities	(7,212)	(13,847)	-	-	(13,847)
Net assets	134,356	258,027	(315)	(10,525)	247,187
Equity					
Share capital	14,455	23,348	-	-	23,348
Share premium account	41,628	67,877	-	-	67,877
Other reserves	33,742	54,616	(1,114)	-	53,502
Retained earnings	44,531	112,186	799	(10,525)	102,460
Total equity	134,356	258,027	(315)	(10,525)	247,187

32 Transition to IFRS continued

(b) Restated Group financial information for the year to 31 December 2004 continued

Consolidated cash flow statement
for the year to 31 December 2004

	UK GAAP £000's	\$000's	IFRS 2 \$000's	IFRS 6 \$000's	IFRS \$000's
Operating profit	12,438	22,830	431	210	23,471
Share-based payments	376	674	(619)	-	55
Depletion and depreciation	3,526	6,461	-	-	6,461
Gain on disposal of exploration venture	-	-	-	(2,156)	(2,156)
Operating cash flows before movements in working capital	16,340	29,965	(188)	(1,946)	27,831
Increase in inventories	(343)	(599)	-	-	(599)
Increase in receivables	(552)	(649)	-	-	(649)
Decrease in payables	(999)	(1,886)	-	-	(1,886)
Cash generated by operations	14,446	26,831	(188)	(1,946)	24,697
Interest received	355	653	-	-	653
Interest paid	(28)	(52)	-	-	(52)
Income taxes paid	(3,311)	(6,141)	-	-	(6,141)
Net cash from operating activities	11,462	21,291	(188)	(1,946)	19,157
Investing activities					
Purchase of intangible assets	(11,747)	(21,706)	188	1,946	(19,572)
Purchase of property, plant and equipment	(4,352)	(8,011)	-	-	(8,011)
Proceeds on disposal of subsidiary undertaking	9,160	17,743	-	-	17,743
Proceeds on disposal of exploration venture	1,181	2,156	-	-	2,156
Net cash used in investing activities	(5,758)	(9,818)	188	1,946	(7,684)
Financing activities					
Proceeds on issue of ordinary share capital	362	660	-	-	660
Net cash from financing activities	362	660	-	-	660
Net increase in cash and cash equivalents	6,066	12,133	-	-	12,133
Cash and cash equivalents at beginning of year	32,898	58,893	-	-	58,893
Effect of foreign exchange rate changes	(1,918)	96	-	-	96
Cash and cash equivalents at end of year	37,046	71,122	-	-	71,122

(c) Restated Company financial information

The effect of the transition to IFRS on the Company income statement for the year to 31 December 2004 was to decrease administrative expenses and increase profit by US\$305,000, in respect of adjustments made resulting from transition to IFRS 2. The effect on the Company balance sheet as at 31 December 2004 was to increase retained earnings, including adjustments for foreign exchange differences, by US\$579,000 (1 January 2004 - US\$243,000) and to increase other reserves by US\$52,000 (1 January 2004 - US\$11,000) resulting from transition to IFRS 2.

	IFRS		UK GAAP ³		
	Year to 31 Dec 2005 \$000's	Year to 31 Dec 2004 \$000's	(Restated) ² Year to 31 Dec 2003 \$000's	(Restated) ² Year to 31 Dec 2002 \$000's	(Restated) ² Year to 31 Dec 2001 \$000's
Consolidated income statement					
Oil and gas revenues - continuing operations	57,160	29,386	28,413	25,319	23,958
Operating profit - continuing operations	31,264	14,210	9,914	8,092	8,771
Operating profit - discontinued operations ¹	-	9,261	4,865	6,564	10,563
Profit for the year	20,477	29,571	9,354	7,963	25,629
Consolidated balance sheet					
	2005 \$000's	2004 \$000's	(Restated) ² 2003 \$000's	(Restated) ² 2002 \$000's	(Restated) ² 2001 \$000's
Non-current assets	225,808	180,381	181,308	141,088	123,636
Net current assets	43,021	70,003	52,119	82,018	84,664
Non-current liabilities	(2,590)	(3,197)	(5,870)	(5,432)	(1,530)
Net assets	266,239	247,187	227,557	217,674	206,770
Share capital	23,479	23,348	23,241	23,030	22,684
Share premium account	68,221	67,877	67,323	66,118	63,727
Other reserves	54,259	53,502	54,045	54,774	54,818
Retained earnings	120,280	102,460	82,948	73,752	65,541
Total equity	266,239	247,187	227,557	217,674	206,770
Consolidated cash flow					
	Year to 31 Dec 2005 \$000's	Year to 31 Dec 2004 \$000's	Year to 31 Dec 2003 \$000's	Year to 31 Dec 2002 \$000's	Year to 31 Dec 2001 \$000's
Net cash from operating activities	30,536	19,157	27,341	28,640	27,714
Other information					
Basic earnings per share (cents)	29.3	42.4	13.5	11.5	37.4
Diluted earnings per share (cents)	25.8	37.5	11.8	10.3	34.4

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

² During 2004, the Group adopted UITF Abstract 38 Accounting for ESOP Trusts and related amendments to UITF Abstract 17 (revised 2003) Employee Share Schemes, which constituted a change in accounting policy for the way the Group presents and accounts for own shares. Prior year figures were restated to reflect the new policy.

³ The amounts disclosed for 2003 and earlier years are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The principal differences between UK GAAP and IFRS are explained in Note 32 to the financial statements which provides an explanation of the transition to IFRS. The amounts disclosed for 2003 and earlier years have been translated into US dollars using the applicable year exchange rates.

RESERVE STATISTICS

unaudited, net working interest (mmboe)

Net proven oil and gas reserves

	Total	Mongolia ¹	Thailand	Vietnam ²	Congo ²	Yemen ³
Reserves as at 31 December 2004	53.6	37.1	5.0	–	–	11.5
Changes in the year						
Additions	30.0	–	–	30.0	–	–
Revision to previous estimates	5.7	–	–	–	–	5.7
Purchase of reserves	9.5	–	–	–	9.5	–
Change of interest	–	–	–	–	–	–
Sale of reserves	(37.0)	(37.0)	–	–	–	–
Production	(2.1)	(0.1)	–	–	–	(2.0)
Reserves as at 31 December 2005	59.7	–	5.0	30.0	9.5	15.2

Net proven and probable oil and gas reserves

	Total	Mongolia ¹	Thailand	Vietnam ²	Congo ²	Yemen ³
Reserves as at 31 December 2004	90.7	56.1	18.4	–	–	16.2
Changes in the year						
Additions	68.3	–	–	68.3	–	–
Revision to previous estimates	8.5	–	–	–	–	8.5
Purchase of reserves	23.8	–	–	–	23.8	–
Change of interest	–	–	–	–	–	–
Sale of reserves	(56.0)	(56.0)	–	–	–	–
Production	(2.1)	(0.1)	–	–	–	(2.0)
Reserves as at 31 December 2005	133.2	–	18.4	68.3	23.8	22.7

Net proven and probable oil and gas reserves yearly comparison

	2005	2004	2003	2002	2001
Reserves as at 1 January	90.7	92.5	75.4	77.0	88.4
Changes in the year					
Additions	68.3	–	–	–	–
Revision to previous estimates	8.5	6.0	9.9	0.6	40.6
Purchase of reserves	23.8	–	–	–	–
Change of interest	–	–	9.2	–	–
Sale of reserves	(56.0)	(5.8)	–	–	(48.8)
Production	(2.1)	(2.0)	(2.0)	(2.2)	(3.2)
Reserves as at 31 December	133.2	90.7	92.5	75.4	77.0

Note: mmboe denotes millions of barrels of oil equivalent

¹ Mongolia reserves were previously shown on an entitlement basis. On an entitlement basis at 31 December 2004 proven reserves were 27.7 mmboe and proven and probable reserves were 41.9 mmboe.

² Reserves are shown before deductions for minority interests which are funded by the Group. The Group is entitled to receive 100% of the cashflows until it has recovered its funding of the minority interest plus accrued interest from the minority interests' pro rata portion of those cashflows.

³ Yemen reserves were previously shown on an entitlement basis. On an entitlement basis at 31 December 2005 proven reserves were 6.1 mmboe (2004 - 5.4 mmboe) and proven and probable reserves were 8.4 mmboe (2004 - 6.8 mmboe). Entitlement volumes are used as the basis for calculating depletion on the unit of production method.

COMPANY INFORMATION

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Website: www.socointernational.co.uk

Registered No: 3300821

Company Secretary

Cynthia B Cagle

Financial calendar

Group results for the year to 31 December are announced in March or April. The Annual General Meeting is held during Q2. Half year results to 30 June are announced in August or September.

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