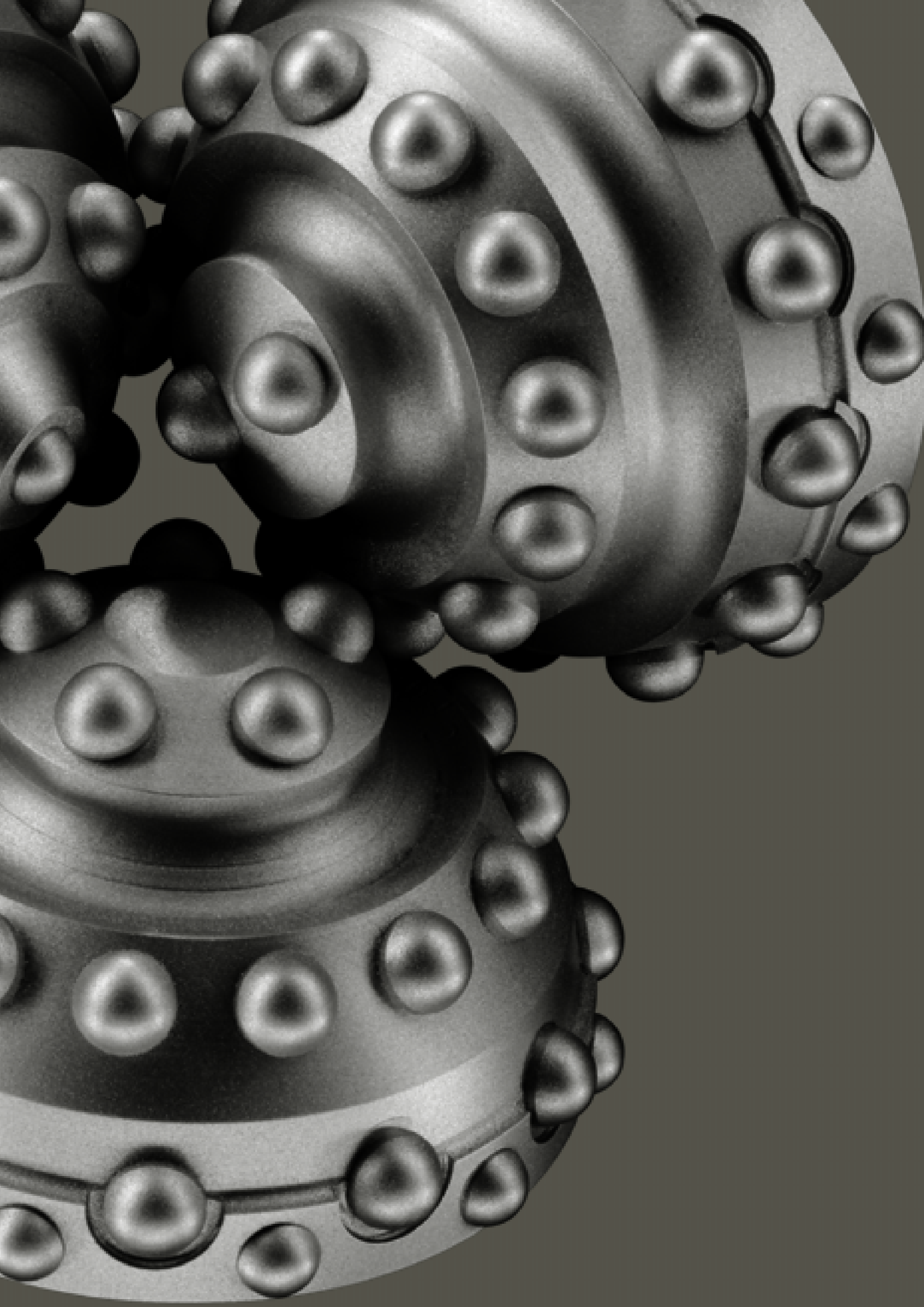

SOCO plc
INTERNATIONAL

2006 ANNUAL REPORT & ACCOUNTS

WE ARE AN INTERNATIONAL OIL AND GAS EXPLORATION AND PRODUCTION COMPANY HEADQUARTERED IN LONDON AND LISTED ON THE LONDON STOCK EXCHANGE. THE COMPANY HAS DESIGNATED CORE AREAS IN SOUTHEAST ASIA, THE MIDDLE EAST AND WEST AFRICA REGIONS AND 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 formative stages or through periods of difficulty.

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

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AT A GLANCE

Financial highlights

$m	2006	2005	2004
Revenue from continuing operations	**76.5**	57.2	29.4
Net cash inflow from operating activities	**33.2**	30.5	19.2
Net cash and deposits	**187.8**	51.0	71.1
Net assets	**295.8**	266.2	247.2

SOCO around the world

RUI DE SOUSA
Chairman (left)

ED STORY
President and Chief Executive

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

Dear Shareholder,
The past 12 months have been a watershed year for SOCO. Our hugely successful Vietnam project has evolved from pure exploration to development, appraisal and exploration; the potential of our Yemen project has been increasingly realised through Basement development drilling and increased facilities capacity and our West Africa portfolio has been expanded to increase the potential to repeat these successes.

The Company has successfully de-risked its chances of long term success whilst maintaining significant upside that offers plenty of opportunity for exponential future growth.

We have again been very successful with the drill bit with our exploration and appraisal drilling success in Vietnam exceeding 70%. This coupled with the successful infill/injector drilling in Yemen has led to an increase in 2P reserves net to our working interest of 32.4 million barrels and 9.4 million barrels in Vietnam and Yemen, respectively. Before factoring in the reserve reduction associated with farming out half of our Marine XI interest in the Republic of Congo (Brazzaville), 2P reserves increased to 172.5 million barrels in 2006. Following the farm-out, 2P reserves at the end of 2006 equalled 160.6 million barrels.

FINANCIAL AND OPERATING RESULTS

After tax profit from continuing operations hit a record high of $29.1 million in 2006 exceeding that of the previous year that totalled $20.3 million. Largely as a result of the ongoing facilities expansion and infill drilling programme at the Kharir field in Yemen, production net to the Company's working interest increased, rising to 6,766 barrels of oil per day (BOPD) in 2006 from 5,684 BOPD the prior year.

The Group had its highest ever capital expenditures during the year with an extensive exploration/appraisal drilling programme in Vietnam, significant facilities expansion and development drilling in Yemen and its initial 3D seismic acquisition in Congo (Brazzaville). In order to bridge the period prior to translating its successes into operating cash flow, the Company guaranteed a convertible bonds issue of $250 million in May. Capital expenditure on operational activities rose to $114.3 million in 2006 from $76.2 million in 2005. With net proceeds from the issue of convertible bonds equalling $243.0 million and cash generated by operations of $53.0 million, the cash balance rose by $136.8 million to $187.8 million at year end 2006.

2006 OPERATIONS REVIEW

VIETNAM

The year got off to an impressive start when the second well drilled in the same fault block as the initial 2005 discovery well on the Te Giac Trang (TGT) structure, the TGT-2X, tested at a total combined flow rate of approximately 17,500 barrels of oil equivalent per day (BOEPD) from the Miocene Lower Bach Ho 5.2 (LBH 5.2) and Oligocene "C" intervals. The good news continued when the rig moved to a location on the fourth fault block on the TGT structure and the TGT-3X tested at a combined maximum rate of 9,908 BOEPD.

Buoyed by so much early success on the TGT structure, the rig moved approximately 30 kilometres south of the TGT-3X discovery to spud the initial well on the "L" prospect, the Te Giac Vang (TGV) 1X well. The TGV structure was a priority not only because of an apparent large shallow structure with good Miocene potential, but also because success here would hold the rights for the apparently even larger high potential Basement/Oligocene structure. Enthusiasm was tempered by realism as the TGV-1X intersected poorly developed reservoir sands in the primary targeted Clastic sequence at the LBH 5.2 horizon. The well did have good oil shows in several Oligocene sands when the well was deepened. However, after analysis of the logs, it appeared that these lacked sufficient permeability.

AFTER TAX PROFIT FROM CONTINUING OPERATIONS HIT A RECORD HIGH OF $29.1 MILLION IN 2006 EXCEEDING THAT OF THE PREVIOUS YEAR THAT TOTALLED $20.3 MILLION

Following the TGV well, the rig was moved to drill the sidetrack to the Ca Ngu Vang (CNV) 4X well on Block 9-2 that was temporarily suspended late in 2005 after encountering unexpected high pressures in the Oligocene sequence above the Basement. We were back on track when the sidetrack of the appraisal well, CNV-4XST, tested at 7,050 BOEPD from Basement. This result provided final confirmation that CNV was ready to move into development. All regulatory approvals were received and the pilot development plan was approved in December 2006. From that point forward, Petrovietnam has funded its full share of costs on Block 9-2.

With a new rig, activity once again focused on Block 16-1. The third 2006 appraisal well on the TGT structure, the TGT-4X, was drilled on the H3 fault block between the initial discovery well, TGT-1X, and the TGT-3X. The primary target, a lower Miocene trap, was breached due to late movement on a fault located south of the TGT-4X well. The Oligocene "D" interval, a new reservoir on the TGT structure, flowed at a rate slightly over 600 BOPD on a short test.

The rig then moved to drill the first exploration well on the Te Giac Xang (TGX) structure on Prospect "K", approximately 15 kilometres west of the TGT structure. Although the TGX-1X encountered reservoir sands, it was abandoned after initial analysis indicated that it was not drilled within structural closure.

To close out the 2006 drilling campaign, the rig moved back to drill the fifth well on the TGT structure as a final prelude to seeking a declaration of commerciality on the field. The TGT-5X had a total combined maximum flow rate of approximately 16,430 BOEPD from the LBH 5.2 and Oligocene "C" intervals.

Thus, sandwiched between clear success with the TGT appraisal programme, there were inconclusive results when looking for repeatability on the Clastics fairway elsewhere on Block 16-1. The 3D seismic acquired during the year is expected to be a critical tool in leading to drilling success in 2007 outside the proven TGT structure.

YEMEN

During 2006, the East Shabwa Block 10 consortium continued its programme to further appraise the Kharir field and increase production capacity from the Block. Drilling results and the addition of a self-contained production facility enabled the fields to exceed all previous production records averaging more than 40,000 BOPD.

A number of successful development wells were drilled in the Kharir field (KHA) during 2006. These include the KHA-1-12 well in the western part of the structure, the KHA-1-14 well in the southern flank of the structure, the KHA-1-07.G1 sidetrack, which was drilled as a water injection well but completed as a producer based on drilling results and the KHA-1-16 drilled on the last 3D line on the eastern extension of the field. These wells are all connected to the production facilities and were tested at rates between 5,500 and 8,400 BOPD. Significantly, the highest rate was from the eastern extension well. This portends further extension of the field in that direction.

The consortium also had a very active exploration programme in the northern part of the Block that yielded one discovery, but overall proved inconclusive as to the additional potential in that area.

WEST AFRICA

The Group added to its West Africa portfolio when its 85% owned subsidiary acquired an 85% working interest in the 800 square kilometre Nganzi Block, onshore the Democratic Republic of Congo (Kinshasa). As operator, the Group carried out a reconnaissance aeromagnetic and gravity survey over the onshore extension of the coastal basin in order to delineate prospective areas for hydrocarbon generation and migration delineating several leads, interpreted as large horst blocks.

In September, the Group's 85% owned subsidiary signed an agreement to farm-out a 37.5% interest in the Marine XI Block, offshore the Republic of Congo (Brazzaville), whilst retaining a 37.5% working interest. Further details can be found in the Review of Operations. As operator, the Group began evaluation of the Marine XI Block when it acquired an approximate 1,200 square kilometre 3D seismic programme in the fourth quarter of 2006.

THAILAND

In April, the Group's Thai subsidiary signed a Participation Agreement that could accelerate the development of the project in the Bualuang field in the Gulf of Thailand and provide meaningful production as early as the first half of 2008.

The assignment of interest, predicated on meeting certain work requirements and subject to the appropriate regulatory approval by the Government of Thailand, enables the Farmee to earn up to a 60% working interest, whilst allowing the Group to focus resources on higher profile projects in Vietnam and Yemen. Further details of the Participation Agreement can be found in the Financial Review.

DRILLING SUCCESS DURING THE YEAR HAS LED TO AN INCREASE IN 2P RESERVES NET TO OUR WORKING INTEREST OF 32.4 MILLION BARRELS AND 9.4 MILLION BARRELS IN VIETNAM AND YEMEN, RESPECTIVELY

CORPORATE

CONVERTIBLE BONDS

Primarily to fund the impending development of its Vietnam projects, in May of 2006, the Company was the guarantor of an offering of $250 million in guaranteed bonds convertible into preference shares of the issuing subsidiary (Bonds), which are exchangeable for fully paid ordinary shares of SOCO. The size of the offering was increased from $200 million due to strong institutional demand, but was still six times oversubscribed upon issue. The Bonds will pay a coupon of 4.50% per annum and will initially be convertible into an aggregate of approximately 6.238 million ordinary shares. The initial conversion price is £21.847 per ordinary share, a premium of 42%. The Bonds will be repaid at 100% of their principal amount on 16 May 2013 unless previously converted or redeemed (further details of the convertible bond issue can be found in the Financial Review).

INCREASE IN VIETNAM INTERESTS

In June, the Group seized the opportunity to increase its interest in the promising Clastics play in the Cuu Long Basin of Vietnam by acquiring OPECO Vietnam Ltd., which holds a direct 2% interest in Block 16-1. The purchase price was $22 million (further details of the acquisition can be found in the Financial Review).

BOARD CHANGES

In December, the Company's Non-Executive Chairman, Patrick Maugein, died after a long illness. Patrick was a friend, a tireless worker on behalf of SOCO and a champion of the Company. The Company benefited significantly through its relationship with Patrick and he will be missed. At the December Directors' meeting, the Board voted unanimously to accept the Nominations Committee recommendation to appoint Rui de Sousa to succeed Patrick.

OUTLOOK

As active as we were in 2006, we will be even busier on the operations front in 2007. The development programme on Block 9-2 in Vietnam will be in full swing leading up to expected first oil in 2008. With only the rest of this year before licence expiry to explore Block 16-1 in Vietnam, barring an extension, we expect to drill up to eight exploration wells. We have prioritised an exploration well on a TGT "look-a-like" structure, Prospect "S", identified from the 2006 3D seismic programme. This is expected to be followed by a high potential Oligocene/Basement target in the deep "E" prospect that essentially underlies the shallower "L" prospect. A declaration of commerciality on the TGT field is imminent.

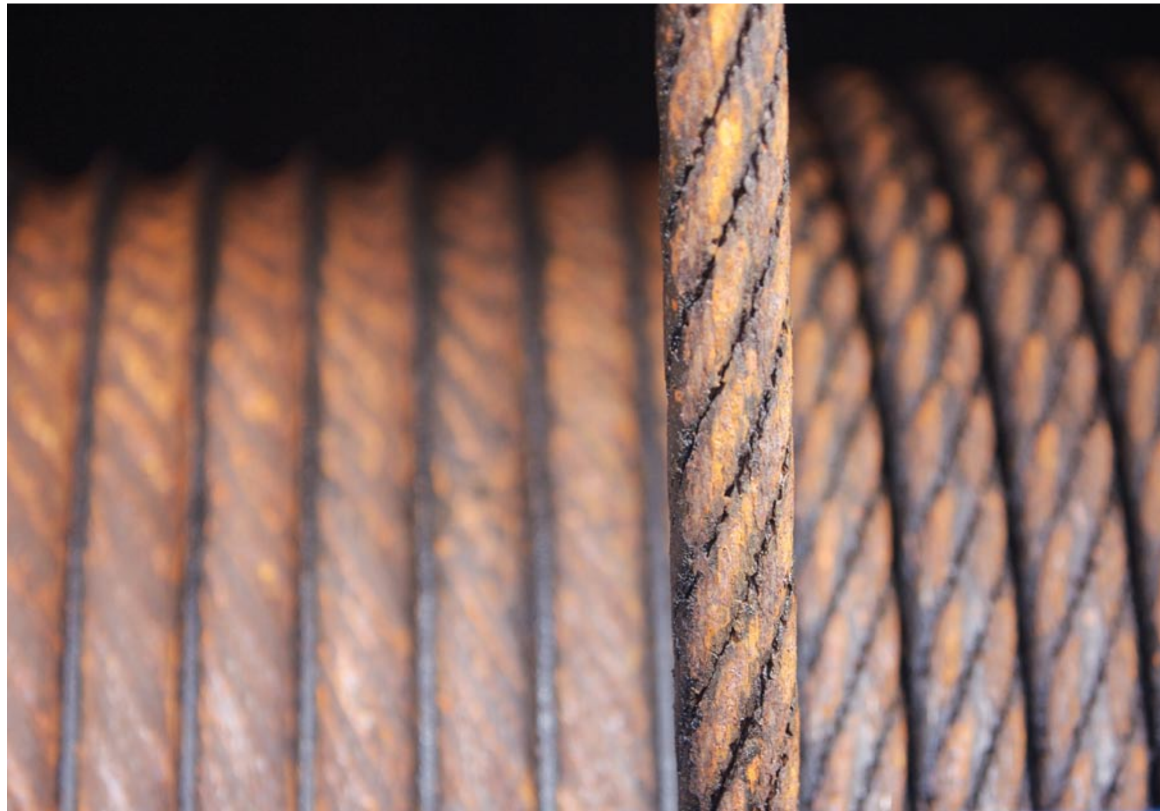
We should see the initial results from the water flooding that began last year in the Kharir field in Yemen. The combination of the water flood, additional infill drilling and expanded production capacity should allow considerable growth in oil sales in Yemen, albeit after an early 2007 cutback due to additional facilities installation.

While evaluation of our West Africa portfolio is in its infancy, indeed, even the portfolio itself is evolving, 2007 will be a busy year in terms of pre-drilling activity. We are processing and will soon be interpreting the 3D seismic acquired last year on Marine XI offshore Republic of Congo (Brazzaville). It is conceivable that we could be ready to drill in the latter part of the year, but more likely in 2008. We expect to be acquiring 2D seismic on the Democratic Republic of Congo (Kinshasa) Nganzi Block.

We know that not every well drilled in 2007 will be a success. We understand that even on the highly prospective Vietnam Block 16-1 Clastics play, the chances of drilling success are only in the 25% range. However, we have positive indications for further good news from the Vietnam exploration programme. There certainly will be an abundance of news. We trust that you share our enthusiasm for what is in store.

Rui de Sousa
Chairman

Ed Story
President and
Chief Executive



REVIEW OF OPERATIONS

The high impact drilling programme in Vietnam continued apace throughout 2006 whilst production in Yemen experienced a major uplift and significant progress was made in the development of the Kharir field. The drilling success ratio in Vietnam exceeded 70% as five of seven exploration/ appraisal wells were discoveries.

Results from the Yemen appraisal programme and production capacity expansion translated into an immediate economic impact as production net to the Group's working interest was up approximately 20% averaging 6,766 barrels of oil per day (BOPD) versus 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) and through its 100% ownership of OPECO, Inc. (see the Financial Review for details of the OPECO acquisition that occurred in 2006). SOCO Vietnam holds a 25% working interest in Block 9-2, which is operated by the Hoan Vu Joint Operating Company (HVJOC) and holds a 28.5% working interest in Block 16-1, which is operated by the Hoang Long Joint Operating Company (HLJOC). OPECO, Inc. holds a 2% interest in Block 16-1.

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 2006 production reportedly averaged approximately 191,000 BOPD and 150 million cubic feet of gas per day (MMCFD), and the Rang Dong field, where production reportedly averaged approximately 42,000 BOPD, primarily from the Basement.

REVIEW OF 2006 ACTIVITIES
Block 16-1
In March 2006, the TGT-2X appraisal well on the Te Giac Trang (TGT) structure, an up-dip follow-up well to the previous year's TGT-1X discovery well, tested with a total combined flow rate of approximately 17,500 BOEPD from the Miocene Lower Bach Ho 5.2 (LBH 5.2) and Oligocene "C" intervals.

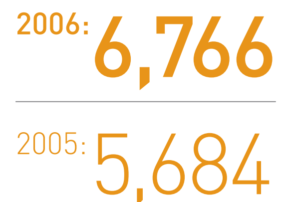
Two main pay zones were tested within the LBH 5.2 interval, one between 2,763 and 2,817 metres and the other between 2,666 and 2,726 metres. A total of 89 metres of pay was confirmed by log analysis in this reservoir horizon.

The combined stabilised flow rate from the two Miocene zones was 14,053 BOEPD comprising 12,615 BOPD of 38 degree API gravity crude and approximately 8.63 MMCFD through a one inch choke size. Flow rates were limited due to mechanical restrictions in the surface separation equipment.

The drill stem test over the Oligocene "C" interval tested water-free at a stabilised rate of 3,300 BOPD of 37.5 degree API gravity crude and approximately 0.88 MMCFD through a 52/64 inch choke size.

As was expected from the log analysis, water was produced from the lower set of perforations

PRODUCTION:
barrels of oil per day

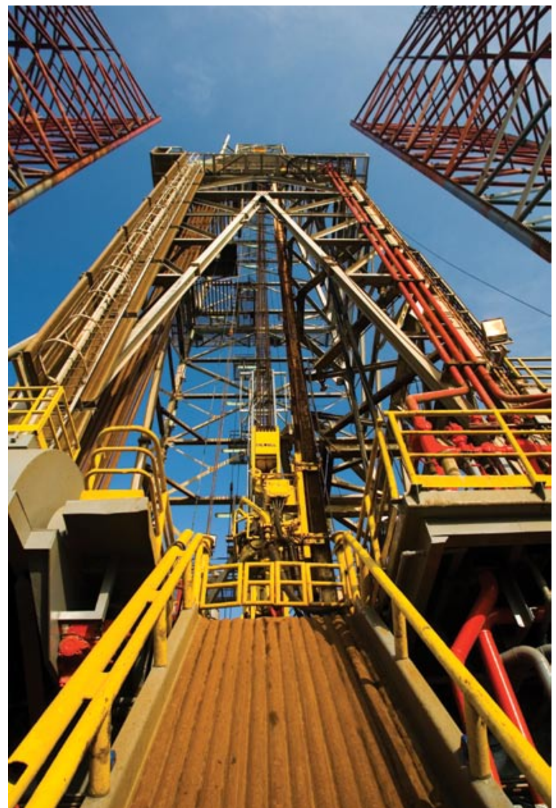


KEY PERFORMANCE INDICATORS

	2006	2005
Production (barrels of oil per day)	6,766	5,684
Total proven and probable reserve additions (millions of barrels of oil equivalent)	41.8	100.6
Proven and probable reserves (millions of barrels of oil equivalent)	160.6	133.2

See the Five Year Summary on page 69 for definitions

WITH AN 80% DRILLING SUCCESS RATE ON THE TGT STRUCTURE AND TESTS RANGING FROM APPROX 9,000 BOEPD TO APPROX 17,500 BOEPD, ACTIVITIES ARE NOW FOCUSED ON EARLY APPROVAL FOR DEVELOPMENT OF THE FIELD



in the Miocene. The approximate 8% water cut provided evidence of the presence of an aquifer, which will be factored into plans for the field's depletion management. A third reservoir horizon, the LBH 5.1 which is considered to be oil-bearing and productive, was also identified, but not tested as this would limit the ability to retain the well as a future producer, as originally designed. This horizon had 18 metres of net pay and, from the analysis of logs and oil samples from wireline formation tests, is considered to be oil-bearing and productive.

Following the temporary suspension of the TGT-2X well, the rig moved immediately to drill a follow-up appraisal well, the TGT-3X, approximately 10 kilometres to the south on a separate fault block on the structure. A drill stem test was conducted in the LBH 5.2. The tested interval, perforated between 2,827 and 2,887 metres, flowed at a combined maximum rate of 9,908 BOEPD comprising 9,008 BOPD of 40.5 degree API gravity crude and approximately 5.4 MMCFD through an 88/64 inch choke size.

Log analysis of the well indicated approximately 68 metres of net pay were present in the LBH 5.2. Additionally, approximately six metres of net pay in the Lower Oligocene "C" interval were also identified but not tested.

The LBH 5.2 reservoir sands encountered in the TGT-3X well are the same as those tested in the TGT-1X and TGT-2X wells. This proved the presence of a laterally extensive reservoir sand in the Block, further reducing the risk of the other prospects and leads along the play fairway.

The third well drilled on Block 16-1 during 2006 was the first exploration well on the "L" prospect approximately 30 kilometres south of the TGT-3X discovery. The Te Giac Vang 1X (TGV-1X) spudded on 2 May and reached a total measured depth (MD) of 3,926 metres in the Upper Oligocene. The well was deepened from its original prognosis due to the presence of encouraging hydrocarbon shows continuing below the original target depth. It was primarily positioned to test a closure at the LBH 5.2 level, the main productive horizon at the TGT discoveries.

The well intersected a clastic sequence at the LBH 5.2 horizon, however the reservoir sands were poorly developed at the location and no pay was encountered. The sediments encountered suggested that the well was located outside the LBH 5.2 play fairway and that this fairway is to the north and west of the TGV-1X location.

The well was also drilled into the Oligocene, however the location was down-dip on the flank of the structure. Despite being in a flank position, good oil shows were encountered in several sands. After analysis of the logs, although the sands were confirmed to be hydrocarbon bearing, it appeared that these lacked sufficient permeability to produce at commercial rates and were therefore not tested.

These overall encouraging well results are being evaluated and the seismic re-interpreted prior to drilling a follow-up well to fully test the Oligocene in a more prospective up-dip position. The well also penetrated the source rock section at the top of the Oligocene validating the geological interpretation and confirming the potential of the deep Oligocene and Basement prospect underlying the shallower closures.

The 2006 drilling campaign continued on the Block 16-1 play fairway when the Transocean Trident 9 jack-up rig spudded the TGT-4X well on the "H3" fault block in the TGT structure on 31 August. This third appraisal well on the TGT structure, was drilled on a separate fault block between the initial discovery well, TGT-1X and

GORDON GRAHAM
Group Exploration Manager

the TGT-3X. The well intersected the hydrocarbon bearing Lower Miocene reservoir interval as predicted. However, the trap had been breached and only residual oil was encountered. The well also encountered hydrocarbons in the Oligocene "D" interval, a new reservoir on the Block, and flowed at a rate slightly over 600 BOPD on a short test.

Subsequent detailed review of the seismic identified that the breaching of the Lower Miocene trap was due to late movement on a fault located south of the TGT-4X well. This appears to be the only such fault on the TGT field and the effect is considered to be local to this well.

The following well, in October, was a test of Prospect "K", a subtle closure to the west of the higher amplitude TGT structure. After encountering reservoir sands, the first exploration well on the Te Giac Xang (TGX) structure on Prospect "K" was plugged and abandoned when initial analysis indicated that it was not drilled within structural closure. Located in a previously untested portion of the Clastics fairway on Block 16-1, the TGX-1X well was drilled to a depth of 3,506 metres. Finding reservoir is the main risk in drilling in this fairway, so the presence of reservoir in TGX-1X is a positive indicator for future success as drilling locations step out from the initial TGT discovery. The seismic over the area is being reprocessed and remapped to better define the structure for a possible second well.

The final well drilled in 2006 and the fifth appraisal well on the TGT structure was drilled on the "H2" fault block. The TGT-5X had a total combined maximum flow rate of approximately 16,430 BOEPD from the LBH 5.2 and Oligocene "C" intervals.

The first drill stem test, over the 32 metre Oligocene “C” interval, tested water-free at a maximum rate of 7,098 BOPD of 36.5 degree API gravity crude and approximately 2.07 MMCFD through an 80/64 inch choke size. The most prolific interval in the other successful wells drilled on TGT, the LBH 5.2 pay zone, was perforated and tested separately between 2,841 and 2,866 metres with a maximum flow rate of 8,987 BOEPD comprising 8,104 BOPD of 41 degree API gravity crude and approximately 5.3 MMCFD through an 80/64 inch choke size.

On the TGT structure, only the southern most fault block in the five fault block structure remains to be drilled. The LBH 5.2 and Oligocene “C” reservoirs encountered in the TGT-5X well appear to be the same as those tested in the previous TGT wells. With an 80% drilling success rate on the TGT structure and tests ranging from approximately 9,000 BOEPD to approximately 17,500 BOEPD, activities are now focused on early approval for development of the field.

The rig was moved to Block 9-2 to drill the initial Clastics well on the Ca Ong Doi (COD) structure after a long delay due to inclement weather.

Block 9-2

Drilling operations recommenced on 5 June 2006 into the “D” fault block of the Ca Na Vang (CNV) structure to drill the sidetrack to the CNV-4X well on Block 9-2 that was temporarily suspended in 2005 after encountering unexpected high pressures in the Oligocene sequence above the Basement. The re-entry and sidetrack of the appraisal well, CNV-4XST, tested at a maximum combined rate of approximately 7,050 BOEPD comprised of approximately 5,333 BOPD and approximately 10.3 MMCFD. The open hole test was conducted over a 13 hour period from a Basement interval of approximately 1,350 metres.

Log analysis of the Oligocene “E”, penetrated by this well, indicated that the interval lacked permeability. The CNV-4XST was drilled to a MD of 6,330 metres making it the longest MD well to be drilled in Vietnam, exceeding the previous record set by the HVJOC when it drilled the CNV-3X appraisal well in 2005. The well was suspended as a producer.

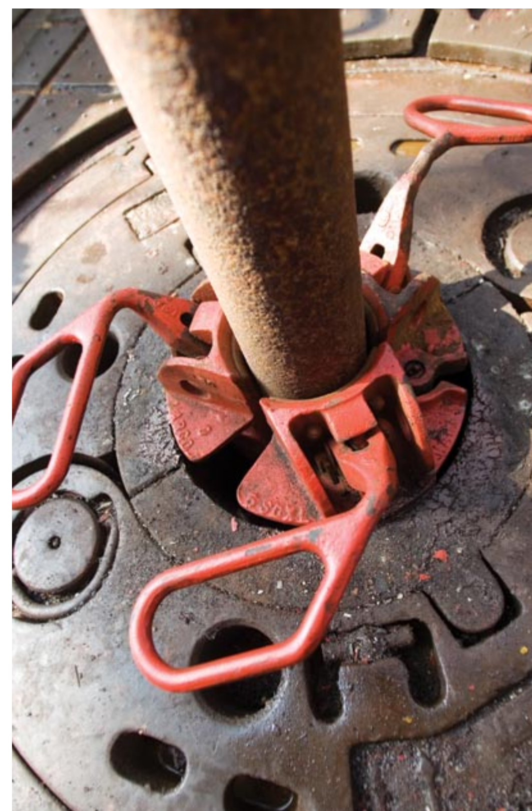
Preparations for development of the CNV field picked up momentum in April of 2006 following the unanimous approval of the Declaration of Commerciality on the field by the shareholders of the HVJOC. Petrovietnam officially approved the Pilot Development Plan in December. Subsequent to this approval, Petrovietnam has become a full paying participant in its 50% interest in Block 9-2.

Vietnam has become a participant in the World Trade Organization (WTO). Following its admission into the WTO, portions of the state operated enterprises, including Petrovietnam, are expected to be privatised. This portends a change in negotiating certain aspects of the development programme, particularly a gas sales agreement as the gas group is expected to be an early candidate for privatisation. However, discussions on the sales agreement for the associated gas produced from the CNV field have continued. Equipment and materials are being ordered and fabrication of various structures will begin soon in anticipation of having first oil in the first half of 2008.

The rig, which had been conducting the Group’s Vietnam drilling programme since the beginning of 2005, moved out of Vietnamese waters after completion of the CNV-4XST. However, the drilling campaign continued uninterrupted with

ANTONY MARIS
Group Operations
and Production Manager

GEORGE HEPLER
Group Technical/
Engineering Manager



the Trident 9 drilling rig, which the JOCs had contracted in 2005, commencing operations back on Block 16-1. A further two rigs were put under contract during the year to conduct an even more extensive 2007 drilling programme.

SUBSEQUENT EVENTS AND 2007 OUTLOOK

The drilling rig that began operations on Block 16-1 in the third quarter of 2006 was delayed from moving to a Block 9-2 drilling location on the COD structure after completing the TGT-5X well due to inclement weather that prevented the rig from being safely towed. Accordingly, the COD-2X Clastics target well did not spud until 16 February 2007. Although the well encountered sands in the Oligocene and Lower Miocene, there was no significant oil pay encountered and the well was subsequently plugged and abandoned and the rig moved back to Block 16-1.

Although the rig currently working is only available into the second quarter of this year, the JOCs have already contracted two other rigs – one of which is expected to be available late in the first quarter or early in the second quarter and the other later in the second quarter. The prognosed drilling programme calls for eight wells on Block 16-1 and three to five development injector/ producer wells on the Block 9-2 CNV field as it prepares for first oil in the first half of 2008.

Efforts are underway to obtain a declaration of commerciality for the TGT structure. The front-end work required to transition operations from the exploratory phase to the development phase is in progress with the hopes to allow first oil from Block 16-1 sometime in 2009.

The exploration phase on both blocks is set to expire at the end of 2007 unless further extended by agreement with the Vietnamese Government. Thus the 2007 drilling campaign is extremely important in terms of fully evaluating the blocks and securing areas for longer term development.

YEMEN

Throughout the year, the East Shabwa Block 10 consortium continued its programme to further appraise the Kharir field and to increase production capacity from Block 10. The East Shabwa Block 10 consortium comprises Comeco Petroleum, Inc. (28.57% interest), in which SOCO holds a 58.75% interest, TOTAL E&P Yemen (28.57% interest and operator), Occidental Yemen Ltd. (28.57% interest) and Kuwait Foreign Petroleum Exploration Co. (14.29% interest).

Drilling results and the addition of a self-contained production facility have enabled the fields to exceed all previous production records. For the second consecutive year, production increases were significant – circa 40% and 22% for 2005 and 2006, respectively. During the year, production exceeded 40,300 BOPD, up almost 7,400 BOPD from the 32,937 BOPD year average the previous year, despite having to curtail production due to safety and production management reasons below the 45,000 BOPD plateau reached earlier in the year.

Production from the East Shabwa Development Area (ESDA), approximately 80% of which originates 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 2006 ACTIVITIES

A number of successful development wells were drilled in the Kharir field (KHA) during the first half of 2006. These include the KHA-1-12 well in the western part of the structure, the KHA-1-14

DRILLING RESULTS AND THE ADDITION OF A SELF-CONTAINED PRODUCTION FACILITY IN THE ESDA HAVE ENABLED THE FIELDS TO EXCEED ALL PREVIOUS PRODUCTION RECORDS

PROVEN AND PROBABLE RESERVES
millions of barrels of oil equivalent

2006: 160.6

2005: 133.2

well in the southern flank of the structure and the KHA-1-07.G1 sidetrack, which was drilled as a water injection well but completed as a producer based on drilling results. These wells are all connected to the production facilities and were tested at rates between 5,500 and 8,000 BOPD.

The KHA-1-16 well, drilled on the eastern most 3D seismic line as part of the continuing appraisal and development of the Basement reservoir in the Kharir field, tested at over 8,400 BOPD. The implications of the results of this edge of field are that the field could have a substantial eastward expansion.

Most of the drilling activity in the Kharir field in the second half of 2006 was spent on the drilling of water injection wells to provide pressure support for the Basement production. These include the KHA-1-15, KHA-1-17, KHA-1-19 and the KHA-2-18 wells. In addition, the gas injection well, KHA-1-11 was completed with two open hole sections to maximise the injection capacity of the well.

The appraisal of the Kharir North area has continued with the KHA-3-08 drilled to the very

SERGE LESCAUT
General Manager, West Africa
(below, right)

northwest of the mapped area of the structure. Testing operations on this well are ongoing.

Activity to enhance the recovery of the Biyad reservoir horizons at both Atuf and Kharir are also ongoing. At Atuf the ANW-012 and ANW-013 infill production wells encountered the reservoir horizons higher than expected. These have provided encouragement for more efficient reservoir recovery.

The thrust of the exploration programme in 2006 was in the northern part of Block 10 in the Jathma/Wadi Taribah area. The first Jathma exploration well, the JAT-01 that tested early in the year over 1,900 BOPD, was placed on long term production in the third quarter of the year. The oil produced is trucked to the existing Kharir facilities for processing and export.

Two other exploration wells in the Jathma area, the JAT-02-ST and the exploration well on the eastern side of the Jathma area, JAT-04, encountered significant oil columns, but did not flow commercial volumes of hydrocarbons when tested. An evaluation of the results of all the Jathma area wells drilled to date is underway.

SUBSEQUENT EVENTS AND 2007 OUTLOOK

Drilling of development and injector wells in the Kharir field to increase Basement productivity will continue throughout the year. In particular, delineation of the eastern end of the field will be a priority in 2007. Additionally, the KHA-1-20 and KHA-1-22 Biyad oil production wells are being drilled currently to accelerate and improve the recovery from the Clastics horizon.

The additional surface facilities required to provide injection capacity are being installed and the pre-drilled water injection wells will be connected during the middle of 2007. Currently, the final elements of the commissioning of the gas injection equipment are being completed prior to commencing gas injection to provide pressure maintenance in the crestal area of the Basement.

Production capacity is expected to continue to increase during the year as various initiatives progress. Together with adding water injection capability to improve pressure maintenance in the Basement reservoir, considerable productive capability should be added throughout the year, albeit after an early 2007 cutback pending the installation of these facilities.

Three drilling rigs are expected to continue operating throughout the year. As at the date of this publication three rigs are under contract on Block 10 and are drilling in the Kharir field. One rig is expected to be used for exploratory drilling in the southeast corner of the Block later in the year.

REPUBLIC OF CONGO (BRAZZAVILLE)

SOCO Exploration and Production Congo (SOCO EPC), the Company's 85% owned subsidiary was initially awarded a 75% interest in the Marine XI Block, offshore the Republic of Congo (Brazzaville) in 2005. The terms of the Production Sharing Agreement signed by the Société Nationale des Pétroles du Congo (SNPC) and SOCO EPC was approved during the Congolese Parliament and the

Senate extraordinary session in the first quarter of 2006. The law became effective 30 March when signed by the President of the Republic.

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 oil discoveries, the largest of which has initial recoverable reserves estimated to be in the 30 to 60 million barrel range.

REVIEW OF 2006 ACTIVITIES

In September, SOCO EPC entered into an agreement to farm-out an 18.75% interest in the Marine XI Block, offshore the Republic of Congo (Brazzaville), to each of a subsidiary of Lundin Petroleum AB and to Raffia Oil SARL. SOCO EPC retained operatorship with a 37.5% working interest in the Block. The regulatory authorities of the Government of the Republic of Congo (Brazzaville) ratified the farm-out on 4 January 2007.

Acquisition of an approximate 1,200 square kilometre 3D seismic programme was completed in the fourth quarter. 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 pre-salt section.

SUBSEQUENT EVENTS AND 2007 OUTLOOK

Processing and interpreting the 3D seismic acquired in 2006 will be the priority. Although it is possible that SOCO EPC could be ready to drill in the latter half of this year, it is more likely that drilling will commence in the first half of 2008.

DEMOCRATIC REPUBLIC OF CONGO (KINSHASA)

In July, the Company's 85% owned subsidiary, SOCO DRC Limited (SOCO DRC), signed subject to presidential decree, a Production Sharing Contract with the Government of the Democratic Republic of Congo (Kinshasa) and La Congolaise des Hydrocarbures (Cohydro), the state owned oil company, wherein it acquired an interest in the Nganzi Block. The Block, onshore the Democratic Republic of Congo (Kinshasa), comprises an area of approximately 800 square kilometres. SOCO is the designated operator with an 85% working interest in the Block.

REVIEW OF 2006 ACTIVITIES

Most of the activity during the year was focused on detailed analysis of a reconnaissance aeromagnetic and gravity survey over the onshore extension of the coastal basin in order to delineate prospective areas for hydrocarbon generation and migration. The survey indicated the presence of a deep pre-salt source graben in the northern part of the basin in the Nganzi Block. Regional mapping shows the graben to be on trend with the source basin for the M'Boundi field in the southern part of the Republic of Congo (Brazzaville). Several leads, interpreted as large horst blocks, have been identified on the Block.

SUBSEQUENT EVENTS AND 2007 OUTLOOK

Prior to acquiring a 2D seismic survey, the Company expects to conduct a geochemical

survey to further define the prospectivity of various identified structures. Initially, the plan is to acquire some 300 to 500 kilometres of 2D seismic. Dependent upon the timing of the seismic acquisition, processing and interpretation could be substantially completed this year. Any meaningful work programme is conditional upon obtaining the presidential decree.

THAILAND

SOCO's 99.93% owned Thailand subsidiary, SOCO Exploration (Thailand) Co. Ltd. (SOCO Thai), holds a 100% interest in Block B8/38 located offshore in the Gulf of Thailand. An application and development plan was approved in 2006 by the Thailand Department of Mineral Fuels to convert the concession into a production licence on the Bualuang discovery on the Block.

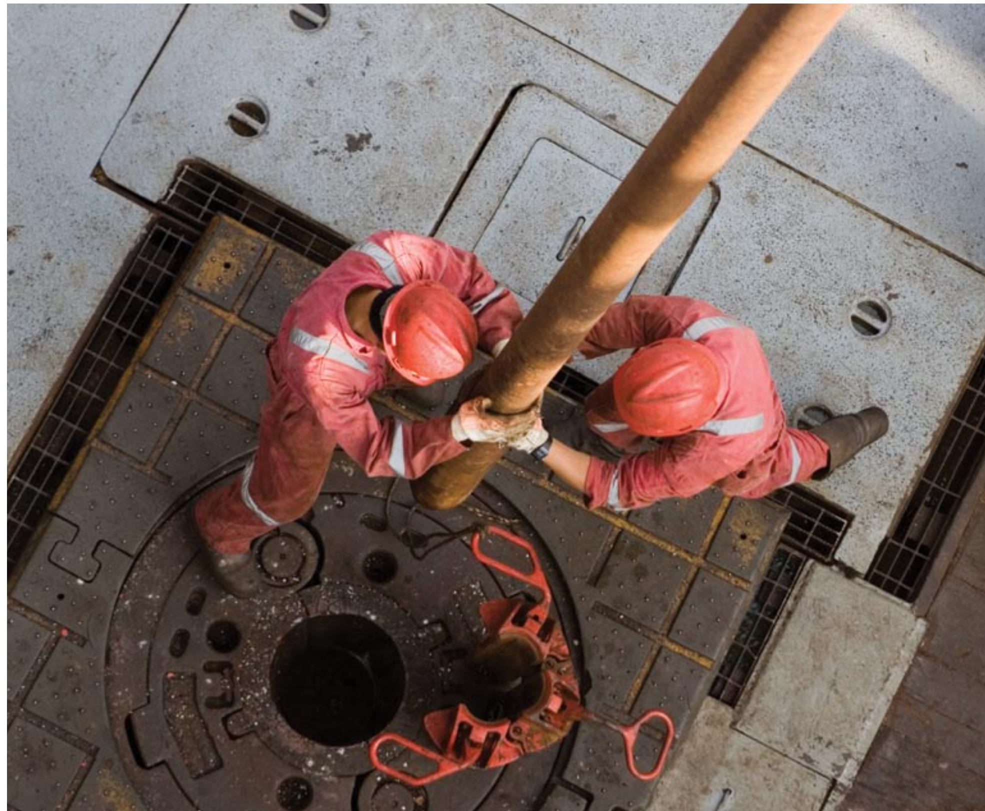
REVIEW OF 2006 ACTIVITIES

Upon securing approval from the Thailand Department of Mineral Fuels to convert the field from an exploration to a production licence in the first quarter of 2006, SOCO Thai signed an agreement to allow a two group consortium to earn up to a 60% working interest in the licence (details of the farm-out are in the Financial Review). If the earn-in terms of the agreement are fulfilled, SOCO Thai would retain a 40% working interest in the field. The assignment of interests in the agreement is subject to approval of the appropriate regulatory authorities of the Government of Thailand.

During the year, the farmee's efforts were directed toward the planning and contracting of several front-end activities precluding the start-up of development operations in 2007.

SUBSEQUENT EVENTS AND 2007 OUTLOOK

In January, the farmee group was consolidated with GFI Oil and Gas Corporation (GFI) becoming



the sole farmee. GFI expects to conclude a high resolution 100 kilometre 2D seismic programme during the second quarter of 2007 in preparation for drilling the initial commitment well and completing the milestone to earn a 20% interest in the Bualuang field.

Further, GFI has already entered into a contract with a floating production, storage, and offloading vessel with the expectation of concluding the work programme to earn an additional 40% interest by funding 92% of the costs to take the project to first oil. GFI estimates first production would be achieved in the first half of 2008.

OTHER AREAS OF INTEREST

CABINDA

In October, the Company was informed by Sonangol, the national oil company of Angola, that it would have a participating interest in the contractor group of the Cabinda Onshore North Petroleum Concession. The Group anticipates formal completion of the assignment in the first half of 2007. Preparation has begun for the acquisition of a high resolution aeromagnetic and gravity survey over the Block.

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. While the focus in the past two years of the Libyan National Oil Company has been on open exploration bid rounds, it announced in late 2006 an initiative to negotiate for participation in production and development projects.

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.

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 yet 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 directly participates in the operation of two offshore exploration and appraisal ventures, in Vietnam and the Republic of Congo (Brazzaville). In these cases, environmental and social impacts are relatively minor. Environmental impact assessments are nevertheless carried out and independent performance monitoring is standard practice. Beginning in 2006, SOCO has begun onshore operations in the Democratic Republic of Congo (Kinshasa) and detailed procedures are being developed for this activity (see below).

Where SOCO participates as an operating 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.

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.

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.

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.

With SOCO's recent entry into West Africa, a new core area of operations, it has been important to review and clarify the Company's approach to the implementation of community relations and related risk management practices to assure the following key objectives:

- Preservation and enhancement of SOCO's reputation and that of its existing and future joint venture partners
- Reduction of corresponding operating risks in relation to the assets
- Clarification of SOCO's responsive risk management strategy
- Positioning for reporting on social risks and responsive management practices.

As such, we have had an independent third party contractor, who specialises in this work, review our current approach and recommend improvements. Lessons from this assessment will be applied, with appropriate modifications, to all SOCO's operations in West Africa, as well as elsewhere.

RECENT ACTIVITY AND OUTLOOK

WEST AFRICA

In the last year, SOCO has agreed participation in offshore Republic of Congo (Brazzaville), onshore Democratic Republic of Congo (Kinshasa) and onshore Cabinda. SOCO is operator for the first two operations so has principal responsibility for management of CR issues.

SOCO's new operations in West Africa are managed deploying the same approach to local involvement that the Company has taken elsewhere in the past, principally Mongolia, where our operations were always underpinned by the Company's strong commitment to building skills among local communities. This has the effect of generating positive economic benefits, both locally and nationally. Virtually all of the people who work for us in the Republic of Congo (Brazzaville) and the Democratic Republic of Congo (Kinshasa), whether employees or contractors, are nationals. Their association with SOCO will give them access to training of a high international standard. This approach to local communities works both ways; as well as reducing SOCO's costs and risk exposure, it will attract ongoing support from the local authorities.

REPUBLIC OF CONGO (BRAZZAVILLE)

Already, even though SOCO only established an office in late 2006, the Company, together with the support and co-operation of the Ministry of Hydrocarbons in the Republic of Congo (Brazzaville) has supplied or commenced a number of projects aimed directly at providing support for the benefit of the local communities where we operate. These include the supply of 3,000 impregnated mosquito nets to the communities of Ngoyo and Lumumba, supply of drugs at the Polyclinic Kitoko in Pointe Noire, the drilling of a water well for the community of Madingo-Kayes, and the distribution of school stationery and Christmas presents to children in Pointe Noire.

IT IS A PRIORITY CONSIDERATION THAT EVERY RELEVANT EMPLOYEE UNDERSTANDS THE IMPORTANCE OF CR MANAGEMENT AND HAS KNOWLEDGE OF WHAT CONSTITUTES BEST PRACTICE

SOCO, through its wholly owned subsidiary SOCO Exploration and Production Congo, has already conducted seismic operations in the shallow water Marine XI licence area. Prior to this activity, the Company completed the required environmental assessments and impact studies. Exploration activity is likely to commence in 2008 and this year will see the additional work needed to support the approval of drilling operations completed. This will include all the required environmental assessments.

DEMOCRATIC REPUBLIC OF CONGO (KINSHASA)

SOCO is currently preparing to undertake a seismic programme in its Democratic Republic of Congo (Kinshasa) licence area. Part of the planning for this survey will involve environmental and social impact assessments. An important first step will be the identification of local social issues and this will require interaction with local communities to learn about their social priorities and to inform them about the nature of impending and future operations. Being onshore, active community liaison will be important as will deployment of local personnel to support operations.

VIETNAM

The Company also continues to demonstrate its commitment in Vietnam. In 2006, as well as providing a donation and support for victims of the Typhoon Xangsane, we also contributed towards the construction of the Dang Thuy Tram hospital at Duc Pho, Quang Ngai province. Also, financial assistance for the construction of Ky Son Hospital in Hao Binh province was made. This project will benefit a community of over 4,200 people and will serve the community for at least the next 10 years. Equally, financial support was given for the construction of a surgery for children with Delta Muscle Fibrosis in Ha Tinh Provice that deals with some 1,500 cases of the disease.

At the same time we have contributed towards the upgrading and provision of educational facilities, as well as scholarship for underprivileged pupils, in the Binh Thuan district of Ho Chi Minh City. We continue to support construction of a rehabilitation centre for Agent Orange victims in Vinh Phuc Province. After receiving the required approvals, the levelling of the surface and the commencement of construction has commenced. Support for this project will continue in 2007.

Successful exploration and appraisal offshore Vietnam has resulted in the formation of plans for development. With the approval of the first development full environmental and social impact assessments have been undertaken, although impacts are expected 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.

YEMEN

In Yemen, increased oil production has led to an increase in associated gas production which has resulted in increased gas flaring, rising to approximately 21 million cubic feet per day (MMCFD). SOCO has encouraged and supported the operator in addressing this issue and the first temporary gas injection facilities, having a capacity of 10 MMCFD, are now installed and are being commissioned. Additional permanent facilities have been designed and all the initial required activities commenced. At the same time, gas fired power generation and gas fuelled engines, which will utilise up to 3 MMCFD and displace existing diesel powered generators, are being installed. The diesel powered engines produce more harmful emissions than gas and the fuel requires transportation to site by road tankers.

MONGOLIA

Our operations in Mongolia, which have now been disposed of, had always been underpinned by a strong commitment to building skills among local communities. 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 the highest international standards. Even in the sale of its Mongolian assets, the Company worked with the government to preserve and enhance local involvement in order to make the most of the change in ownership of the asset. The new Chinese owners are committed to an even higher level of activity which will further benefit Mongolian and Chinese communities affected by the operations.

POLICY AND FUTURE MANAGEMENT OF CR

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.

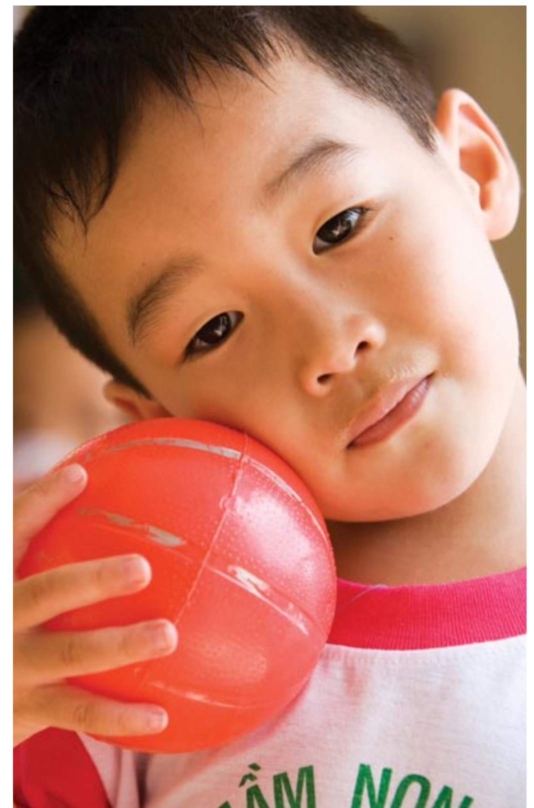
In this context, SOCO has, during the last two years, raised a credit facility from the International Finance Corporation (IFC), which is the private sector arm of the World Bank Group. As part of the due diligence process, IFC personnel visited all of SOCO's sites to assess our environmental and social management practice. We intend to build on this 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.

The Company recognises the environmental impact of emissions from both its operated and non-operated activities. Currently, SOCO has nil operated emissions in terms of carbon dioxide equivalent. However, as part of its growth in operations, the Company is establishing a reporting mechanism through which the environmental impact of operations is measured and a means of reducing emissions of, in particular, greenhouse gases. The equity share of the Company's non-operated emissions for 2006 was approximately 0.02 million tonnes of carbon dioxide equivalent, all of which comes from its participation in Yemen.

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.



ROGER CAGLE
Deputy Chief Executive
and Chief Financial Officer

Driven by another record high for average crude oil prices received during the year and record production from the Group's Yemen project, after tax profits for the year jumped 42% from the previous year, rising to $29.1 million from $20.5 million in 2005. This translates into basic and diluted earnings per share of 41.3 cents and 36.9 cents, respectively, as compared to 29.0 cents and 25.6 cents in the prior year from continuing operations.

KEY PERFORMANCE INDICATORS

	2006	2005
Realised oil price per barrel ($)	**62.73**	50.28
Operating cost per barrel ($)	**5.91**	4.55
DD&A per barrel ($)	**3.70**	3.40
Basic earnings per share (cents)	**41.3**	29.3
Diluted earnings per share (cents)	**36.9**	25.8
Total shareholder return (%)	**75.8**	102.6

See the Five Year Summary on page 69 for definitions

INCOME STATEMENT

OPERATING RESULTS

Group oil and gas revenues in 2006 increased by 34% to $76.5 million from $57.2 million in 2005. Of this increase $27.4 million was mainly due to a higher average realised oil price per barrel, which increased from $50.28 in 2005 to $62.73 for the reporting period and an increase in the Group's net working interest production for its Yemen operations from 5,529 barrels of oil per day (BOPD) to 6,766 BOPD. Offsetting the higher price and production volumes was a variance of $8.1 million on adjustments of lifting imbalances arising in prior periods.

Cost of sales in 2006 were $21.2 million against $19.6 million in 2005 with the $8.1 million

variance on lifting imbalances reducing cost of sales in 2006 compared to 2005. Ignoring lifting imbalances the underlying increase in cost of sales has arisen due to higher production volumes, higher per barrel operating costs and higher depreciation, depletion and decommissioning costs (DD&A).

On a per barrel basis, excluding lifting imbalances and inventory effects, operating costs attributable to the Group's sole producing asset increased from $4.55 per barrel in 2005 to $5.91 per barrel in 2006. This was mainly due to higher production costs, equipment rentals and manpower costs associated with increased capacity and accelerated production along with higher diesel and transportation costs due to higher fees as the East Shabwa Development Area increases its proportionate use of shared facilities.

DD&A increased by $2.2 million from $7.1 million in 2005 to $9.3 million in 2006 due primarily to higher production. On a per barrel basis DD&A increased to $3.70 per barrel in 2006 from approximately $3.40 per barrel in 2005 due to higher future development costs associated with extracting additional Basement reserves.

Administrative costs for the year increased from $5.3 million in 2005 to $8.8 million in 2006. This is primarily associated with higher payroll obligations, including taxation arising on share option gains following the significant increase in the Company's share price and increased performance based bonuses along with administrative costs associated with the Company's corporate activities.

Other operating expenses which comprise pre-licence exploration expenses decreased to $0.2 million in the reporting year from $1.0 million in 2005. This reflects the Group's continuing success in acquiring licences in its new core area of West Africa.

The aforementioned effects led to a 48% increase in operating profit. Operating profit was $46.3 million in the year ending 31 December 2006 rising from $31.3 million in 2005.

NON-OPERATING RESULTS

Following the issue of convertible bonds, discussed below, the Group had a significantly higher cash and cash equivalents balance, which was the main reason investment income increased from $2.0 million in 2005 to $9.3 million in the current reporting period.

The decrease in other gains and losses from $0.9 million in 2005 to $0.7 million in 2006 was primarily due to an exchange gain of $0.5 million in 2005, partially offset by a higher gain in 2006 on the change in fair value of the financial asset associated with the subsequent payment amount tied to future oil production from the Group's divested Mongolia interest. This figure includes a full year of unwinding of the discount in 2006 as compared to four months in 2005.

Finance costs increased from $0.5 million in 2005 to $8.1 million for the reporting year due to the interest expense on the liability component of the convertible bonds.

The tax charge increased from $13.4 million in 2005 to $19.1 million in 2006 consistent with the increase in operating profit.

CASH

SOCO's cash and cash equivalents increased from the year end 2005 amount of $51.0 million to $187.8 million at 31 December 2006 mainly due to the proceeds of the convertible bonds issue supplemented by net income from the Group's

REALISED OIL PRICE
per barrel ($)

2006: 62.73

2005: 50.28

Yemen operations. The increase was offset by the continuing investment in capital projects.

CAPITAL EXPENDITURE

Capital expenditure of $114.3 million in 2006 compared to $76.2 million for 2005 reflects the Group's continued drilling activity in both Vietnam and Yemen, facility upgrades in Yemen and the commencement of operational activity in the Group's new core area of West Africa. Also, in June 2006, the Group acquired an additional 2% working interest in Block 16-1 offshore Vietnam for consideration paid of $22.0 million (see below for details of the transaction).

As discussed in the Review of Operations, the Hoan Vu Joint Operating Company (HVJOC) obtained approval from Petrovietnam for a Pilot Development Plan in December 2006 marking the successful conclusion of the appraisal programme. In accordance with the Group's accounting policy set out in Note 2 to the financial statements, the intangible costs to 31 December 2006 associated with the HVJOC have therefore been transferred to property, plant and equipment.

DIVIDEND

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

OWN SHARES

The SOCO Employee Benefit Trust (the Trust) was established in 2001 to administer a Long Term Incentive Plan. At the end of 2006, the Trust held 2,273,300 of the Company's ordinary shares (Shares), unchanged from 2005 and representing 3.12% of the issued share capital. Associated with the convertible bonds issue in May 2006, the Trust entered into a Global Master Securities Lending Agreement (GMSLA) with Merrill Lynch International. As at 31 December 2006, 1,375,000 Shares were lent under the GMSLA.

During the year, the Company purchased 608,000 treasury Shares at a cost of $13.6 million. Of these, 580,500 plus brought forward treasury Shares of 150,000 were used to satisfy the obligation to issue Shares in settlement of certain share options. As at 31 December 2006, the Company held 27,500 treasury Shares.

CORPORATE DEVELOPMENTS

THAILAND FARM-OUT

In April 2006, the Company's subsidiary, SOCO Exploration (Thailand) Co. Ltd. (SOCO Thai), signed a Participation Agreement (Agreement) with GFI Oil and Gas Thailand Inc. (GFI) and TOPoil LTD, wherein they can earn up to a 60% working interest in the Bualuang field in the Gulf of Thailand. In January 2007, the farmee group was consolidated with GFI becoming the sole farmee (Farmee).

Under the terms of the Agreement, a 20% interest can be earned by the Farmee upon the conclusion of a Phase I work programme wherein the Farmee must conclude a high resolution 100 kilometre 2D seismic programme and drill one well in the Bualuang field. At the election of the Farmee, a further 40% working interest can be earned in the Phase II work programme. The Phase II work programme, during which SOCO Thai would fund only 8% of the cost, requires the Farmee to drill up to eight wells, install a platform and take the project to first oil. The assignment of interests in the Agreement is subject to approval of the appropriate regulatory authorities of the Government of Thailand.

After the end of the Phase II period, the Farmee shall be designated the operator of the project

and shall engage an independent reservoir engineer to perform an analysis of the proven reserves contained in the Bualuang field. The Farmee shall pay SOCO Thai an amount equal to one dollar ($1.00) for each barrel over 10.4 million barrels.

CONVERTIBLE BONDS

In May 2006, SOCO Finance (Jersey) Limited issued $250 million in guaranteed convertible bonds (Bonds). The Bonds will be convertible into the preference shares of the issuer, which are exchangeable for fully paid ordinary shares of SOCO. The Company is guarantor of the offering. The size of the offering was increased from $200 million due to strong institutional demand, but was still six times oversubscribed upon issue.

The Bonds were priced at par and will pay a coupon of 4.50% per annum. The Bonds will initially be convertible into an aggregate of approximately 6.238 million ordinary shares. The conversion premium was set at 42.00%. The initial conversion price is £21.847 per ordinary share. The conversion price will be subject to adjustment from time to time upon the occurrence of certain events. Payment for, and settlement of, the Bonds occurred on 16 May 2006. Unless previously converted or redeemed, the Bonds will be repaid at 100% of their principal amount on 16 May 2013.

The Bonds were admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Professional Securities Market.

ACQUISITION OF MINORITY INTEREST IN VIETNAM

In June 2006, the Company's wholly owned subsidiary SOCO International (Cayman) Limited acquired the entirety of the shareholding of OPECO, Inc. for a total consideration of $22.0 million. OPECO, Inc. in turn holds the entirety of the shareholding of OPECO Vietnam Ltd., which holds a direct 2% interest in Block 16-1 in the Cuu Long Basin offshore Vietnam.

APPOINTMENT OF CORPORATE BROKER

In August 2006, SOCO appointed Merrill Lynch International to be its joint Corporate Broker along with Bridgewell Limited.

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.

The Group seeks to minimise the impact that debt financing has on its balance sheet by negotiating borrowings in matching currencies. The convertible bonds and the IFC facility are denominated in US dollars.

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

For further discussion of the Group's financial risk management see Note 3 to the financial statements.

OPERATIONAL

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

The Group does not maintain any fixed price, long term marketing contracts. Production is sold on "spot" or near term contracts, with prices fixed at the time of a transfer of custody or on the basis of 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.

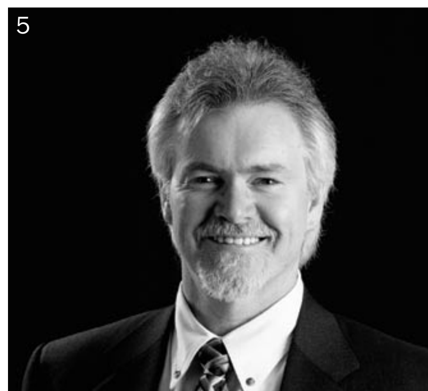
SOCO does not currently carry political risk or associated business interruption coverage to mitigate such risks. However, it periodically assesses the cost and benefit of both and future circumstances may lead the Group to acquire such cover.

BASIC EARNINGS PER SHARE
(cents)

2006: 41.3

2005: 29.3

BOARD OF DIRECTORS



1. RUI DE SOUSA (51)
Non-Executive Chairman

- A member of the Board of SOCO International since 1999 and Chairman of the Nominations Committee.
- Chief Executive Officer of the Toro Group for over a decade.
- Currently, a director of Quantic Limited, a director of New Falcon Oil Limited and Chairman of Carbon Resource Management Ltd.

2. ED STORY (63)
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 non-executive director of Cairn Energy PLC.

3. PETER KINGSTON (64)
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, Executive Chairman of Tower Resources plc, a non-executive director of Stratic Energy Corporation and a director of Plexus Energy Limited, a social and environmental advisory network.

4. ETTORE CONTINI (32)
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.

5. ROGER CAGLE (59)
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.
- Currently, the non-executive Chairman of Dominion Petroleum plc and a non-executive director of Vostok Energy Limited.

6. MARTIN ROBERTS (62)
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.

7. JOHN NORTON (69)
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.

8. ROBERT CATHERY (62)
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 non-executive director of Vostok Energy Limited, Salamander Energy Ltd and Indigovision plc.

9. OLIVIER BARBAROUX (51)
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.

10. JOHN SNYDER (65)
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.

THE ANNUAL REPORT OF THE DIRECTORS

CYNTHIA CAGLE
Vice President and Company Secretary

The Directors present their annual report, along with the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITY AND ENHANCED 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, the Republic of Congo (Brazzaville) and the Democratic Republic of Congo (Kinshasa). The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 16 to the financial statements.

In compliance with requirements of the Companies Act, a fair review of the performance and development of the Group's business during the year, its position at the end of the year and its future prospects is contained in the Chairman's and Chief Executive's Statement, the Review of Operations and the Financial Review on pages 2 to 19 and 24 to 27. The principal risks and uncertainties facing the Group are set out in the Financial Review on pages 24 to 27 and, in respect of the principal financial risks, in Note 3 to the financial statements. The key performance indicators (KPIs) used by management are set out on pages 9 and 24, and are summarised along with pertinent definitions in the 5 Year Summary on page 69. As set out in the Corporate Responsibility report on page 20, SOCO is committed to high standards of corporate responsibility. However, the size and scope of those projects which

the Company directly operates is small with a commensurately small organisation. While we closely monitor the health, safety and environmental matters of the full portfolio, the primary measures are relevant to the performance of third party operators. Additionally, at the current staff size, key personnel matters are measured through qualitative rather than statistical measures. KPIs will be developed in these areas at an appropriate time in the evolution of SOCO's operations.

RESULTS AND DIVIDENDS

The audited financial statements for the year ended 31 December 2006 are set out on pages 50 to 68. 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 (2005 – £nil).

DIRECTORS

The Directors, who held office throughout the year except as noted, and the dates of their current service contracts or letters of appointment, which are available for inspection, are listed in the table below.

Relevant details of the Directors, which include their Committee memberships, are set out on pages 28 and 29. Details of Directors' interests and Directors' transactions are included in the Directors' Remuneration Report on pages 41 to 47.

Mr Roger Cagle will retire by rotation at the forthcoming Annual General Meeting (AGM). Mr Peter Kingston, Mr John Norton and Mr John Snyder, having served on the Board for more than nine years, are subject to annual re-election and will also retire at the AGM. The Board appointed Mr Rui de Sousa as Chairman on 6 December 2006 after considering all of the relevant factors, including his independence. Since Mr de Sousa was not independent on appointment, he will be proposed for reappointment at the AGM. Each of the retiring Directors offers themselves for reappointment, being eligible and having been recommended for reappointment by the Nominations Committee.

The Nominations Committee carefully considered its recommendations regarding the appointment of Chairman and the reappointment of retiring Directors with regard to the policies and processes set out in more detail in the Corporate Governance Report on pages 33 to 40. The independence of the retiring Chairman and Non-Executive Directors has been considered including the relevance of tenure. The Board has given full consideration to the balance of skills, knowledge and unique breadth of experience on the Board and the manner in which each of the retiring Directors contributes to that balance. These factors have been weighed in consideration of succession planning and the need to refresh Board and Committee membership. The Chairman, having given consideration to the results of the Board's formal evaluation process and other relevant factors, is satisfied that the retiring Non-Executive Directors continue 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. The annual cost of the cover is not material to the Group. The Company's Articles of Association allow it to provide an indemnity for the benefit of its

DIRECTORS HOLDING OFFICE IN 2006

Director	Date of contract
Rui C de Sousa (Chairman from 06.12.06)	12.07.99
Patrick C J Maugein (Chairman until 05.12.06) (deceased)	12.07.99
Peter E Kingston* (Deputy Chairman and Senior Independent Director)	14.05.97
Olivier M G Barbaroux*	12.07.99
Roger D Cagle	14.05.97
Robert M Cathery	19.06.01
Ettore P M Contini	11.12.01
John C Norton*	14.05.97
Martin J D Roberts*	06.09.04
John C Snyder*	14.05.97
Edward T Story	14.05.97

*Denotes those determined by the Board to be independent Non-Executive Directors as described in the Corporate Governance Report on page 33.

Directors which is a qualifying indemnity provision for the purpose of the Companies Act 1985.

SUPPLIER PAYMENT POLICY

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

CHARITABLE CONTRIBUTIONS

Information regarding the Company's charitable programmes, which are principally carried out in the countries where the Group has operations, is contained in the Corporate Responsibility Report on pages 20 to 23.

SHAREHOLDER COMMUNICATIONS

Legislation was announced earlier this year making it easier for companies to communicate with shareholders electronically using, for example, emails and the internet. The Directors believe there are significant benefits to shareholders from introducing electronic communications consistent with this legislation, for documents such as annual and interim reports, and circulars. A resolution will be placed before the AGM which will allow the Company to take advantage of the new rules on electronic communications in the Companies Act 2006 on implied website usage and, as a listed company, to benefit from the rules on electronic and website communications in the Disclosure and Transparency Rules which came into force in January 2007.

SHARE CAPITAL

Details of changes to share capital in the period are set out in Note 24 to the financial statements. Details regarding purchases during the year of 608,000 of the Company's own ordinary shares into treasury can be found in Note 25 to the financial statements, along with details regarding the utilisation of treasury shares to satisfy certain share options. The shares were acquired to enhance earnings per share. 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 7,274,000 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 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 £4,849,974 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 £727,496 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

As at 13 March 2007, the Company had been notified, in accordance with Sections 198 to 208 of the Act (now replaced by the Transparency and Disclosure Rules), 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 below.

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.

Each of the Directors at the date of approval of this report confirms that, so far as he is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Each Director has taken all steps that he ought to have taken, having made such enquiries of his fellow Directors and the auditors and taken such other steps as are required under his duty as a Director, to make himself aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Act.

By order of the Board 14 March 2007

Cynthia Cagle
Company Secretary

SUBSTANTIAL SHAREHOLDINGS

Name of Holder	Issued Shares Number	Issued Shares % Held	Warrants Number
Pontoil Intertrade Limited	14,733,313	20.25	487,823
Chemsa Ltd	5,921,435	8.14	325,215
Lansdowne Partners Limited Partnership	5,063,224	6.96	-
Legal & General Investment Management Limited	2,542,771	3.50	-
Banca Akros	2,415,254	3.32	-
SOCO Employee Benefit Trust	2,273,300	3.12	-

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 28 to 29, comprises nine Directors in addition to the Chairman. Five of these nine, including the Senior Independent Director, have been identified in the Directors' Report on page 31 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 nine years, the Board recognises that an individual's independence cannot be determined arbitrarily on the basis of a set period of time. The Company manages a portfolio of long term, complex projects and benefits from long serving Directors with detailed knowledge of the Company's operations and with the proven commitment, experience and competence to effectively advise and oversee the Company's management on behalf of shareholders. The Company does not impose fixed term limits as this would assure a loss of experience and knowledge without assurance of increased independence. However, particular scrutiny is applied in assessing the continued independence of Directors having served over nine years, with attention to ensuring their allegiance remains clearly aligned with shareholders.

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 on the Board since 1997. The Board has determined that each of these Directors, in addition to Mr Olivier Barbaroux and Mr Martin Roberts, is independent in character and judgement and free from any relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

REAPPOINTMENT AND REFRESHING OF THE BOARD

Directors are subject to reappointment at least every three years. Reappointment is recommended in consideration of the results of individual evaluation and demonstrated continued satisfactory performance, commitment and effectiveness. Consideration is additionally given to the balance of the Board's composition and the need for refreshment. A Non-Executive Director term exceeding six years is subject to particularly rigorous review, and a term exceeding nine years is subject to annual reappointment.

THE BOARD EMBRACES THE UNDERLYING PRINCIPLES OF CODE PROVISIONS REGARDING TENURE AND REFRESHING OF THE BOARD, AND SEEKS TO STRIKE AN APPROPRIATE BALANCE BETWEEN CONTINUITY OF EXPERIENCE AND SUCCESSION

The Board embraces the underlying principles of Code provisions regarding tenure and refreshing of the Board, and seeks to strike an appropriate balance between continuity of experience and succession. The Company undertakes projects requiring long term cycles from licence negotiation to first production. Its Vietnam programme is of major significance to the Company, with first production targeted in 2008. The current Non-Executive Directors comprise an appropriate balance of skills and experience. Additionally, they have acquired, over a number of years, a sound and detailed knowledge of the Company's business and are uniquely qualified to contribute to the Company's leadership at this critical stage. The continuity of their experience is considered to outweigh the potential benefits of refreshment at this time. The Company has planned for a phased succession to allow for both refreshment and a rebalance of the skills required on the Board as it enters the production phase in Vietnam.

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 the Executives present and, led by the Senior Independent Director, meet without the Chairman present. Such meetings are conducted in the spirit of good governance and process, and are intended to ensure a forum for open dialogue without disruption of Board unity.

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' 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.

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

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 28 to 29. 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 28 to 29. 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 2006, 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 41 to 47.

THE AUDIT COMMITTEE REPORT

The Audit Committee is chaired by Mr Peter Kingston, the Senior Independent Non-Executive Director, and additionally comprises Mr John

BOARD AND COMMITTEE MEETING ATTENDANCE

	Board	Audit Committee	Remuneration Committee	Nominations Committee
No. of Meetings	● ● ● ●	● ● ●	● ●	● ●
No. Attended				
R de Sousa	● ● ● ●			
P Kingston	● ● ● ●	● ● ●	● ●	
O Barbaroux	● ● ● ●		● ●	● ●
R Cagle	● ● ● ●			
R Cathery	● ● ● ●			
E Contini	● ● ● ●			
J Norton	● ● ● ●	● ● ●		● ●
M Roberts	● ● ●	● ●	●	
J Snyder	● ● ●			● ●
E Story	● ● ● ●			● ●
P Maugein (deceased)				

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 28 to 29. The Board is satisfied that the collective experience of the members includes relevant and recent financial experience and provides the complement of skills required for the Committee to discharge its functions effectively. In particular, Mr Norton is a Chartered Accountant and former member of the Oil Industry Accounting Committee. The 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. The effectiveness of these processes is monitored on a continuous basis and a formal assessment is conducted at least annually. The Committee has been delegated the responsibility for advising the full Board on compliance with the Combined Code, including its internal control requirements, as well as compliance with evolving guidance on corporate governance issues generally.

The Committee held three meetings in 2006 and has conducted one meeting to date in 2007, all of which were attended by executive management and external auditors. A private session, without executives present, was held during two of these meetings. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members, external auditors and the Company's executives and employees. The Committee reviewed and approved the terms and scope of the audit engagement, the audit plan and the results of the audit with the external auditors, including the scope of services associated with audit-related regulatory reporting services. An assessment of the effectiveness of the audit process was made, giving consideration to reports from the auditors on their internal quality procedures. Additionally, auditor independence and objectivity was assessed, giving consideration to the rotation of audit partners during the year and the auditors' confirmation that their independence is not impaired.

The Remuneration Committee, with approval of the Audit Committee, has independently appointed the Company's auditor as advisors. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence, and the scope and value of services to the Group is under continuous review. Accordingly, any proposed non-audit service is submitted for Audit Committee review on a case by case basis, rather than by reference to preallowed or disallowed services, and regardless of size or scope. The Committee approved the non-audit services provided by the external auditor in 2006, 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 2007.

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 and financial information related to the Company's issue of convertible bonds. 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 Rui de Sousa, 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 two meetings in 2006 and has conducted one meeting to date in 2007. Other Non-Executive Directors were in attendance at a portion of these meetings by invitation. Certain Committee functions were delegated to a Sub-Committee, which acted on behalf of the Committee after an appropriate dialogue among Committee members to ensure a consensus of views. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members and the Company's executives and employees.

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

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 Senior Independent Director led the Committee's process for appointing the Chairman following the death of Mr Patrick Maugein, after which Mr Rui de Sousa was recommended as the successor. It was determined that Mr de Sousa has the extensive knowledge and experience to meet the requirements set out in the job specification for the Chairman role. During his active role as a Non-Executive Director he demonstrated the time commitment and availability expected of a Chairman. Whilst he did not meet the independence criteria set out within the Code, he acts objectively and in the best interests of the Company and its shareholders as a whole. The Committee carefully considered his shareholding and business relationships, which are similar in nature to those of the former Chairman, and is satisfied these should not impede his ability to effectively fulfil the role. Following the appointment, the Board retains an appropriate balance of skills and experience, and the composition of the Board and its Committees remains in accordance with Code guidelines. As Mr de Sousa was an internal candidate, an independent external advisor was not utilised in this instance. In light of all the relevant factors, the Board determined the appointment of Mr de Sousa to be in the best interests of the Company and its shareholders. Mr de Sousa was additionally appointed to chair the Nominations Committee.

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 retiring Directors be proposed by the Board for reappointment at the forthcoming AGM. Additional detail regarding the Board process in making this determination is set out within this report on pages 33 to 34.

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.

Brokers' reports are discussed at scheduled Board meetings and public relations and analysts' reports are distributed to the full Board. A Non-Executive Director maintains regular communications with SOCO's major institutional shareholders, reports feedback directly to the Board and advises the Board when additional communication from the Chairman, Senior Independent or other Non-Executive Directors has been requested. The Chairman regularly interfaces with other principal shareholders. The Board considers whether additional communication may be appropriate or desirable. In particular, the delegated role of the Senior Independent

Director includes being available to shareholders if they have concerns which cannot be fully or appropriately addressed by the Chairman or the Executive Directors.

INTERNAL CONTROL

The Directors are responsible for establishing, maintaining and reviewing the effectiveness of a sound system of internal control which is designed to provide reasonable assurance regarding the reliability of financial information and to safeguard the shareholders' investment and the assets of the Company and Group. Given the inherent limitations in any system of internal control, even a sound system can only provide reasonable assurance, and not absolute assurance, that the Company will not be hindered in achieving its business objectives or be protected against material misstatement or loss.

The Board has put in place formally defined lines of responsibility and delegation of authority and has delegated to executive management the implementation of material internal control systems. Documented policies and procedures are in place for key systems and processes and the authority of the Directors is required for key matters.

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

The Board has the primary responsibility for identifying the major business risks facing the Company and Group and developing appropriate policies to manage those risks. The risk management approach is used to focus attention on the Group's most significant areas of risk and to determine key control objectives.

The Board has applied Principle C.2 of the Combined Code, by establishing a continuous process, which has been in place throughout the year to the date of this report and which is in accordance with Internal Control: Revised Guidance for Directors on the Combined Code published in October 2005, for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which is constantly evolving to meet the demands of a dynamic environment.

In compliance with Provision C.2.1 of the Combined Code, the effectiveness of the Group's system of internal control, including financial, operational and compliance controls and risk management, is regularly reviewed by the Directors. The review is based principally on discussions with management and on reviewing reports provided by management to consider whether significant risks are identified, evaluated, managed and controlled, but also may include independent interaction with employees or third parties. The Board considers whether appropriate actions are taken promptly to correct any significant weaknesses identified, and if more extensive monitoring may be required. The Board confirms that such actions as deemed necessary and appropriate have been or are being taken to remedy any significant failings or weaknesses identified in its review. The Board seeks to ensure that internal control and risk management processes, including dealing with any identified areas of improvement, are embedded within the business.

The Board has performed a specific assessment for the purpose of this Annual Report and

Accounts, which considers all significant aspects of internal control arising during the period, and is satisfied with the process employed and the results thereof. The Audit Committee spearheads the Board in discharging its review responsibilities. Audit Committee membership comprises highly experienced professionals with complementary areas of expertise in the oil and gas sector and each Committee member makes an important contribution to the assurance process. 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, except that upon appointment as Chairman Mr Rui de Sousa did not meet the independence criteria set out in Provision A.3.1. The Board, having given this full consideration, determined that the appointment of Mr de Sousa was in the best interests of the Company in a process more fully described in the Nominations Committee section of this report.

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.

IFRS 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 48 to 49.

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 are covered in the scope of the Independent Auditors' Report on pages 48 to 49. 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 relating to Directors' remuneration as issued by the Financial Reporting Council in July 2003 and set out in the Combined Code (the Code). The Company has applied the principles set out in Code provisions and in Schedule A to the Code as described below.

REMUNERATION COMMITTEE

The independent Non-Executive Directors who serve on the Remuneration Committee are Mr Peter Kingston (Chairman), Mr Olivier Barbaroux and Mr Martin Roberts. Each member has been determined by the Board to be independent in character and judgement as described more fully in the Corporate Governance Report on pages 33 to 40. 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 33 to 40.

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 independently retained by the Committee as advisors and provided advice on executive remuneration in terms of relevant current market practice and developments in best practice guidance, and in particular on the testing and setting of performance criteria for incentive plans. The original appointment of advisors resulted from a tender process and alternate advisors are considered from time to time. Deloitte also provided audit services to the Group, as set out in Note 9 to the financial statements and described more fully in the Corporate Governance Report on pages 33 to 40. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence, and the scope and value of services to the Group is under continuous review. Advice is developed with use of established methodologies and the advisors are not involved in the decision-making process. Advisory partners and staff have no involvement in audit, and are not involved in the preparation of audited information.

REMUNERATION POLICY

The policies described in this report have been applied throughout 2006. 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 against competitive market ranges, taking into consideration the Group's size and complexity, and positioned within those ranges considering the Executive Directors' critical value to the Company and demonstrated performance over time. Similar benchmarking techniques are applied to non-Board employees and the Committee monitors senior staff packages during the review of Executive Directors' packages. Year on year results of benchmarking are monitored for indications of potential unwarranted upward ratcheting.

PACKAGE COMPONENTS

Executive remuneration comprises a fixed basic salary and eligibility to receive an annual performance based cash bonus and annual awards under incentive plans approved by shareholders and designed to provide appropriate longer term incentive opportunities. 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 2006, with effect from 1 January 2007 each Executive Director's basic salary has been increased by 6%.

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 for the year have been exceptional when measured against the Group's 2006 goals. Operational achievements were led by the Group's drilling programmes in Vietnam and Yemen which exceeded aggressive targets for drilling success ratios and production tests. Significant results of the programme include a stepped increase in the estimated potential of the Te Giac Trang (TGT) field in Vietnam Block 16-1 and a marked increase in production capability in Yemen. Reserve additions resulting from the year's drilling programmes in both Vietnam and Yemen have exceeded targets and provide a clear link between the success of these programmes and building shareholder value. Benchmarks set for progressing an accelerated development plan were achieved on Vietnam Block 9-2. Following the TGT drilling success in the first half of 2006, new benchmarks were set for undertaking a second Vietnam development which were achieved. Targeted infrastructure improvements in Yemen have resulted in increased production capacity, resulting in higher production rates in 2006 and the capacity for further rises. Resources have been secured to continue an aggressive programme in a competitive environment.

Portfolio goals were met, in particular through the addition of a block in West Africa and success in the Group's targeted farm-out programme. The Group was also successful in acquiring an additional 2% interest in Vietnam Block 16-1 on favourable terms.

Corporate goals were exceeded, in particular through the highly successful convertible bonds issue. The Company has also seen dramatic share price growth during the year, increased sector analyst cover and gained exposure to a broader range of institutional investors.

Based on measurement of the year's outstanding achievements against the targets set out, and in consideration of their individual contributions, bonuses were awarded to Mr Story and Mr Cagle at the policy's maximum bonus rate of 100% of salary.

INCENTIVE PLANS

The Committee currently operates a Long Term Incentive Plan (LTIP) and a share option scheme (the Plans). Participation in the Plans and the level of award made is discretionary and is set in consideration of both corporate and individual performance, taking 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 awards under the Plans shall not exceed 5% of the ordinary share capital of the Company in any rolling ten year period. Accordingly, at 31 December 2006, 3.6 million new issue shares (2005 – 3.6 million) may be subject to awards under the Plans, of which there is available capacity remaining of 0.5 million shares (2005 – 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 27 to the financial statements.

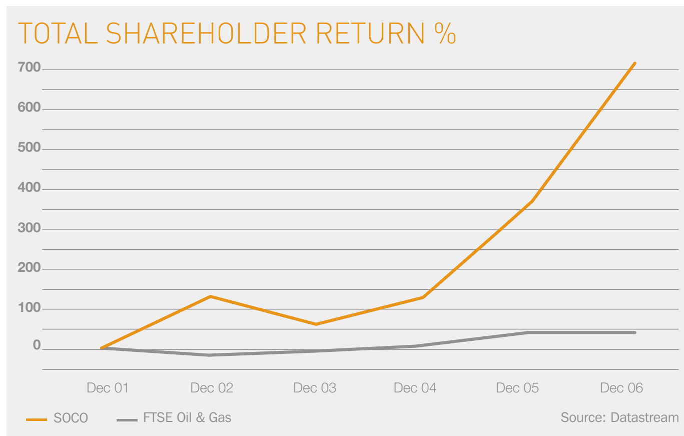
At the date of grant of an award, the Committee sets appropriate performance criteria which must be achieved before the award can be exercised or vest. Award levels will take into account the nature of performance targets to ensure that projected total compensation opportunity at assumed levels of share 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 against a range of comparator companies in the oil exploration and production sector. Prior to the vesting of an award, the Committee gives consideration to whether the results are consistent with the underlying performance of the Company. Once the Committee determines performance criteria have been met, there may additionally be a requirement that awards be held for a specified retention period prior to exercise or receipt.

Further details of incentive share awards are set out in the table on page 46 and in Note 27 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. In consideration of exceptional corporate and individual performance during 2006, as described in the Bonus section of this report, discretionary awards were granted to the Executive Directors over shares with a market value of 200% of salary. 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, 30% of the award will become capable of vesting , with full vesting only 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. For awards granted prior to 2004, if the TSR exceeds the median, 40% of the award will become capable of vesting with full vesting for performance in the top 20 percentile.

The comparator group comprises Aminex, Burren Energy, Cairn Energy, Dana Petroleum, Dragon Oil (through 2006), First Calgary (from 2007), JKX Oil and Gas (from 2007), Paladin Resources (through 2004), Premier Oil, Ramco Energy (through 2006), Regal Petroleum, ROC Oil (from 2005), Salamander Energy (from 2007), SOCO, Sterling Energy (from 2007), Tullow Oil and Venture Production.

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 of the Company's performance against the comparator group for awards granted in 2003 40% of the awards have been declared vested. The Committee is satisfied that the performance criteria measurement has resulted in a vesting level appropriate to the underlying performance of the Company. Those awards not declared vested have lapsed.

OPTION SCHEME

The Committee currently operates one share option scheme for its employees, 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. The scheme will terminate on 25 April 2007 without prejudice to the subsisting rights of participants. The Committee will give consideration to the introduction of a new scheme to be submitted for shareholder approval at the 2008 AGM.

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. These options are currently set to lapse in April 2007 under terms of the Plan as amended. The Options are fully vested and are currently exercisable at an attractive price to the option holder. They are therefore expected to be exercised, requiring disposition of sufficient shares to fund the resulting taxation, prior to any lapsing. The Board believes that an orderly disposition is in the best interests of the Company and shareholders generally, and may be impacted by frequent close periods and consideration of new legislation. Accordingly, the Board has exercised its power to make administrative amendments to the scheme by extending the exercise date to 15 March 2008.

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 on the board of Cairn Energy PLC and Mr Cagle has

been released to serve on the boards of Vostok Energy Limited and Dominion Petroleum plc. Mr Story and Mr Cagle retained associated fees for 2006 in the amount of £50,000 and £3,000, respectively. The Executive Directors have held a meaningful shareholding in the Company which they have continued to build since its founding in 1997. Accordingly, and giving due respect to the Executives' demonstrated actions, the Board has not set this requirement out in policy. An appropriate policy regarding shareholding targets will be given consideration upon any prospective Executive Director appointment.

NON-EXECUTIVE DIRECTORS

The remuneration of the Non-Executive Chairman is set by the Committee and approved by the Board. The remuneration for other Non-Executive Directors is recommended by the Chief Executive and the Chairman and determined by the Board as a whole. Remuneration levels are set based on outside advice and the review of current practices in other companies, giving consideration to the time commitment and responsibilities of the role. In consideration of increasing demands and fee levels in recent years generally, SOCO has given particular attention to benchmarking data to ensure its fees remain appropriate. Based on these factors, the annual fees for services as Directors payable to the Chairman, the Deputy Chairman and the remaining Non-Executive Directors were set at £125,000, £65,000 and £36,000, respectively, with effect from 1 January 2007. The fees have been set within the aggregate limits set out in the Company's Articles of Association and approved by shareholders. Non-Executive Directors are not eligible for participation in the Company's incentive schemes or pension schemes.

DIRECTORS' CONTRACTS

Executive Directors' contracts are for an indefinite period and are terminable by either party on giving one year's notice which may be satisfied with a payment in lieu of notice. The 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 31.

AUDITED INFORMATION

DIRECTORS' EMOLUMENTS

	Fees/basic salary £000's	Benefits in kind[1] £000's	Annual bonus £000's	Total 2006 £000's	Total 2005 £000's
Executive Director					
E Story	395	20	395	810	671
R Cagle	296	30	296	622	486
Non-Executive Director					
R de Sousa[2]	33	–	–	33	29
P Maugein[2]	70	–	–	70	70
P Kingston[3]	60	–	–	60	59
O Barbaroux	30	–	–	30	29
R Cathery	30	–	–	30	29
E Contini	30	–	–	30	29
J Norton	30	–	–	30	29
M Roberts	30	–	–	30	29
J Snyder	30	–	–	30	29
Aggregate emoluments	1,034	50	691	1,775	1,489

[1] Benefits include medical insurance, life assurance cover, critical illness cover and car benefits.

[2] Emoluments paid to P Maugein and R de Sousa include Chairman fees in proportion to their dates of service in the role.

[3] Emoluments receivable by Mr Peter Kingston are paid to Peter Kingston & Associates.

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

DIRECTORS' PENSION ENTITLEMENTS

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

Executive Director	2006 £000's	2005 £000's
E Story	59	55
R Cagle	44	39
	103	94

DIRECTORS' INCENTIVE SHARE AWARDS

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

E Story	As at 1 January 2006	Granted/ Awarded	Exercised	Lapsed	As at 31 December 2006	Excercise Price £	Date potentially exercisable[4]	Expiry Date
Pre-IPO share plan[1]	1,973,954	–	–	–	1,973,954	0.750	29.05.97	15.03.08
SOCO share plan[2]	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
	121,100	–	–	72,660	48,440	–	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
	–	55,600	–	–	55,600	–	18.12.09	17.12.16
R Cagle								
Pre-IPO share plan[1]	986,977	–	–	–	986,977	0.750	29.05.97	15.03.08
SOCO share plan[2]	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
	84,800	–	–	50,880	33,920	–	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
	–	41,700	–	–	41,700	–	18.12.09	17.12.16

[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 determined to be fully vested. Additional details regarding the plan are set out within this report. Options were exercised on 15 June 2006 at a market price of £12.32, resulting in a gain of £8.2 million and £5.3 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 prior to 1 January 2007 have been tested against the relevant performance schedules attached to the awards and the balance held as at 31 December 2006 has been determined to be fully vested. Those awards set out as potentially exercisable from a date subsequent to 31 December 2006 remain conditional upon performance criteria. 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 2006 was £13.82 and the range during the year to 31 December 2006 was £7.69 to £16.10.

DIRECTORS' TRANSACTIONS

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

In 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 $400,000, the Group 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, expired on 31 December 2006.

Under the terms of an acquisition approved by shareholders in 1999, the Company and its strategic shareholder group (Investor Group), including Quantic Limited (Quantic) in which Mr Rui de Sousa has a non-notifiable share interest, jointly participate in certain regions in which the Investor Group utilises its long established industry and government relationships to negotiate and secure commercial rights in oil and gas projects. In the 2004 Annual Report and Accounts the form of participation to be utilised was set out to be through equity shareholdings in which the Investor Group holds a minority interest in special purpose entities (SPEs) created to hold such projects. The shareholding terms have been modelled after the SOCO Vietnam Ltd arrangement which was negotiated with third parties. Quantic's minority holdings in the subsidiary undertakings which principally affected the profits or net assets of the Group are shown in Note 16 of the financial statements. The Group has entered into a consulting agreement, which the parties have agreed to extend through July 2008, wherein Quantic is entitled to a consulting fee in the amount of $50,000 per month in respect of such services as are required to review, assess and progress the realisation of oil and gas exploration and production opportunities in certain areas.

DIRECTORS' INTERESTS

The Directors who held office at 31 December 2006 had the following interests (all of which were beneficial except as noted below) in the ordinary shares of the Company (Shares), warrants to subscribe for the same number of Shares (Warrants) and contingent rights or options to acquire Shares (Options) at 31 December 2006:

	Number of shares		Number of options[1]		Number of Warrants	
	2006	2005	**2006**	2005	**2006**	2005
Executive Director						
E Story	**1,596,893**	1,149,254	**2,753,974**	3,466,129	–	–
R Cagle[2]	**716,246**	262,209	**2,401,086**	3,169,998	–	–
Non-Executive Director						
Rui de Sousa[3]	**728,924**	1,293,635	–	–	**1,549,853**	1,549,853
Peter Kingston	**4,000**	4,000	–	–	–	–
Olivier Barbaroux	**20,000**	20,000	–	–	–	–
Robert Cathery	**100,000**	70,000	–	–	–	–
Ettore Contini	**60,000**	60,000	–	–	–	–
John Norton	**115,000**	115,000	–	–	–	–
Martin Roberts	**5,000**	5,000	–	–	–	–
John Snyder[4]	**200,000**	500,000	–	–	–	–

[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 266,773 Shares (2005 – 83,850) and 865,409 (2005 – 1,177,068) Options held by Cynthia Cagle, the Options having been granted to her in respect of her services to the Group.

[3] In addition to 7,500 (2005 – nil) Shares held personally, Mr Rui de Sousa's interest is 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 (2005 – 721,424) Shares, 528,678 (2005 – 528,678) Warrants at an exercise price of £0.65 per Share, 925,187 (2005 – 925,187) Warrants at an exercise price of £0.60 per Share and 55,336 (2005 – 55,336) Warrants at an exercise price of £0.55 per Share.

New Falcon Oil Limited holds nil (2005 – 572,211) Shares and 40,652 (2005 – 40,652) Warrants at a price of £0.55 per Share.

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

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 25 to the financial statements.

There have been no other changes in the interests of the Directors between 31 December 2006 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 14 March 2007 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 parent Company financial statements (the financial statements) of SOCO International plc for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated and parent Company balance sheets, the consolidated and parent Company cash flow statements, the consolidated and parent 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 law and International Financial Reporting Standards (IFRSs) as adopted by 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 to be audited in accordance with relevant 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 and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's and Chief Executive's Statement, the Review of Operations and the Financial Review that is cross referred from the Principal Activity and Enhanced Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 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 other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 to be 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 to be audited.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;

- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2006;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and

- the information given in the Directors' Report is consistent with the financial statements.

SEPARATE OPINION IN RELATION TO IFRS

As explained in Note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
United Kingdom

14 March 2007

CONSOLIDATED INCOME STATEMENT FOR THE YEAR TO 31 DECEMBER 2006

	Notes	2006 $000's	2005 $000's
Continuing operations			
Revenue	5, 6	76,476	57,160
Cost of sales		(21,162)	(19,588)
Gross profit		55,314	37,572
Administrative expenses		(8,772)	(5,295)
Other operating expenses		(231)	(1,013)
Operating profit from continuing operations	6, 9	46,311	31,264
Investment revenue	5	9,292	2,042
Other gains and losses	7	690	853
Finance costs	8	(8,136)	(497)
Profit before tax from continuing operations	9	48,157	33,662
Tax	11	(19,094)	(13,366)
Profit for the year from continuing operations		29,063	20,296
Profit for the year from discontinued operations	6	–	181
Profit for the year	9	29,063	20,477
Earnings per share (cents)	13		
Basic			
From continuing operations		41.3	29.0
From discontinued operations		–	0.3
From continuing and discontinued operations		41.3	29.3
Diluted			
From continuing operations		36.9	25.6
From discontinued operations		–	0.2
From continuing and discontinued operations		36.9	25.8

BALANCE SHEETS AS AT 31 DECEMBER 2006

	Notes	Group 2006 $000's	Group 2005 $000's	Company 2006 $000's	Company 2005 $000's
Non-current assets					
Intangible assets	14	146,954	151,213	–	–
Property, plant and equipment	15	159,472	29,988	680	737
Investments	16	–	–	204,286	179,690
Financial asset	17	32,571	31,882	–	–
Other receivable	17	–	10,134	–	–
Deferred tax assets	18	1,530	2,591	–	–
		340,527	225,808	204,966	180,427
Current assets					
Inventories	19	88	310	–	–
Trade and other receivables	17, 20	26,670	6,285	566	244
Tax receivables		2,299	1,138	177	104
Cash and cash equivalents		187,791	50,967	63	360
		216,848	58,700	806	708
Total assets	6	557,375	284,508	205,772	181,135
Current liabilities					
Trade and other payables	21	(35,029)	(15,233)	(22,161)	(974)
Tax payables		(134)	(446)	(68)	(446)
		(35,163)	(15,679)	(22,229)	(1,420)
Net current assets		181,685	43,021	(21,423)	(712)
Non-current liabilities					
Convertible bonds	22	(220,233)	–	–	–
Long term provisions	23	(6,187)	(2,590)	–	–
		(226,420)	(2,590)	–	–
Total liabilities	6	(261,583)	(18,269)	(22,229)	(1,420)
Net assets		295,792	266,239	183,543	179,715
Equity					
Share capital	24	23,532	23,479	23,532	23,479
Share premium account	25	68,325	68,221	68,325	68,221
Other reserves	25	54,406	54,259	(25,839)	(658)
Retained earnings	25	149,529	120,280	117,525	88,673
Total equity	26	295,792	266,239	183,543	179,715

The financial statements were approved by the Board of Directors on 14 March 2007 and signed on its behalf by:

Rui de Sousa
Chairman

Roger Cagle
Director

CASH FLOW STATEMENTS FOR THE YEAR TO 31 DECEMBER 2006

	Notes	Group 2006 $000's	Group 2005 $000's	Company 2006 $000's	Company 2005 $000's
Net cash from (used in) operating activities	28	33,230	30,536	11,899	(5,409)
Investing activities					
Purchase of intangible assets, net	6	(82,148)	(65,268)	–	–
Purchase of property, plant and equipment		(32,191)	(10,907)	(30)	(150)
Purchase of own shares into treasury	25	(13,634)	–	(13,634)	–
Investment in subsidiary undertakings		–	–	–	(12,883)
Dividends received from subsidiary undertakings		–	–	12,935	20,617
Proceeds on disposal of subsidiary undertaking		–	27,510	–	–
Net cash (used in) from investing activities		(127,973)	(48,665)	(729)	7,584
Financing activities					
Share-based payments	27	(11,372)	(1,837)	(11,372)	(1,837)
Proceeds on issue of convertible bonds	22	242,966	–	–	–
Proceeds on issue of ordinary share capital		–	14	–	14
Net cash from (used in) financing activities		231,594	(1,823)	(11,372)	(1,823)
Net increase (decrease) in cash and cash equivalents		136,851	(19,952)	(202)	352
Cash and cash equivalents at beginning of year		50,967	71,122	360	113
Effect of foreign exchange rate changes		(27)	(203)	(95)	(105)
Cash and cash equivalents at end of year		187,791	50,967	63	360

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR TO 31 DECEMBER 2006

	Notes	Group 2006 $000's	Group 2005 $000's	Company 2006 $000's	Company 2005 $000's
Profit for the year	12, 25	29,063	20,477	4,350	15,372
Unrealised currency translation differences	25	186	(363)	24,502	(20,351)
Total recognised income (loss) for the year		29,249	20,114	28,852	(4,979)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 8 to 19 and 24 to 27, respectively.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost basis. The financial statements are presented in US dollars, which is the functional currency of each of the Company's subsidiary undertakings. The functional currency of the Company remains GB pounds although its financial statements are presented in US dollars. The principal accounting policies adopted are set out below.

IFRS 6 Exploration for and Evaluation of Mineral Resouces was adopted early from 2005. At the date of approval of these financial statements the Group has not applied the following IFRSs 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
IFRS 8 Operating Segments
IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8 Scope of IFRS 2
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 11 IFRS 2 Group and Treasury Share Transactions
IFRIC 12 Service Concession Arrangements

The adoption of these IFRSs and IFRICs in future periods are 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cost pools are established on the basis of geographical area having regard to the operational and financial organisation of the Group. Intangible acquisition, exploration and evaluation costs incurred in a geographical area where the Group has no established cost pool are initially capitalised as intangible non-current assets except where they fall outside the scope of IFRS 6 Exploration for and Evaluation of Mineral Resources whereby they are expensed as incurred subject to other guidance under IFRS. Tangible non-current assets used in acquisition, exploration and evaluation are classified with tangible non-current assets as property, plant and equipment. To the extent that such tangible assets are consumed in exploration and evaluation the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Upon successful conclusion of the appraisal programme and determination that commercial reserves exist, such costs are transferred to tangible non-current assets as property, plant and equipment. Exploration and evaluation costs carried forward are assessed for impairment as described below.

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

Depreciation and depletion

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

Impairment of value

Where there has been a change in economic conditions or in the expected use of an asset that indicates a possible impairment in an asset, management tests the recoverability of the net book value of the asset by comparison with the estimated discounted future net cash flows based on management's expectations of future oil prices and future costs. Any identified impairment is charged to the income statement.

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

Other tangible non-current assets

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

Decommissioning

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

(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, which are recorded to accruals and deferred income, and underlifts, which are recorded to prepayments and accrued income, 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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.

Other than the convertible bonds, there are no material financial assets and liabilities for which differences between carrying amounts and fair values are required to be disclosed.

Financial asset at fair value through profit or loss

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

Trade receivables

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

Trade payables

Trade payables are stated at their nominal value.

Convertible bonds

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

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

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

Equity instruments

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

(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.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 asset that is subject to credit risk comprises a financial asset at fair value through profit or loss arising in respect of the Group's disposal of its Mongolia interest (see Note 17). The Group's and Company's other financial assets comprise investments, trade receivables and cash and cash equivalents. The Group seeks to minimise credit risk by only maintaining balances with creditworthy third parties including major multi-national oil companies subject to contractual terms in respect of trade receivables. The credit risk on liquid funds is limited as the Board only selects institutions with high credit-ratings assigned by international credit-rating agencies and endeavours to spread cash balances 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 seeks to minimise the impact that any debt financings have on its balance sheet by negotiating borrowings in matching currencies (see Note 22). The Group further mitigates liquidity risk by entering into arrangements with industry partners thereby sharing costs and risks, and by maintaining an insurance programme to minimise exposure to insurable losses.

Interest rate risk

The Group earns interest on its cash at bank and other short term highly liquid investments at a floating rate (see Note 28). Fixed rate interest is charged on the Group's convertible bonds (see Note 22). In addition the Group has also agreed a reserve-based revolving credit facility which is subject to a floating rate, however as at the balance sheet date no drawdown against this facility had been made (see Note 29).

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

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

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

Basis of consolidation

Note 2(b) discusses the Group's basis of consolidation of its parent and subsidiary undertakings. During 2006, the Group acquired OPECO, Inc. and its 100% owned subsidiary OPECO Vietnam Ltd whose only asset is a 2% working interest in Block 16-1 offshore Vietnam. Management have reviewed the transaction and have determined that it was not a business combination as defined in IFRS 3 Business Combinations.

4 CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES CONTINUED

Oil and gas assets

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 14 discloses the carrying value of intangible exploration and evaluation assets. Further, Note 2(g) describes the Group's policy regarding reclassification of intangible assets to tangible assets. Management considers the appropriateness of asset classification at least annually.

Financial asset

Note 2(m) describes the accounting policy with respect to financial assets at fair value through profit or loss. The key judgements that are used in calculating the fair value of the Group's financial asset arising on the disposal of its Mongolia interest are described in Note 17 and are reviewed at least annually.

Convertible bonds

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

(b) Key sources of estimation uncertainty

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. These are discussed below:

Oil and gas reserves

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

Financial asset

Note 2(m) describes the accounting policy with respect to financial assets at fair value through profit or loss. The key sources of estimation uncertainty that impact the fair value of the Group's financial asset arising on the disposal of its Mongolia interest are described in Note 17 and are reviewed at least annually.

Decommissioning provision

The accounting policy for decommissioning is discussed in Note 2(g). The cost of decommissioning is estimated by reference to operators, where applicable, and internal engineers. Further details are provided in Note 23.

5 TOTAL REVENUE

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

	2006 $000's	2005 $000's
Continuing operations		
Oil sales	76,476	57,160
Investment revenue	9,292	2,042
	85,768	59,202
Discontinued operations		
Oil sales	–	1,498
	85,768	60,700

6 SEGMENT INFORMATION

Geographical segments

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

	Continuing operations					Discontinued operations[1]	2006
	Middle East $000's	SE Asia $000's	West Africa $000's	Unallocated $000's	Total $000's	Central Asia $000's	Group $000's
Oil sales	76,476	–	–	–	76,476	–	76,476
Operating profit	55,113	–	–	(8,802)	46,311	–	46,311
Assets	64,872	226,184	30,768	235,551	557,375	–	557,375
Liabilities	8,384	10,605	12,398	230,196	261,583	–	261,583
Capital additions, net[2]	35,888	100,790	(2,050)	28	134,656	–	134,656
Depletion and depreciation	9,318	–	–	208	9,526	–	9,526

	Continuing operations					Discontinued operations[1]	2005
	Middle East $000's	SE Asia $000's	West Africa $000's	Unallocated $000's	Total $000's	Central Asia $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	28,225	90,987	284,508	–	284,508
Liabilities	8,696	5,498	27	4,048	18,269	–	18,269
Capital additions	11,845	41,825	28,067	183	81,920	(630)	81,290
Depletion and depreciation	7,149	–	–	176	7,325	–	7,325

[1] In August 2005 the Group disposed of its Central Asia segment which comprised its Mongolia interest (see Note 17). The results of this segment are therefore included in discontinued operations. In 2005, the profit for the year from discontinued operations of $181,000 was the profit on disposal, net of other expenses, of the Mongolia interest.

[2] Capital additions, together with the related figures for purchases in the cash flow statements, are net of certain farm-out proceeds.

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

	2006 $000's	2005 $000's
Change in fair value of financial asset (see Note 17)	689	382
Exchange gain	1	471
	690	853

8 FINANCE COSTS

	2006 $000's	2005 $000's
Interest payable in respect of convertible bonds (see Note 22)	9,359	–
Other interest payable and similar fees (see Note 29)	354	460
Capitalised finance costs	(1,616)	–
Unwinding of discount on provisions (see Note 23)	39	37
	8,136	497

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

9 PROFIT FOR THE YEAR

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

	2006 $000's	2005 $000's
Audit of the Company's annual accounts	108	225
Audit of the Company's subsidiaries pursuant to legislation	33	16
Other services pursuant to legislation	65	171
Recruitment and remuneration services	59	65
Corporate finance services	87	–
Other services:		
Audit of the Company's subsidiaries, not required by legislation	25	24
Other	33	46
Total fees	410	547

The amounts payable to Deloitte & Touche LLP by the Group in respect of other services pursuant to legislation comprise $65,000 relating to the Group's interim review (2005 – $109,000 in respect of regulatory reporting relating to disposals and $62,000 relating to the Group's interim review). The amounts payable in respect of corporate finance services comprise $87,000 in respect of the convertible bonds issue.

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

10 STAFF COSTS

The average monthly number of employees of the Group including Executive Directors was 13 (2005 – 15), of which 10 (2005 – 12) were administrative personnel and 3 (2005 – 3) were operations personnel. The average monthly number of employees directly contracted to the Company was 7 (2005 – 7) of which 6 (2005 – 6) were administrative personnel and 1 (2005 – 1) was operations personnel. Their aggregate remuneration comprised:

	Group		Company	
	2006 $000's	2005 $000's	2006 $000's	2005 $000's
Wages and salaries	5,484	4,280	1,321	1,133
Social security costs	1,640	554	141	126
Share-based payment expense (see Note 27)	560	521	27	39
Other pension costs under money purchase schemes	365	337	89	87
	8,049	5,692	1,578	1,385

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

11 TAX

	2006 $000's	2005 $000's
Current tax	18,033	13,839
Deferred tax (see Note 18)	1,061	(473)
	19,094	13,366

UK corporation tax is calculated at 30% (2005 – 30%) of the estimated assessable profit for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. During 2005 and 2006 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:

	2006 $000's	2005 $000's
Profit before tax on continuing operations	48,157	33,662
Profit before tax on discontinued operations	–	181
	48,157	33,843
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2005 - 30%)	14,447	10,153
Effects of:		
Expenses not expected to be utilised as a tax loss	2,151	1,423
Non taxable profit on disposal	–	(58)
Higher tax rates on overseas earnings	2,456	1,906
Adjustments to tax charge in respect of previous years	40	(58)
Tax charge for the year	19,094	13,366

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%.

12 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 $4,350,000 (2005 – $15,372,000). As provided by Section 230 of the Companies Act 1985, no income statement is presented in respect of the Company.

13 EARNINGS PER SHARE

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

	2006 $000's	2005 $000's
Earnings from continuing operations	29,063	20,296
Earnings from discontinued operations	–	181
	29,063	20,477

	Number of shares	
	2006	2005
Weighted average number of ordinary shares for the purpose of basic earnings per share	70,338,272	70,003,067
Effect of dilutive potential ordinary shares:		
Share options and warrants	6,021,356	7,010,483
Ordinary shares of the Company held by the Group (see Note 25)	2,300,800	2,423,300
Weighted average number of ordinary shares for the purpose of diluted earnings per share	78,660,428	79,436,850

The denominators used for the purposes of calculating earnings per share on both continuing and discontinued operations are the same. At 31 December 2006 up to 6,238,000 (2005 – nil) potential ordinary shares in the Company that are underlying the Company's convertible bonds (see Note 22) and that may dilute earnings per share in the future have not been included in the calculation of diluted earnings per share because they are antidilutive for the year to 31 December 2006.

14 INTANGIBLE ASSETS

Exploration and evaluation expenditure	Group $000's
As at 1 January 2005	152,990
Additions	69,164
Disposals	(70,941)
As at 1 January 2006	151,213
Additions	98,740
Transfers to property, plant and equipment (see Note 15)	(102,999)
As at 31 December 2006	146,954

Intangible assets comprise the Group's exploration and evaluation projects which are pending determination. Additions are stated net of certain farm-out proceeds. As at 31 December 2006 an amount of $108.7 million (2005 – $111.8 million) remains in intangible assets in respect of the Vietnam project after $103.1 million was transferred to property, plant and equipment (see Note 15) following the successful conclusion of the appraisal programme in Block 9-2.

15 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 2005	63,980	2,005	65,985	1,056
Additions	11,845	281	12,126	150
Foreign exchange	–	(119)	(119)	(119)
As at 1 January 2006	75,825	2,167	77,992	1,087
Additions	35,888	28	35,916	30
Disposals	–	(23)	(23)	–
Transfers from intangible assets (see Note 14)	103,117	(118)	102,999	–
Foreign exchange	–	156	156	156
As at 31 December 2006	214,830	2,210	217,040	1,273
Depreciation				
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 1 January 2006	46,791	1,213	48,004	350
Charge for the year	9,318	208	9,526	182
Disposals	–	(23)	(23)	–
Foreign exchange	–	61	61	61
As at 31 December 2006	56,109	1,459	57,568	593
Carrying amount				
As at 31 December 2006	158,721	751	159,472	680
As at 31 December 2005	29,034	954	29,988	737

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

16 FIXED ASSET INVESTMENTS

Principal Group investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2006 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
OPECO Vietnam Ltd	Cook Islands	Vietnam	Oil and gas exploration	100.0
SOCO Exploration (Thailand) Co. Ltd	Thailand	Thailand	Oil and gas exploration	99.9
SOCO Congo Limited[2]	Cayman Islands	Congo (Brazzaville)	Investment holding	85.0
SOCO Vietnam Ltd[3]	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 2006 (2005 – 58.75%). As at 31 December 2006 Comeco had non-current assets of $97.0 million (2005 – $53.5 million), current assets of $13.2 million (2005 – $14.5 million), current liabilities of $4.0 million (2005 – $10.6 million), non-current liabilities of $10.5 million (2005 – $4.4 million) and for the year to 31 December 2006 Comeco had revenue of $130.2 million (2005 – $97.3 million), operating and administration expenses of $36.1 million (2005 – $33.8 million) and a tax expense of $32.2 million (2005 – $22.7 million).

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

[3] The remaining 20% minority interest is funded by the Group. The Group is entitled to receive 100% of the distributions made by SOCO Vietnam until it has recovered its funding of the minority interest 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 25) and are otherwise held in the form of share capital.

17 FINANCIAL ASSET

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 $93.0 million comprised of cash consideration of $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 $40.0 million cash consideration was payable in two tranches. The first $30.0 million was paid, less applicable settlement adjustments of $0.4 million, in August 2005 upon completion. The second tranche of $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. In February 2007 the second tranche was released in full to the Group. An amount of $10.7 million (2005 – $10.1 million recorded within non-current assets other receivables) which includes accrued interest is included in the balance sheet under current assets as an other receivable (see Note 20). 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 $52.7 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 $31.5 million. As at 31 December 2006 the fair value was $32.6 million (2005 – $31.9 million) after accounting for the change in fair value (see Note 7).

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				
	Foreign tax credits $000's	Decelerated tax depreciation $000's	Tax losses $000's	Other $000's	Total $000's
At 1 January 2005	–	1,073	199	846	2,118
Credit (charge) to income	–	787	–	(314)	473
As at 1 January 2006	–	1,860	199	532	2,591
Credit (charge) to income (see Note 11)	1,172	(1,691)	(80)	(462)	(1,061)
As at 31 December 2006	1,172	169	119	70	1,530

The deferred tax asset principally arises in respect of unutilised foreign tax credits, fixed asset timing 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 unprovided deferred taxation at either balance sheet date except for an unprovided deferred tax asset arising in respect of tax losses of the Company that are not expected to be utilised in the amount of £5.1 million, being $10.0 million (2005 – £3.8 million, being $6.5 million).

19 INVENTORIES

Inventories comprise crude oil and condensate.

20 OTHER FINANCIAL ASSETS

	Group		Company	
	2006 $000's	2005 $000's	2006 $000's	2005 $000's
Amounts falling due within one year				
Trade receivables	5,153	3,871	–	–
Other receivables	15,110	409	20	10
Prepayments and accrued income	6,407	2,005	546	234
	26,670	6,285	566	244

There is no material difference between the carrying amount of trade and other receivables and their fair value. Other receivables in respect of the Group includes $10.7 million (2005 – nil) relating to the sale of the Group's Mongolia interest (see Note 17).

21 OTHER FINANCIAL LIABILITIES

	Group		Company	
	2006 $000's	2005 $000's	2006 $000's	2005 $000's
Trade payables	22,429	6,439	–	–
Amounts due to Group undertakings	–	–	20,744	–
Other payables	610	671	234	411
Accruals and deferred income	11,990	8,123	1,183	563
	35,029	15,233	22,161	974

There is no material difference between the carrying value of trade payables and their fair value. Accruals and deferred income includes interest payable of $1.4 million (2005 – nil) in respect of convertible bonds (see Note 22).

22 CONVERTIBLE BONDS

In May 2006, the Group issued bonds at a par value of $250 million which will be convertible into ordinary shares of the Company at any time from June 2006 until six days before their maturity date of 16 May 2013. At the initial conversion price of £21.847 per share there are 6,238,000 ordinary shares of the Company underlying the bonds. If the bonds have not been previously purchased and cancelled, redeemed or converted, they will be redeemed at par value on 16 May 2013. Interest of 4.5% per annum will be paid semi-annually up to that date.

	$000's
Nominal value of convertible bonds issued net of issue costs	242,966
Equity component (see Note 25)	(25,037)
Liability component at date of issue	217,929
Interest charged	9,359
Interest paid	(5,625)
Total liability component as at 31 December 2006	221,663
Reported in:	
Interest payable in current liabilities (see Note 21)	1,430
Non-current liabilities	220,233
Total liability component as at 31 December 2006	221,663

The interest charged for the year is calculated by applying an effective interest rate of 6.55% to the liability component for the period since the bonds were issued. There is no material difference between the carrying amount of the liability component of the convertible bonds and their fair value. This fair value is calculated by discounting the future cash flows at the market rate.

23 LONG TERM PROVISIONS

Decommissioning	Group $000's
As at 1 January 2006	2,590
New provisions and changes in estimates	3,558
Unwinding of discount (see Note 8)	39
As at 31 December 2006	6,187

The provision for decommissioning is based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field (currently estimated to be 9 years) in the removal and decommissioning of the facilities currently in place.

24 SHARE CAPITAL

Issued and fully-paid	2006 $000's	2005 $000's
72,777,115 ordinary shares of £0.20 each (2005 – 72,632,939)	23,532	23,479

As at 31 December 2006 authorised share capital comprised 125 million (2005 – 125 million) ordinary shares of £0.20 each with a total nominal value of £25 million (2005 – £25 million). The Company issued 144,176 new ordinary shares of £0.20 each during 2006 (2005 – 356,007) upon the exercise of certain share options at a weighted average exercise price per share of £0.59 (2005 – £0.726). Details of outstanding share options are set out in Note 27.

As at 31 December 2006 there were 2,825,307 (2005 – 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.

25 RESERVES

	Group			
	Share premium account $000's	Other reserves $000's	Retained earnings $000's	Total $000's
As at 1 January 2005	67,877	53,502	102,460	223,839
New shares issued (see Note 24)	344	–	–	344
Share-based payments (see Note 27)	–	521	(2,294)	(1,773)
Unrealised currency translation differences	–	236	(363)	(127)
Retained profit for the year	–	–	20,477	20,477
As at 1 January 2006	68,221	54,259	120,280	242,760
New shares issued (see Note 24)	104	–	–	104
Treasury shares purchased	–	(13,634)	–	(13,634)
Share-based payments (see Note 27)	–	(10,969)	–	(10,969)
Equity component of bonds issue (see Note 22)	–	25,037	–	25,037
Unrealised currency translation differences	–	(287)	186	(101)
Retained profit for the year	–	–	29,063	29,063
As at 31 December 2006	68,325	54,406	149,529	272,260

	Company			
	Share premium account $000's	Other reserves $000's	Retained earnings $000's	Total $000's
As at 1 January 2005	67,877	(689)	95,946	163,134
New shares issued (see Note 24)	344	–	–	344
Share-based payments (see Note 27)	–	39	(2,294)	(2,255)
Unrealised currency translation differences	–	(8)	(20,351)	(20,359)
Retained profit for the year (see Note 12)	–	–	15,372	15,372
As at 1 January 2006	68,221	(658)	88,673	156,236
New shares issued (see Note 24)	104	–	–	104
Treasury shares purchased	–	(13,634)	–	(13,634)
Share-based payments (see Note 27)	–	(11,502)	–	(11,502)
Unrealised currency translation differences	–	(45)	24,502	24,457
Retained profit for the year (see Note 12)	–	–	4,350	4,350
As at 31 December 2006	68,325	(25,839)	117,525	160,011

The Group's other reserves include reserves arising in respect of merger relief, upon the purchase of the Company's own ordinary shares (Shares) held in treasury and held by the SOCO Employee Benefit Trust (Trust) and in respect of the equity component of the convertible bonds issue (see Note 22). Other reserves were reduced by share-based payments comprising the cash settlement of tax liabilities associated with the settlement of certain share options of $11.4 million offset by the expense recognised in respect of the incentive schemes of $560,000 (see Note 27).

During the year the Company purchased 608,000 Shares into treasury at a cost of $13.6 million (2005 – nil) and 730,500 were used to satisfy the obligation to issue Shares in settlement of certain share options. The number of treasury Shares held by the Group and the number of Shares held by the Trust at 31 December 2006 was 27,500 (2005 – 150,000) and 2,273,300 (2005 – 2,273,300), respectively. The market price of the Shares at 31 December 2006 was £13.82 (2005 – £7.86). Associated with the convertible bonds issue the Trust entered into a Global Master Securities Lending Agreement (GMSLA) with Merrill LynchInternational. As at 31 December 2006 1,375,000 of the Shares held by the Trust were lent under the GMSLA. The Shares subject to the GMSLA have continued to be recognised as the Trust retains all risks and rewards of ownership.

The Trust, a discretionary trust, was established to facilitate the administration of long term incentive awards for senior management of the Group, details of which are set out in Note 27 and in the Directors' Remuneration Report on pages 45 to 47. 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.

26 RECONCILIATION OF MOVEMENTS IN GROUP TOTAL EQUITY

	2006 $000's	2005 $000's
As at 1 January	266,239	247,187
New shares issued (see Note 24)	157	475
Treasury shares purchased	(13,634)	–
Share-based payments (see Note 25)	(10,969)	(1,773)
Equity component of bonds issue	25,037	–
Unrealised currency translation differences	(101)	(127)
Retained profit for the year	29,063	20,477
As at 31 December	295,792	266,239

27 INCENTIVE PLANS

Details of the Group's employee incentive schemes are set out below. Additional information regarding the schemes is included in the Directors' Remuneration Report on pages 45 to 47. The Group recognised total expenses of $560,000 (2005 – $521,000) 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 ordinary shares (Shares) held by the Trust (see Note 25). The Company has no legal or constructive obligation to repurchase or settle awards in cash. At the beginning of the period 1,736,120 (2005 – 1,837,020) awards were outstanding. During the period 125,700 (2005 – 167,000) awards were granted, no awards were exercised (2005 – nil) and 161,220 (2005 – 267,900) awards lapsed. The market price and the estimated fair value of awards at date of grant were £14.400 (2005 – £8.180) and £4.153 (2005 – £2.610), respectively. Of the 1,700,600 (2005 – 1,736,120) awards outstanding at the end of the period, 1,161,800 (2005 – 1,054,320) were exercisable. Awards outstanding at the end of the year have a weighted average remaining contractual life of 6.01 (2005 – 6.81) 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 28.9% (2005 – 31.9%) 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.

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. 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. Additional share options are outstanding and exercisable that were granted under a previous plan.

Options would normally be equity-settled through newly issued Shares. Options exercised during 2006 over 1,445,587 (2005 – 646,201) Shares were partially satisfied by the issue of 144,176 (2005 – 356,007) Shares and by the transfer of 730,500 (2005 – nil) treasury Shares. The remaining 570,911 (2005 – 290,194) options exercised, being the number of Shares that might otherwise be sold in the market, were satisfied by settlement of the option exercise price and cash settlement of the participants' tax liabilities of $1.6 million (2005 – $0.8 million) and $11.4 million (2005 – $1.8 million), respectively. 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:

27 INCENTIVE PLANS CONTINUED

	2006		2005	
	No. of share options	Weighted average exercise price £	No. of share options	Weighted average exercise price £
As at 1 January	5,290,257	0.835	5,936,458	0.823
Granted	50,000	14.400	–	–
Exercised	(1,445,587)	0.590	(646,201)	0.726
As at 31 December	3,894,670	1.101	5,290,257	0.835
Exercisable as at 31 December	3,464,670	0.750	4,910,257	0.703

The weighted average market price at the date of exercise during the year was £12.320 (2005 – £5.058). The market price and the estimated fair value of options at the date of grant during 2006 were £14.40 and £1.91, respectively. Options outstanding at the end of the year have a weighted average remaining contractual life of 1.52 (2005 – 1.30) years.

The fair value of options granted in 2006 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 5.2 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.

28 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Group		Company	
	2006 $000's	2005 $000's	2006 $000's	2005 $000's
Operating profit	46,311	31,264	(8,598)	(5,150)
Share-based payments	560	521	560	521
Depletion and depreciation	9,526	7,325	182	148
Operating cash flows before movements in working capital	56,397	39,110	(7,856)	(4,481)
Decrease (increase) in inventories	221	(172)	–	–
Increase in receivables	(1,395)	(710)	(321)	(140)
(Decrease) increase in payables	(2,269)	4,754	20,055	(681)
Cash generated by operations	52,954	42,982	11,878	(5,302)
Interest received	4,944	1,943	38	12
Interest paid	(5,925)	(460)	(17)	(119)
Income taxes paid	(18,743)	(13,929)	–	–
Net cash from operating activities	33,230	30,536	11,899	(5,409)

Cash is generated from continuing operating activities only.

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

29 FINANCING FACILITY

In August 2005, SOCO agreed a credit facility with the International Finance Corporation, the private sector arm of the World Bank. The $45 million reserve-based, revolving credit facility has a seven year term. Following the issue of the convertible bonds (see Note 22) the whole facility is now a standby loan and is not immediately available. Standby fees paid are included under finance costs (see Note 8).

30 OPERATING LEASE ARRANGEMENTS

	2006 $000's	2005 $000's
Minimum lease payments under operating leases recognised in income for the year	432	426

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:

	2006 $000's	2005 $000's
Within one year	505	499
In two to five years	381	–
	886	499

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.

31 CAPITAL COMMITMENTS

At 31 December 2006 the Group had exploration licence commitments not accrued of approximately $8.4 million (2005 – $0.6 million).

32 RELATED PARTY TRANSACTIONS

During the year, Group undertakings rendered services to the Company in the amount of $2.3 million (2005 – Company rendered services to Group undertakings in the amount of $47,000). There were no balances outstanding with Group undertakings as at 31 December 2006 except as 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 45 to 47.

FIVE YEAR SUMMARY

	IFRS			UK GAAP[3]	
CONSOLIDATED INCOME STATEMENT	**Year to 31 Dec 2006 $000's**	Year to 31 Dec 2005 $000's	(Restated)[2] 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
Oil and gas revenues – continuing operations	**76,476**	57,160	29,386	28,413	25,319
Operating profit – continuing operations	**46,311**	31,264	14,210	9,914	8,092
Operating profit – discontinued operations[1]	**–**	–	9,261	4,865	6,564
Profit for the year	**29,063**	20,477	29,571	9,354	7,963

CONSOLIDATED BALANCE SHEET	**2006 $000's**	2005 $000's	2004 $000's	(Restated)[2] 2003 $000's	(Restated)[2] 2002 $000's
Non-current assets	**340,527**	225,808	180,381	181,308	141,088
Net current assets	**181,685**	43,021	70,003	52,119	82,018
Non-current liabilities	**(226,420)**	(2,590)	(3,197)	(5,870)	(5,432)
Net assets	**295,792**	266,239	247,187	227,557	217,674
Share capital	**23,532**	23,479	23,348	23,241	23,030
Share premium	**68,325**	68,221	67,877	67,323	66,118
Other reserves	**54,406**	54,259	53,502	54,045	54,774
Retained earnings	**149,529**	120,280	102,460	82,948	73,752
Total equity	**295,792**	266,239	247,187	227,557	217,674

CONSOLIDATED CASH FLOW STATEMENT	**Year to 31 Dec 2006 $000's**	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
Net cash from operating activities	**33,230**	30,536	19,157	27,341	28,640
Capital expenditure	**114,339**	76,175	27,583	27,767	15,898

FINANCIAL AND OPERATING KEY PERFORMANCE INDICATORS	**Year to 31 Dec 2006**	Year to 31 Dec 2005	Year to 31 Dec 2004	Year to 31 Dec 2003	Year to 31 Dec 2002
Realised oil price per barrel ($)[4]	**62.73**	50.28	37.18	27.40	24.00
Operating cost per barrel ($)[5]	**5.91**	4.55	6.70	6.76	5.15
DD&A per barrel ($)[6]	**3.70**	3.40	3.20	3.78	4.25
Basic earnings per share (cents)	**41.3**	29.3	42.4	13.5	11.5
Diluted earnings per share (cents)	**36.9**	25.8	37.5	11.8	10.3
Total shareholder return (%)[7]	**75.8**	102.6	41.3	(29.9)	131.0
Production (barrels of oil per day)[8]	**6,766**	5,684	5,533	5,409	6,203
Total proven and probable reserve additions (mmboe)[9]	**41.8**	100.6	6.0	9.9	0.6
Proven and probable reserves (mmboe)[9]	**160.6**	133.2	90.7	92.5	75.4

[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 2002 and 2003 are stated on the basis of UK GAAP and in GB pounds because it is not practicable to restate amounts for periods prior to the date of transition to IFRS.
[4] The realised oil price per barrel is the average proceeds received for each barrel of oil sold in the period.
[5] Operating cost per barrel is the average cost incurred to produce a barrel of oil which exclude lifting imbalances and inventory effects.
[6] DD&A per barrel includes depreciation, depletion and decommissioning costs for the period calculated over barrels of oil produced.
[7] The total shareholder return is the percentage annual return to the Company's shareholders.
[8] Average barrels of oil produced per day net to the Group's working interest.
[9] Reserves are net to the Group's working interest expressed in millions of barrels of oil equivalent (see Reserves Statistics on Page 70).

RESERVE STATISTICS UNAUDITED, NET WORKING INTEREST (MMBOE)

NET PROVEN OIL AND GAS RESERVES

	Total	Thailand	Vietnam[1]	Congo[1,2]	Yemen[3]
Reserves as at 31 December 2005	59.7	5.0	30.0	9.5	15.2
Changes in the year					
Additions	–	–	–	–	–
Revision to previous estimates	23.5	–	17.5	–	6.0
Purchase of reserves	1.1	–	1.1	–	–
Change of interest	(4.7)	–	–	(4.7)	–
Sale of reserves	–	–	–	–	–
Production	(2.5)	–	–	–	(2.5)
Reserves as at 31 December 2006	77.1	5.0	48.6	4.8	18.7

NET PROVEN AND PROBABLE OIL AND GAS RESERVES

	Total	Thailand	Vietnam[1]	Congo[1,2]	Yemen[3]
Reserves as at 31 December 2005	133.2	18.4	68.3	23.8	22.7
Changes in the year					
Additions	–	–	–	–	–
Revision to previous estimates	38.8	–	29.4	–	9.4
Purchase of reserves	3.0	–	3.0	–	–
Change of interest	(11.9)	–	–	(11.9)	–
Sale of reserves	–	–	–	–	–
Production	(2.5)	–	–	–	(2.5)
Reserves as at 31 December 2006	160.6	18.4	100.7	11.9	29.6

NET PROVEN AND PROBABLE OIL AND GAS RESERVES YEARLY COMPARISON

	2006	2005	2004	2003	2002
Reserves as at 1 January	133.2	90.7	92.5	75.4	77.0
Changes in the year					
Additions	–	68.3	–	–	–
Revision to previous estimates	38.8	8.5	6.0	9.9	0.6
Purchase of reserves	3.0	23.8	–	–	–
Change of interest	(11.9)	–	–	9.2	–
Sale of reserves	–	(56.0)	(5.8)	–	–
Production	(2.5)	(2.1)	(2.0)	(2.0)	(2.2)
Reserves as at 31 December	160.6	133.2	90.7	92.5	75.4

Note: mmboe denotes millions of barrels of oil equivalent

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

[2] During 2006, the Group farmed out 50% of its working interest in Marine XI, Congo (Brazzaville).

[3] The Group provides for depletion and depreciation on its Yemen reserves on an entitlement basis. On an entitlement basis as at 31 December 2006 proven reserves were 7.3 mmboe (2005 – 6.1 mmboe) and proven and probable reserves were 10.1 mmboe (2005 – 8.4 mmboe).

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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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ANNUAL REPORT

Designed and produced by
Wardour Publishing & Design

Location photography
John Hepler (Vietnam)
Simon Townsley (Vietnam and West Africa region)

All location photography was taken in SOCO's areas of interest in Vietnam and West Africa region.

Printed by
Newnorth

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