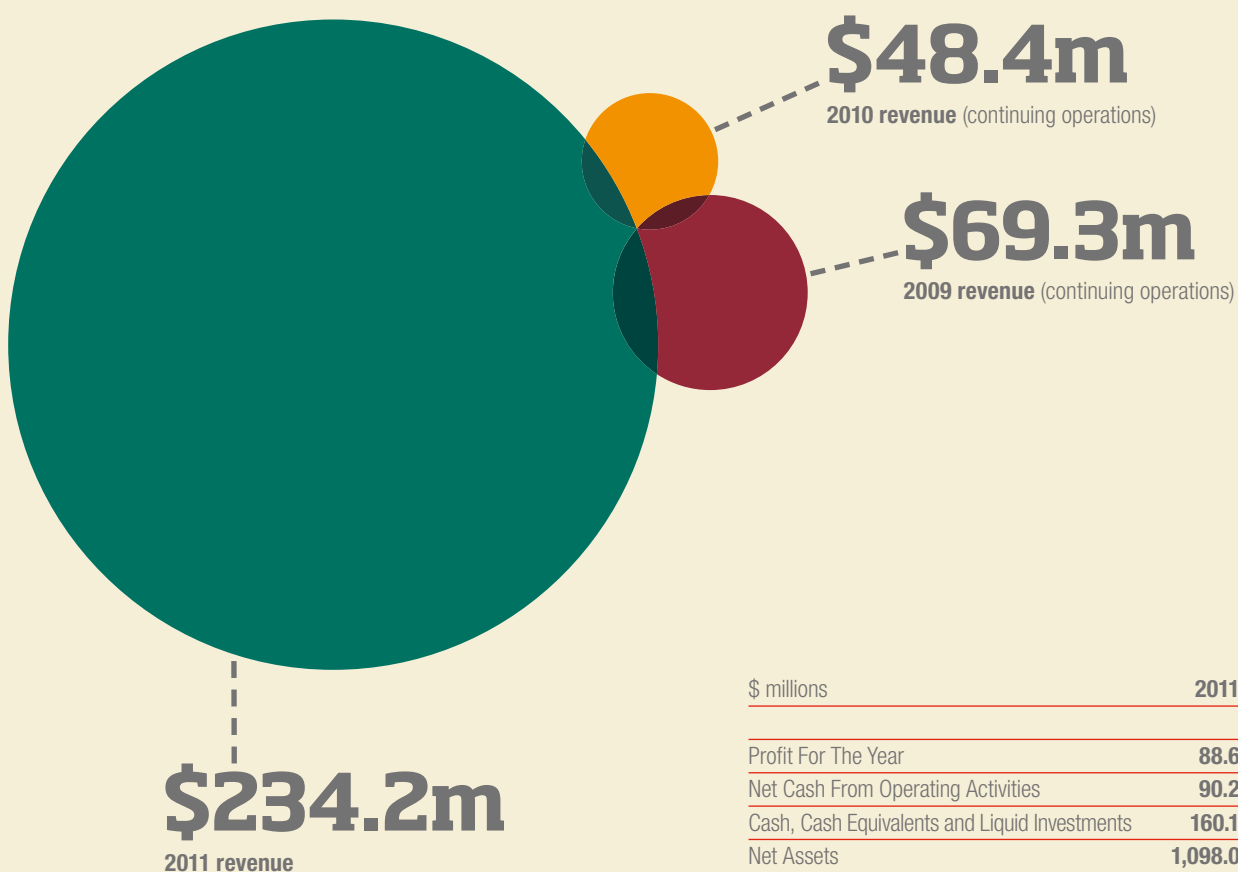


# Annual Report and Accounts 2011

**SUCO**plc  
INTERNATIONAL

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

## Financial Highlights



\$ millions	2011	2010	2009
Profit For The Year	88.6	101.4	51.1
Net Cash From Operating Activities	90.2	36.7	77.0
Cash, Cash Equivalents and Liquid Investments	160.1	260.4	307.6
Net Assets	1,098.0	1,013.2	763.3

## p02

### Strategic Review

Following the success of the TGT project, we continue to apply the strategy that has made it possible. We showcase our three Core Strategic Objectives, and show how they work in practice.



## p14

### Chairman and Chief Executive's Statement

A summary of the past year in all of our projects and fields, corporate events of note, changes to the Board of Directors, and their view of the Group's evolution and outlook for the coming years.

## p20

### Review of Operations

Operations around our portfolio for the year, including production, appraisal and exploration in all active fields and blocks.



## p28

### Financial Review

The Group's financial position at year end, including an analysis of the Group's results, assets and financial statements.



## p31

### Risk Management

How we manage the risks intrinsic in our industry directly affects our success.

## p36

### Sustainable Development

How we build sustainable value for host countries and local communities, as well as our own shareholders.

## p42

### Governance

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### Financial Statements

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## p98

### Additional Information

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## SOCO AROUND THE WORLD

THE COMPANY HAS INTERESTS  
IN VIETNAM, THE REPUBLIC OF  
CONGO (BRAZZAVILLE), THE  
DEMOCRATIC REPUBLIC OF  
CONGO (KINSHASA) AND  
ANGOLA, WITH PRODUCTION  
OPERATIONS IN VIETNAM

### Africa

#### Congo (Brazzaville)

##### Marine XI Block

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

**Operational phase:**  
Exploration/appraisal

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

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

#### Democratic Republic of Congo (Kinshasa)

##### Nganzi Block

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

**Operational phase:**  
Exploration

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

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

##### Marine XIV Block

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

**Operational phase:**  
Exploration

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

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

##### Block V

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

**Operational phase:**  
Block evaluation

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

**Project partners:**  
Ophir Energy (46.75%),  
Cohydro (15%)





**London**

Corporate headquarters

**Functions**

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

**Angola**

**Cabinda Onshore North Block**

**Location:** North Congo Basin, onshore western Cabinda  
**SOCO interest:** SOCO Cabinda (17%)

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

**South East Asia**

**Vietnam**

**Block 9-2<sup>1</sup>**  
**Location:** Cuu Long Basin, offshore south east Vietnam  
**SOCO interest:** SOCO Vietnam (25%)

**Operational phase:** Field development/production  
**Project partners:** Petrovietnam (50%), PTTEP (25%)

**Block 16-1<sup>2</sup>**  
**Location:** Cuu Long Basin, offshore south east Vietnam  
**SOCO interest:** SOCO Vietnam (28.5%), OPECO Vietnam (2%)

**Operational phase:** Appraisal/field development / production  
**Project partners:** Petrovietnam (41%), PTTEP (28.5%)

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

## WE CONTINUE TO APPLY OUR THREE PART STRATEGY

### 1.

#### **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.

**To find out how this works in practice see page 07**

### 3.

#### **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.

**To find out how this works in practice see page 11**



**Our core  
strategic  
objectives**

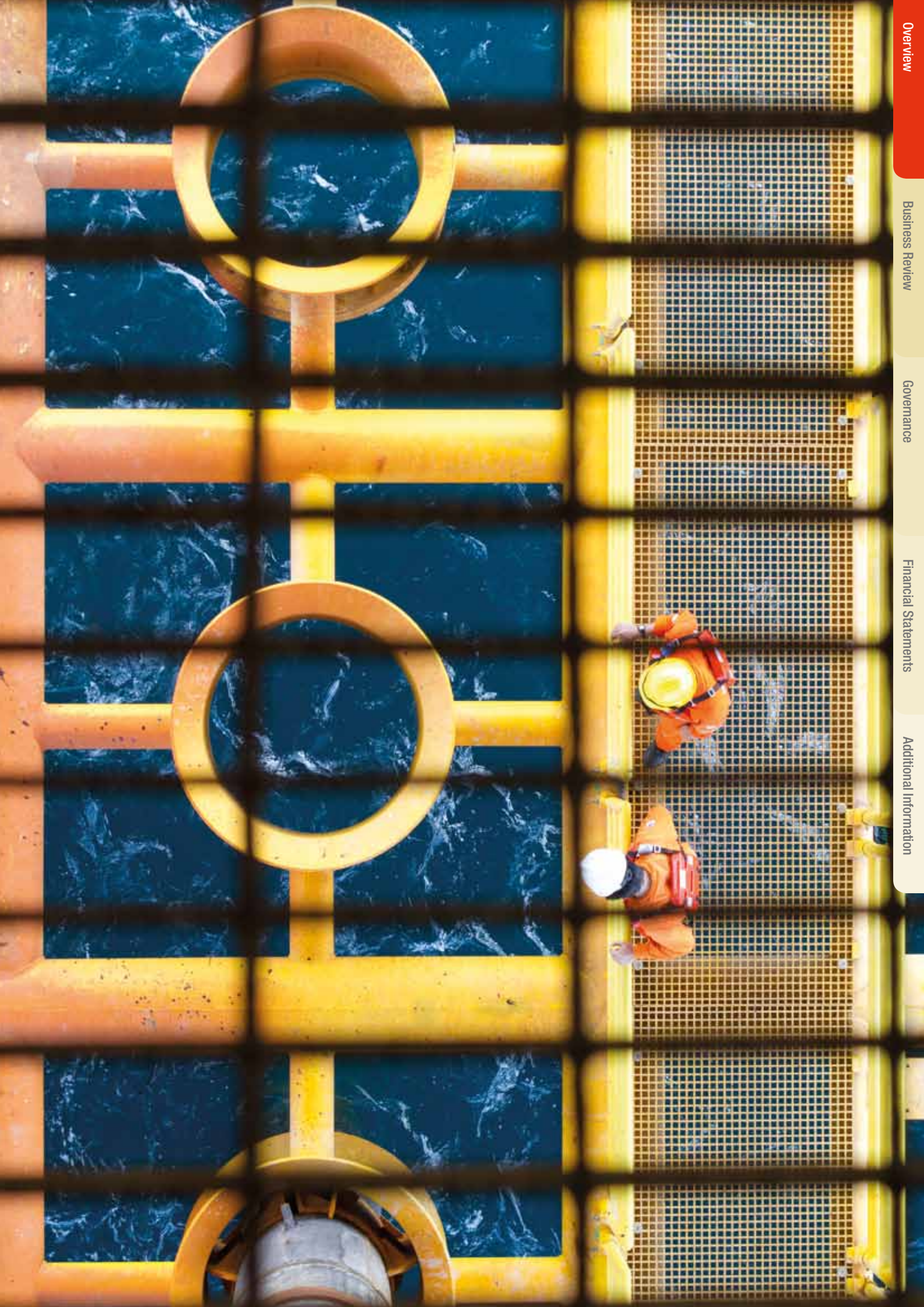
### 2.

#### **Capturing potential**

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

**To find out how this works in practice see page 08**







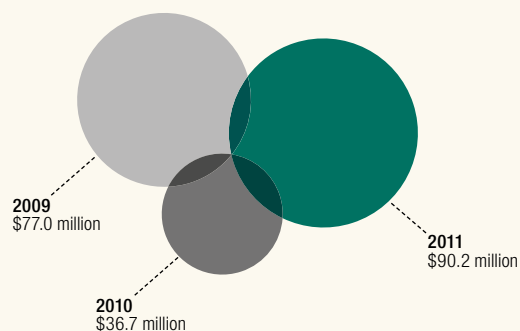




## Recognising opportunity

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.

Net Cash from Operating Activities



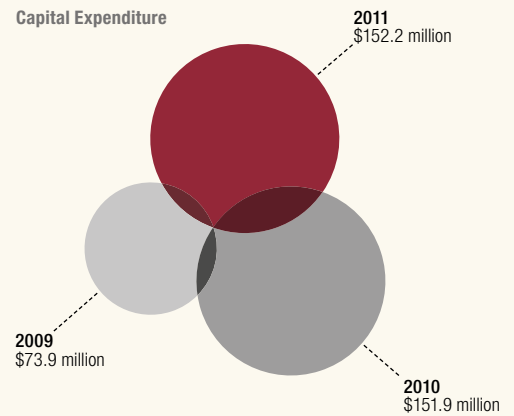
## How it works



## Capturing potential

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

Capital Expenditure



## How it works











12.135

12.127

HONG LANG JOO H.L.O.C. CONTRACT NO. 14

BUTRESS THREE R7227 MADE IN JAPAN

HONG LANG JOO H.L.O.C. CONTRACT NO. 14

9.00 NT-80LHE E JIPPAON STEEL BUTRESS THREE

13-7/8 88.00 NT-80LHE E JIPPAON STEEL BUTRESS THREE

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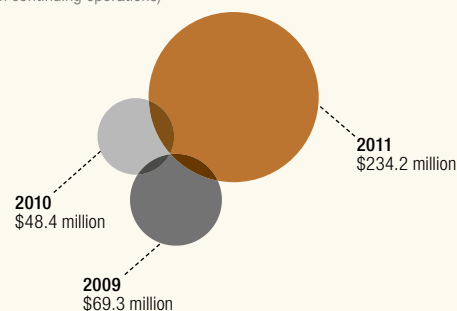




## Realising value

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

Oil and Gas Revenues  
(from continuing operations)



## How it works



## **AUGUST 2011: TGT PRODUCES FIRST OIL ON SCHEDULE**

Delivering a project as complex as Te Giac Trang on time and on budget is a credit to our team, Hoang Long Joint Operating Company and to our industry partners.



**1.8 km**

between the wellhead  
platform and the FPSO

**620,000**

barrels of oil storage capacity





22

months to convert from  
oil tanker to FPSO

ARMADA TGT 1

274 metres

from bow to stern

## WE CONTINUE TO APPLY THE STRATEGY THAT MADE OUR BIGGEST EVER PROJECT SUCH A SUCCESS



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

### Dear Shareholders

In August of 2011 we reached another significant milestone in adding value to our portfolio as we brought the Te Giac Trang (TGT) field, offshore Vietnam, into production. Revenues, operating cash flow and net profit from ongoing operations have all reached record levels, providing the Group with the financial capability to continue to self-fund foreseeable development expenditures as well as to progress and further enhance its current portfolio.

Delivering a project as complex as TGT on time and on budget is a credit to our team, the Hoang Long Joint Operating Company (HLJOC), the project operator, and to our industry partners. This accomplishment enabled the partnership to agree to accelerate the next phase of the development of the field and Phase II development drilling on TGT got underway from the H4 platform in the third quarter of last year. It continues on track with a further five development wells due on production during the third quarter of 2012.

While the focus for 2011 was clearly on TGT, we also continued with the primarily pre-salt focused exploration programme offshore the Republic of Congo (Brazzaville), onshore the Democratic Republic of Congo (Kinshasa) and in Cabinda.

### Financial and Operating Results

Revenue earned by the Group in 2011 set a record at \$234.2 million compared with revenue from continuing operations in 2010 of \$48.4 million. After tax profit from continuing operations was also at record levels with a dramatic increase from \$12.3

million in 2010 to \$88.6 million in 2011. These historic figures reflect the onset of production from the Group's TGT field which produced first oil in August 2011. The Group saw 2011 out with net entitlement volumes of approximately 14,700 barrels of oil equivalent per day (BOEPD) compared with approximately 2,600 BOEPD at the end of 2010. Working interest production net to SOCO averaged 5,437 BOEPD during 2011 compared with 2,257 BOEPD from continuing operations in 2010. Additionally, the Company was able to benefit from the record high average oil price during 2011 realising nearly \$113 per barrel of oil sold compared with approximately \$84 per barrel in 2010.

Cash flows from operating activities were up from \$12.4 million on continuing operations in 2010 to \$90.2 million reflecting the increased oil production and realised oil prices. Capital expenditures remained near 2010 levels at \$152.2 million in 2011 comprising the ongoing work offshore Vietnam, where the second phase of the TGT development continues into 2012, and the exploration programme in the Group's Africa region where two wells were drilled offshore Congo (Brazzaville). The Company took advantage of its significant cash balances by buying 1.5 million of its own shares into treasury at a cost of \$6.8 million and repurchasing convertible bonds at a cost of \$35.6 million.

Due to the following factors: the early stages of production from TGT Phase I; continuing work on the Phase II development and another extensive exploitation cycle; extensive pre-drill expenditures associated with continued exploration activities, along with the expectation of adding several new ventures during the year, the Board of Directors are not recommending the payment of a dividend.

### 2011 Operations Review

#### South East Asia

##### Vietnam – Block 16-1

Our largest exploration and development project evolved into a successful cash generating asset almost exactly according to plan. The field has now demonstrated performance in excess of 40,000 barrels of oil per day (BOPD) with no significant impact on the main reservoir performance parameters. Although there remain alignment issues with Petrovietnam over the rapidity of raising

#### Related sections and more information

- Review of Operations p20
- Our Board of Directors p44

production levels, the evidence from the field is compelling in support of that agreed by all partners in the Government approved Field Development Plan. Accordingly, we are confident that full Partner concurrence of a field production rate of at least 55,000 BOPD will be achieved by Q3 2012.

TGT is a highly complex field with three main reservoir horizons – the upper and lower Miocene 5.2 and the Oligocene “C” – with approximately 55 individual producing intervals. Well performance to date has demonstrated the ability of all wells to produce oil at high rates with minimal drawdown and field productivity from the reservoir intervals perforated to date has met or exceeded pre-development model prognoses. Stable flowing pressures of the initial producers indicate a strong level of aquifer pressure support, importantly deferring the need for water injection. Similarly, initial interference tests confirm a high degree of connectivity within the main sands.

Clearly we need information from more than the seven intervals that have been perforated to date in the eight producing wells in order to obtain the information necessary to establish the most efficient and effective way to fully exploit the field. Thus, 2012 will be about accelerating the programme in step changes in order to establish the most efficient rates at which to drain the field.

The Company's net entitlements production from TGT averaged approximately 12,300 BOPD since it came on production on 22 August 2011. Entitlements production was over 40% higher than working interest production as the contracting partners recovered those pre-field certification costs carried on behalf of Petrovietnam.

Phase II wells – being drilled from the H4 platform in the southern part of the field – began in the third quarter of 2011 and continues as at this date. Production from the H4 platform is projected to commence in July or August of 2012. The additional capacity provides further confidence of maintaining the plateau rate well into the future.

Over the longer term, significant additional potential remains yet to be confirmed in undrilled and un-appraised fault blocks. We are seeking to accelerate the drilling of these areas.

#### Vietnam – Block 9-2

Production net to the Company's working interest from the Ca Ngu Vang (CNV) field averaged approximately 2,283 BOEPD during the year. SOCO continues to champion the drilling of an additional producing well in CNV in order to efficiently drain the main producing area of the field.

To date sales from the CNV field have included approximately 24,000 million standard cubic feet of gas which is sold to PV Gas at effectively a dry gas sales price for use at the Phu My power plant onshore. However, the gas stream from CNV is rich in natural gas liquids which presents an opportunity to improve field revenues through the installation of offshore separation facilities.

Work is underway to install a separator and attendant metering facilities on the Bach Ho CPP-3 platform. The project is estimated to be complete by the end of May 2012 and will improve allocation of CNV hydrocarbons within the complex Bach Ho production facilities. At that time, the CNV partners will not only enhance their income stream, but also have evidence to support attainment of fair value for the gas liquids in the production stream.

#### Africa

Although we established a large exploration footprint in the Congo Basin in order to exploit what we felt was a lack of exploration below the salt layer in the region as evidenced by the lack of modern seismic, the results to date have not supported this premise. It appears that although imaging below the salt layer was limited, in this area the pre-salt geology is more complex than originally thought.

We have a strong balance sheet and strong forward financial position.



## Republic of Congo (Brazzaville)

Two exploration wells were drilled offshore during 2011, one targeting the pre-salt on Block Marine XI and the other a commitment well with a post-salt target on Block Marine XIV. Although neither was successful, with the pre-salt well not encountering suitable reservoir sands and the post-salt well intersecting sub-commercial accumulations of hydrocarbons, evaluation of the results is ongoing.

A third, post-salt well was postponed so results from this drilling campaign could be factored into the well plan. It is expected that the third exploration well, a post-salt target on Block Marine XI will be drilled at some future date as an add-on to other exploration drilling programmes planned in the region.

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

The final sub-salt well, one of three drilled in the Nganzi concession onshore in the DRC, was plugged and abandoned during the first quarter of 2011. Although encountering good reservoir and mature source rocks, none of the wells had sufficient seal.

Additional 2D seismic is being acquired over several post-salt prospects in the Nganzi concession, including some of those prospects previously drilled to test the sub-salt play. The seismic programme should be complete by the middle of the second quarter of 2012. Based on the interpretation of the seismic data, the partners will decide whether or not to engage on a multi-well post-salt exploration drilling campaign, which could commence as early as the fourth quarter of 2012.

## Angola

Acquisition of the extensive 2D seismic acquisition programme over the Cabinda North Block A concession was concluded in 2011. Interpretation of the data is underway, with the expectation that a drilling campaign could begin by the end of this year.

## Corporate Bond Repurchase

During 2011 the Company bought back convertible bonds with a par value of \$35.4 million representing 14.2% of the \$250 million convertible bonds that were issued in 2006. Previously, the Company redeemed \$165.9 million (66.4%) following the exercise of bond put options on 16 May 2010. The remaining \$48.7 million of bonds mature in May 2013.

## The Board of Directors

As stated in the Annual Report of the Directors Mr Peter Kingston and Mr Martin Roberts retired from the Board as Non-Executive Directors of the Company following the Annual General Meeting in June. Mr Kingston served as Chairman of the Audit Committee, Chairman of the Remuneration Committee and as the Company's Senior Independent Director. Mr Roberts served as a member of the Audit and Remuneration Committees. The Board thanks Mr Kingston and Mr Roberts for their significant contributions to SOCO. Mr John Norton has succeeded Mr Kingston as Chairman of the Audit Committee.

Mr Michael Johns was appointed as a Non-Executive Director in June 2011. Mr Johns serves as the Senior Independent Director, the Chairman of the Remuneration Committee and is a member of the Audit and Nominations Committees. Mr Johns has had a distinguished career in legal practice with two international law firms and has extensive experience in a broad range of practice areas, including corporate, corporate finance and energy law. Mr Johns graduated from Oxford University in 1969 and qualified as a solicitor in 1972. He was a partner at Withers (as it then was) from 1974 until 1987 and joined Ashurst LLP (Ashurst) as a partner in 1987 where he was the Head of the Energy, Transport & Infrastructure Department from 2001 until 2005. Mr Johns retired from Ashurst in April 2009 and remained as a consultant to Ashurst until April 2010. From August 2006 until February 2011, Mr Johns served as a Non-Executive Director of Aer Lingus Group plc.

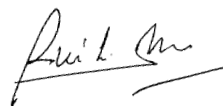
## Outlook

Commencement of production at TGT means that we have more opportunity to enhance shareholder value than we have ever had before. We are confident that TGT is a world class field. There is no doubt that it will be a significant contributor to operating cash flow. Whilst geologically complex and a multi-horizon reservoir, the field is demonstrating excellent performance and recovery characteristics. We are in discussions with our partners over how best to further develop the field. We are and will continue to take a very methodical approach to determining the most efficient way to exploit the TGT field.

Having significant cashflow does not mean that we will abandon applying the methodology that got us to this point – fiscal discipline in a self-funded, predominantly in-house generated exploration led strategy that results in a steadily increasing valuation of the asset portfolio.

We will continue to be an exploration led company. Our 2012 exploration drilling programme is light in relation to our historic standards simply because projects mature at different times. Our exploration portfolio contains several high potential projects and it is our intent to continue to add to this.

We have delivered the most significant project that this Company has ever been involved in both on time and in budget. We have a strong balance sheet and strong forward financial position. We will continue to execute the strategy that made this possible.



**Rui de Sousa**  
Chairman



**Ed Story**  
President and Chief Executive Officer







**BUSINESS  
REVIEW**



“

**Preparation for first production at TGT was the primary focus for the first half of 2011. The project was, by far, the largest development and production project in the history of the Company.**

”



# FIRST OIL FROM THE TGT FIELD WAS THE EVENT OF 2011 THAT CHANGED THE OPERATIONAL AND FINANCIAL PROFILE OF THE COMPANY



Above: **Antony Maris,**  
**Vice President –**  
**Operations and Production**

Te Giac Trang (TGT)'s Phase I production began on schedule and on budget on 22 August 2011. Current 2012 year-to-date average production is 30,424 barrels of oil per day (BOPD).

Total production net to the Group's working interest from continuing operations during 2011 was 5,437 barrels of oil equivalent per day (BOEPD) compared with 2,257 BOEPD produced in 2010.

## South East Asia

### Vietnam

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

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

### Production

#### Te Giac Trang, Block 16-1

The TGT field extends over 15 kilometres along the northeastern part of Block 16-1. The Block was awarded to SOCO in December 1999 and the first discovery on TGT was made in 2005.

#### Phase I:

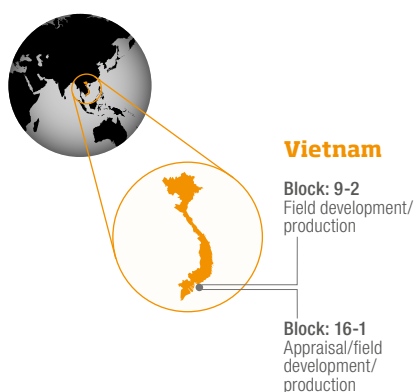
Preparation for first production was the primary focus for the first half of 2011. The project was, by far, the largest development and production project that the Company has ever been involved in. First oil was achieved on 22 August 2011, just days from the targeted date set two years previously; a clear testament to the hard work invested in the project by SOCO, its partners and the staff of the HLJOC.

The first phase of the H1 platform development drilling programme, which began in 2010, was concluded in 2011 with the completion of five remaining development wells, TGT-4P to -8P. The TGT-4P well, drilled in the southwest area of the northern fault block encountered the top of the target reservoir horizon lower than expected but encountered previously unmapped hydrocarbons in the Oligocene "C" reservoir. The TGT-5P well, drilled to the northern part of the field encountered the main reservoir as expected, while the TGT-6P, drilled to the southern part of the northern fault block, encountered the main reservoir high to prognosis. The TGT-7P well, drilled to the central area, also encountered the main reservoir horizon as predicted although it encountered a thicker pay section than expected. The TGT-8P well, targeting the central area of the

#### Related sections and more information

● Risk Management p31

● Reserves p98



H1.2 fault block, near the TGT-1X discovery well, was close to pre-drill prognosis.

The final stages of preparation for first oil included the installation of the topsides on the jacket on the wellhead platform on TGT's H1 area and the deployment of the Armada TGT 1, the floating production storage and offloading vessel (FPSO), which arrived on location in July 2011. The vessel had undergone 22 months of conversion work by BAB-VSP, a joint venture between Bumi Armada Berhad and Vietsovetro, in the Keppell Shipyard in Singapore. At name plate capacity, the double-hulled 274 metre vessel is capable of processing 55,000 BOPD and 75,000 barrels of water per day and storing 620,000 barrels of oil.

The TGT field is a complex, stacked sand reservoir system that is vertically extensive with up to 55 reservoir subzones, each requiring individual reservoir management to ensure that recovery from the field is optimised. Prior to the start of production, reservoir management plans were agreed involving a sequence, over two to three years, of selected perforation programmes of specific limited subzones within each well. To date, only the initial programme has been undertaken. Baseline reservoir management information continues to be gathered from these limited reservoir intervals. Technical meetings, held at the end of October with the Block 16-1 partners, resulted in the decision to update and modify the

initial reservoir management plan following the review of the well results and the initial performance of the wells.

Initial production from wells with perforated Miocene sands was as expected, as was production from two of the three wells with perforations in the Oligocene reservoir. However, to evaluate the reservoir sweep within the Oligocene reservoir more thoroughly, additional perforations within the shallow, more productive Miocene reservoir were not added immediately, which was a deviation from the original agreed plan. A revised reservoir management plan, including reviewing amendments to the current 2012 development drilling programme, which includes four wells from the H1 wellhead platform, and individual well management plans to achieve plateau production of 55,000 BOPD is under review.

Well performance to date in the H1 fault block area has demonstrated the ability of all wells to produce oil at high rates with minimal drawdown and, with the exception of wells perforated at or close to the oil water contracts, without significant water production. It has confirmed the presence of a local, strong aquifer that provides support to the main Miocene ILBH5.2 reservoir and the secondary objective of the Oligocene "C". Well flowing pressures are very stable, indicating the strong level of pressure support and the high degree of connectivity within the main producing reservoirs.

### Non-Financial Key Performance Indicators

(Continuing and Discontinued Operations)

	2011	2010	2009
Production (BOEPD)	5,437	4,648	6,415
Total proven and probable reserve additions (mmboe)	–	–	3.4
Proven and probable reserves (mmboe)	130.3	132.6	142.5

See the Five Year Summary on page 96 for definitions









Above: **Gordon Graham,**  
**Group Exploration Manager**

Gas export, through a pipeline to the nearby Bach Ho Facilities for processing and transportation to shore via the existing pipeline infrastructure for further distribution, also commenced while the gas-related process systems are fully tested and commissioned. Peak gas production will be approximately 30 million standard cubic feet per day.

#### Phase II:

The Field Development Plan for TGT was approved by the Government of Vietnam on 30 March 2011 and incorporated the accelerated Phase II development programme. Development drilling operations for Phase II commenced in October with the spudding of the first well at the H4 wellhead platform by the Petrovietnam Drilling PVD-1 jack up drilling rig. Batch drilling of the five wells is ongoing. The wells are expected to be completed ahead of the installation of the production deck and ready for production start up in August 2012.

The TGT-9P well, drilled to the east of the TGT-6X well, was planned to penetrate the main reservoir horizons in the western part of the H4 fault block. The TGT-10P well was planned to be drilled to the H3N fault block north of the TGT-7X well and was designed to also penetrate across a fault to the southern part of the H2 fault block to establish the existence of hydrocarbons in an area not currently mapped as oil bearing in the mid-case. The third well, TGT-11P, was the second well in the H4 fault block and was to the southern part of the Block. TGT-12P was drilled to the middle part of the H3N fault block.

The Block 16-1 partners have recently agreed the location of the fifth well, TGT-14P, which will be drilled prior to releasing the rig to allow the installation of the production deck, and final hook up and completion prior to production start. The well will be targeted to the southwest part of the H4 fault block.

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

The CNV field is located in the western part of Block 9-2, offshore Vietnam and is operated by the HVJOC. First oil was in 2008 and the field is currently producing at approximately 9,800 BOEPD, comprising approximately 6,800 BOPD and 18.3 million standard cubic feet of gas and gas liquids per day. During 2011, CNV production net to the Company's working interest has averaged approximately 2,283 BOEPD.

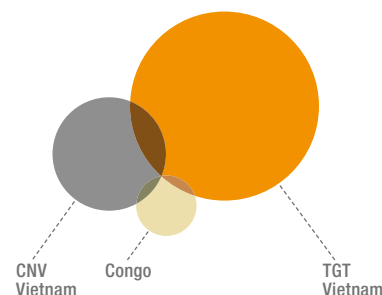
In contrast to TGT, the CNV field produces highly volatile oil from fractured Basement reservoir with a high gas to oil ratio and exploitation is dependent on the fracture interconnectivity to efficiently deplete the reservoir. Hydrocarbons produced from CNV are transported via subsea pipeline to the Bach Ho central processing platform where the wet gas is separated from crude oil and transported via pipeline to an onshore gas facility for further distribution. The crude oil is stored on a floating storage and offloading vessel prior to sale.

During 2011, work commenced to design, construct and install additional dedicated test separation and metering facilities on the processing platform in order to more accurately measure liquid and gas production entering the Bach Ho facilities from the CNV production stream. The separator was installed in the fourth



Above: **Vincent Duignan,**  
**Deputy General Manager**  
**Hoang Long & Hoan Vu JOCs**

#### Proven and Probable Reserves







Above: **Serge Lescaut,**  
General Manager, Africa Region

quarter with the metering equipment expected to be installed in the first quarter of 2012 with commissioning expected to be completed by May 2012. The benefit to the Company will be a more accurate allocation of CNV oil, gas and gas liquids production within the Bach Ho production system, which is expected to add up to approximately 2,000 BOEPD to the liquids stream.

## Appraisal

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

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

An extension period for the TGD Appraisal Area was approved by the Government of Vietnam in May 2011. During the third quarter, approximately 140 km<sup>2</sup> of full fold 3D seismic data was acquired over the TGD Appraisal Area. The data has been sent out for processing and interpretation is ongoing to deliver prospectivity maps. While the new seismic has improved the image across the area, the reservoir risk is higher and may preclude drilling. A decision to drill a well must be made by the end of the initial extension period, which runs from 1 January 2011 to 30 April 2012. An additional six months' extension will be in effect (through 31 October 2012) in the event that the Company elects to drill a well.

## Africa

### Congo (Brazzaville)

SOCO holds its interests in the Republic of Congo (Brazzaville), all offshore in the shallow water Lower Congo Basin, through its 85% owned subsidiary, SOCO Exploration and Production Congo SA (SOCO EPC). SOCO EPC holds a 29% participating interest in the Marine XI Block and a 29.4% participating interest in the Marine XIV Block and is designated operator of the two Blocks.

## Exploration

### Marine XI

The ENSCO 5003 rig was contracted and refurbished during the first half of 2011 before being towed to the Lower Congo Basin to drill the Mindou Marine 1 (MIM-1) exploration well, which spudded on 5 September.

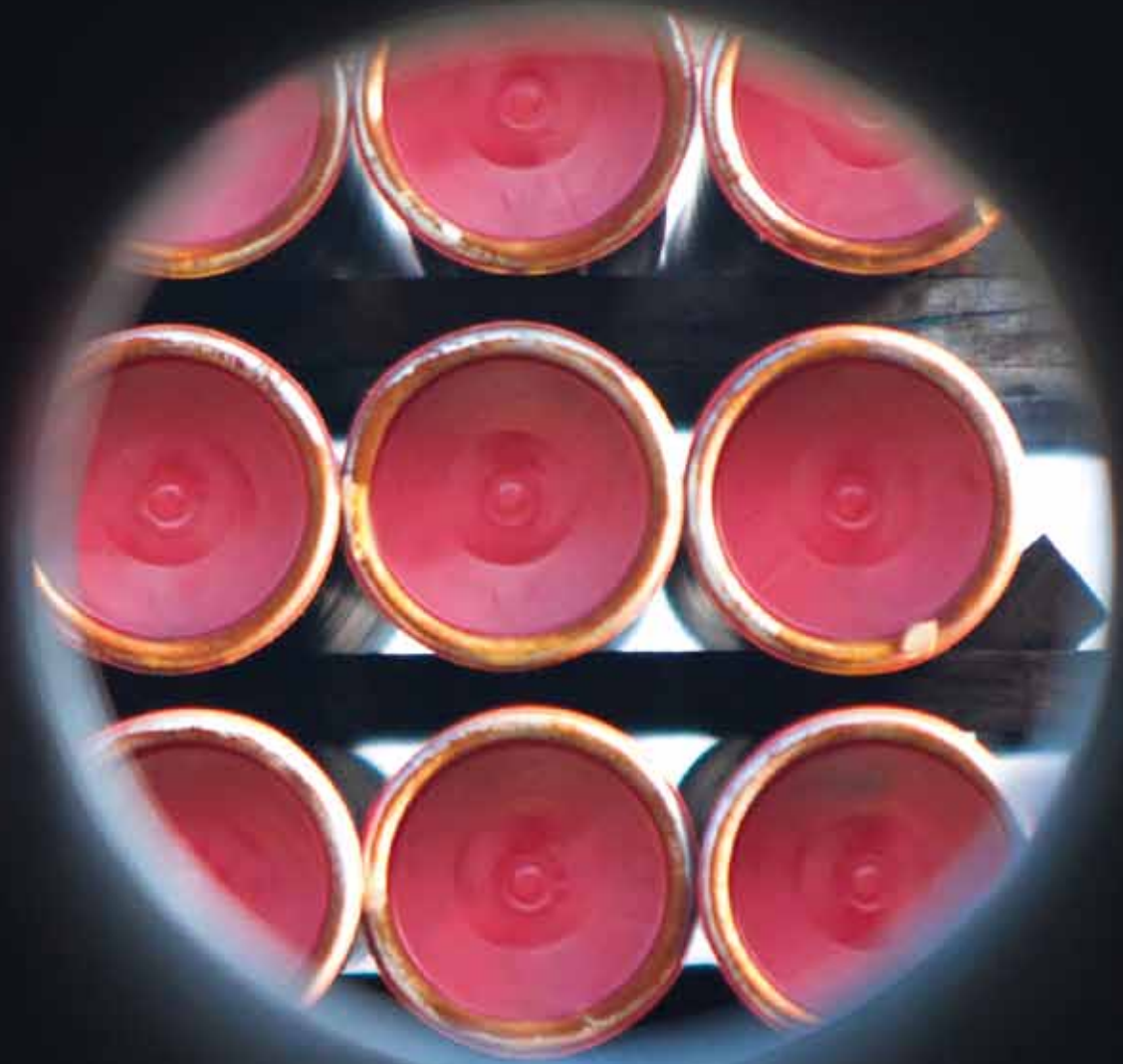
The MIM-1 well reached a total measured depth of approximately 3,515 metres on 31 October without encountering hydrocarbon bearing reservoir. The target reservoirs were carbonates and sandstone of the pre-salt TOCA and Djeno formations. Palaeontology results from the well, however, suggest that older-than-anticipated sediments were below the salt. Thus, the basal Vandji sand, producing elsewhere in the area but previously thought to be too deep to be considered, has become a viable reservoir target. A third, post-salt well was postponed so results from this drilling campaign could be factored into the well plan. It is expected that the third exploration well, a post-salt target on Block Marine XI will be drilled as an add-on to other exploration drilling programmes planned in the region.

### Marine XIV

The Makouala Marine 1 (MKM-1) exploration well spudded on 19 November 2011 in the Marine XIV Block. The well encountered hydrocarbons in the Chela, and in the Upper and Lower Sendji formation horizons.



Above: **Jose Sangwa,**  
Country Manager,  
Democratic Republic  
of Congo







Above: **Mike Herron,**  
Finance Manager,  
Africa Region



Above: **Lambert Mougani,**  
Deputy Finance Manager,  
Africa Region

The MKM-1 well targeted the post-salt Sendji Formation reservoir within a four-way dip closed structure. The well encountered hydrocarbons in both the primary and secondary reservoir targets. However, analysis of the wireline logs indicated that the reservoir sands at the location were not as well developed as predicted and there was insufficient overall pay thickness for commercial flow rates. The well was subsequently plugged and abandoned and the rig released. Information from this drilling campaign will be factored into further drilling decisions to be taken later this year.

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

SOCO holds its interests in the Democratic Republic of Congo (Kinshasa) through its 85% owned subsidiary SOCO Exploration and Production DRC Sprl (SOCO E&P DRC). SOCO E&P DRC holds a 65% participating interest in the Nganzi Block, situated in the North Congo Basin onshore western DRC, and a 38.25% participating interest in Block V, in the southern Albertine Graben onshore eastern DRC. SOCO E&P DRC is designated operator of both Blocks.

### **Exploration Nganzi Block**

The wildcat exploration well, Bayingu-1 (BYU-1), spudded in December 2010 on the prospect previously designated as Prospect "H", located in the southern portion of the Nganzi Block. The well encountered oil and gas shows in both the primary and secondary reservoir targets. The reservoir sands at the primary Lower Bucomazi target, however, were poorly developed, whilst the residual nature of the oil shows in the secondary Chela formation indicates lack of closure at this location. The well was plugged and abandoned in January 2011.

Further evaluation of the Nganzi Block incorporating information gathered in the 2010/11 drilling programme has been completed and indicates remaining prospectivity in the Chela formation. A follow-up 2D seismic acquisition programme commenced in the first quarter of 2012. Should seismic interpretation warrant, a second round of exploration drilling could begin in late 2012 prior to the end of the initial exploration period.

### **Block Evaluation**

#### **Block V**

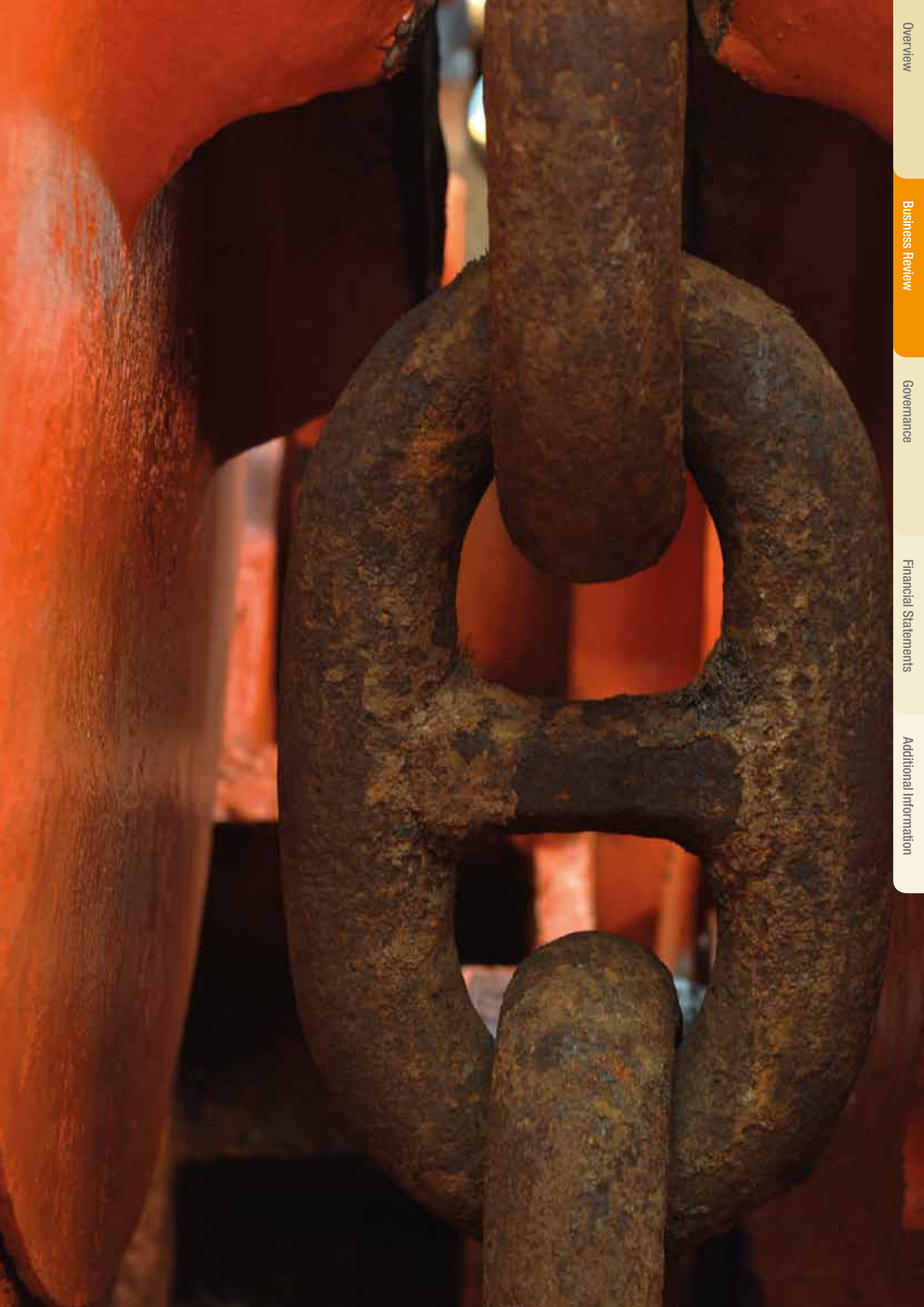
The security review over Block V in the Albertine Rift in the DRC is ongoing. The Company's initial environmental and social impact assessment (ESIA) was submitted to the Groupe d'Etudes Environnementales du Congo in March 2011 and, following a period of review and consultation with stakeholders, including various departments within the Government of DRC, a final ESIA was submitted in May and was later approved. An aeromagnetic and aerogravity survey is planned for 2012 with a seismic programme over Lake Edward to follow. The exploration licence was granted by a decree signed by the Hydrocarbons Minister on 26 October 2011.

### **Angola**

#### **Block Evaluation and Exploration Cabinda Onshore North Block**

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

The seismic acquisition programme that recommenced in May 2010 was completed towards the end of the first half of 2011. Processing of the data is complete and a full interpretation has commenced, with the expectation that a drilling campaign could begin by the end of this year.





# DESPITE THE CURRENT ECONOMIC ENVIRONMENT THE GROUP MAINTAINS A STRONG FINANCIAL POSITION



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

Financial and operating results for 2011 set new benchmarks for the Company with record production, revenue and profits. The material difference from previous years is a result of the commencement of production from the Group's Te Giac Trang (TGT) field offshore Vietnam. The Group's net entitlements production volume in December 2011 was approximately 14,700 barrels of oil equivalent per day (BOEPD) compared with 2,639 BOEPD for the same period last year which was derived from the Group's then only producing asset the Ca Ngu Vang (CNV) field, offshore Vietnam.

This marked increase in production, along with the expectation that production is set to increase further during 2012 as the second phase of the TGT development comes on-stream and gas separation facilities are installed at CNV, places the Company in a very strong financial position at a time of utmost importance in the prevailing economic environment. This strength enabled management to feel comfortable taking advantage of the negative macro investor sentiment to further build shareholder value by utilising surplus cash balances to buy back financial instruments. Convertible bonds with a par value of \$35.4 million were purchased and cancelled, recognising a gain and reducing debt and future finance costs. The Company additionally purchased approximately 1.5 million of its own shares in 2011. This share buy back programme has continued into 2012, bringing the total number of shares acquired to approximately 2.5 million at the date of this report.

## Income Statement

### Operating Results

Revenue from oil and gas production from the Group's South East Asia production assets in Vietnam was \$234.2 million compared with \$48.4 million from continuing operations in 2010. This increase is mainly due to the addition of TGT production which commenced on 22 August where the take exceeded its net working interest through cost recoupment entitlement barrels associated with the Group's cost carry of Petrovietnam on Block 16-1, which is expected to be fully recouped during the first half of 2012. Working interest production net to SOCO averaged 5,437 BOEPD during 2011 compared with 2,257 BOEPD in 2010. In addition, the average realised oil price increased to \$112.94 per barrel of oil sold in 2011, up from \$84.32 derived from continuing operations in 2010.

Cost of sales in 2011 was \$67.8 million arising from the TGT and CNV fields compared with \$12.4 million on continuing operations in 2010 from CNV only. Of this increase \$14.0 million is associated with production operating expense of the TGT field since its start up in August. With oil inventory balances low at year end 2011 compared with 2010, mainly due to the timing of liftings, the charge to cost of sales in respect of inventory, which is recorded at market value, was \$6.2 million compared with a credit of \$3.8 million in 2010. This increase in inventory charge is net of a reduction in opening oil inventory entitlement since inception of \$10.3 million. Royalties on oil sales were \$10.0 million higher in the year to 31 December 2011 compared with 2010 due to TGT oil sales. As oil sold from the TGT field in 2011 was sold outside of Vietnam it incurred export duty amounting to \$6.4 million, while all CNV oil sales in 2011 and 2010 were for the domestic Vietnam market and therefore were not subject to export duty. Finally, depreciation, depletion and decommissioning costs (DD&A) were \$19.3 million in 2011 compared with \$5.9 million in 2010, primarily due to increased volumes associated with the TGT field.

Operating costs on a per barrel basis (excluding DD&A, inventory movements and sales related duties and royalties) were approximately \$9.40 per barrel versus approximately \$6.90 per barrel in 2010. The primary difference is related to higher

#### Related sections and more information

- Risk Management p31
- Financial Statements p70

## Financial Key Performance Indicators

(Continuing and Discontinued Operations)

	2011	2010	2009
Realised oil price per barrel (\$)	<b>112.94</b>	75.66	55.70
Operating cost per barrel (\$)	<b>9.42</b>	12.41	9.82
DD&A per barrel (\$)	<b>7.86</b>	6.68	5.44
Basic earnings per share (cents)	<b>26.4</b>	30.9	17.3
Diluted earnings per share (cents)	<b>26.3</b>	28.4	15.4

See the Five Year Summary on page 96 for definitions

per barrel operating costs on the TGT field with dedicated production and processing facilities on the floating production storage and offloading vessel versus the CNV field where platform facilities are shared with the Bach Ho field.

On a per barrel entitlement basis DD&A in 2011 was approximately \$7.90 per barrel, up from approximately \$7.15 per barrel from continuing operations in 2010 due to the impact of the higher TGT DD&A charge due to the higher development costs per barrel compared to CNV where the existing facilities of Bach Ho are being utilised.

Administrative expenses increased to \$9.4 million for the 12 months to December 2011 up from \$6.9 million in 2010. This increase is primarily due to higher payroll obligations, including performance based bonuses, and a higher proportion of corporate resources being utilised on searching for new opportunities.

The above factors result in an operating profit arising from the Group's continuing production operations for 2011 of \$156.9 million versus \$29.1 million from continuing operations in 2010.

### Non-Operating Results

The increase in other gains and losses in 2011 to \$3.3 million from \$0.9 million in 2010 was primarily due to a higher gain in 2011 on the change in fair value associated with the subsequent payment amount tied to future oil production from the Group's divested Mongolia interest. A further gain of \$0.3 million arose on cancelling convertible bonds that were repurchased in the year, being the difference between the fair value of the consideration paid and the carrying value of the liability component of the cancelled bonds (see below and Note 23 to the financial statements).

Although total interest charges have reduced following the convertible bonds redemption in 2010, finance costs have increased from \$0.5 million in 2010 to \$2.7 million in 2011 as, prior to start up of production operations in TGT, interest charges associated with capital expenditure in

TGT were capitalised in accordance with IAS 23 Borrowing Costs (see Note 4 to the financial statements). Subsequently all finance costs have been expensed in the income statement.

Tax on continuing operations increased from \$18.5 million in 2010 to \$70.0 million in 2011 due to the increased oil sales arising since the start up of production from the TGT field. The effective tax rate in Vietnam during 2011 was 44% compared with a rate approximating the statutory rate in Vietnam of 50% in 2010 as, in 2011 there was a greater proportion of revenue arising from non-taxable income relating to cost recoupment from Petrovietnam associated with Block 16-1.

As a result of the above factors the Group's profit after tax in 2011 was \$88.6 million, up from \$12.3 million from continuing operations in 2010. Basic and diluted earnings per share on continuing operations increased from 3.8 cents in 2010 to 26.4 cents in 2011 and from 3.5 cents in 2010 to 26.3 cents in 2011, respectively.

### Balance Sheet

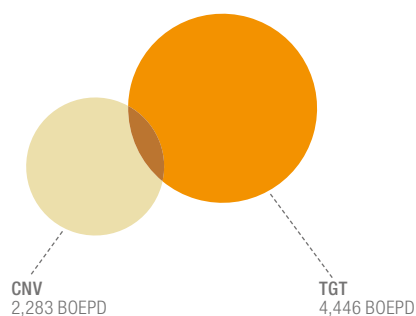
Intangible assets increased by \$48.8 million in the year predominantly due to the Group's exploration activity in Africa and in particular drilling activity offshore Republic of Congo (Brazzaville).

Property, plant and equipment increased by \$100.6 million mainly associated with the Group's South East Asia segment where capital expenditure was focused on the TGT development. Further, a decommissioning asset was established during the year in relation to TGT, along with an associated long term provision described below. These capital additions were partially offset by DD&A charges in the year.

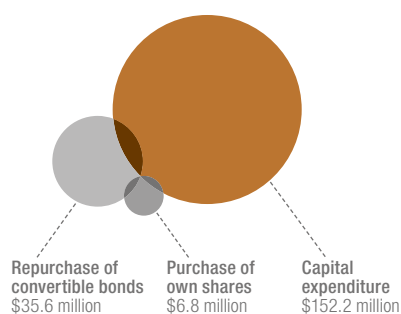
The year end inventory balance decreased from \$16.4 million in 2010 to \$10.2 million in 2011 due to the reasons described above. Trade and other receivables increased from \$24.4 million at year end 2010 to \$79.9 million at 31 December 2011 primarily due to December TGT oil sales. SOCO's cash and cash equivalents decreased by the year

### Contributions to Income

(based on net entitlement volumes)



### Significant Components of Cash Outflow





end 2011 to \$160.1 million from \$260.4 million at the start of the year as the Group utilised surplus cash balances in addition to excess cash generated from operations to fund development capital expenditure and to buy back convertible bonds and shares.

The Group's trade and other payables increased from \$45.9 million at the end of 2010 to \$49.5 million at 31 December 2011 reflecting the ongoing exploration and development programmes in both Africa and Vietnam. Tax payables increased from \$2.0 million last year end to \$13.5 million this year end consistent with timing of liftings in Vietnam where tax is paid on each cargo lifted.

As at 31 December 2011, the Group's only debt was the outstanding convertible bonds with a par value of \$48.7 million, the liability component being \$46.6 million (2010 – \$78.0 million). The convertible bonds were issued in 2006 at a par value of \$250.0 million. During 2011 the Company repurchased convertible bonds in the market with a par value of \$35.4 million, at a cost of \$35.6 million, representing 14.2% of the \$250 million convertible bonds that were issued in 2006. A gain of \$0.3 million was recognised on cancelling the repurchased bonds (see above). Previously, the Company redeemed \$165.9 million (equivalent to just over 66%) following the exercise of bond put options on 16 May 2010. The remaining bonds

mature in May 2013. See Note 23 to the financial statements for further details.

Deferred tax liabilities increased to \$37.5 million at 31 December 2011 from \$24.1 million year end 2010 mainly due to accelerated tax depreciation and other timing differences associated with TGT. Long term provisions related to the Group's decommissioning obligations in South East Asia have increased from \$13.1 million at the end of 2010 to \$32.7 million due to increased provisions reflecting the installation of facilities and development well drilling activity on the TGT field during 2011.

#### **Cash Flow**

The Group's operating cash flow from continuing operations increased from \$12.4 million in 2010 to \$90.2 million in 2011 mainly due to the contribution of production from the TGT field as described above since start up of production operations in August. Capital expenditures were similar to last year at \$152.2 million, arising primarily on the TGT development and on exploration activities in Africa with two wells drilled offshore Congo (Brazzaville). Finally, the purchase of own shares into treasury at a cost of \$6.8 million and the repurchase of convertible bonds at a cost of \$35.6 million meant that the Group's cash balance reduced by \$100.4 million over 2011.

#### **Dividend**

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

However, as described above surplus cash balances were utilised to further build shareholder value by buying back the Company's own ordinary shares.

#### **Key Performance Indicators**

SOCO uses a number of financial and non-financial Key Performance Indicators (KPIs) against which it monitors its performance. Reference is made to KPIs in the appropriate section of this Annual Report and in the Five Year Summary on page 96 where the KPIs are defined.

#### **Own Shares**

The SOCO Employee Benefit Trust (the Trust) holds ordinary shares of the Company (Shares) for the purpose of satisfying long term incentive awards for senior management. At the end of 2011, the Trust held 4,156,922 (2010 – 4,156,922) Shares, representing 1.22% (2010 – 1.22%) of the issued share capital (see Note 26 to the financial statements).

Following the share placement in 2010 of 28,937,388 Shares at a price of £3.525 per Share, the Company repurchased 1,497,852 Shares in 2011 at an average cost of £2.903 per Share and a total cost of \$6.8 million. As at 31 December 2011, the Company held 1,607,852 (2010 – 110,000) treasury Shares, representing 0.44% of the issued share capital (see Note 26 to the financial statements). As of the date of this report a further 995,235 Shares at an average price of £2.926 per Share had been repurchased by the Company.

#### **Going Concern**

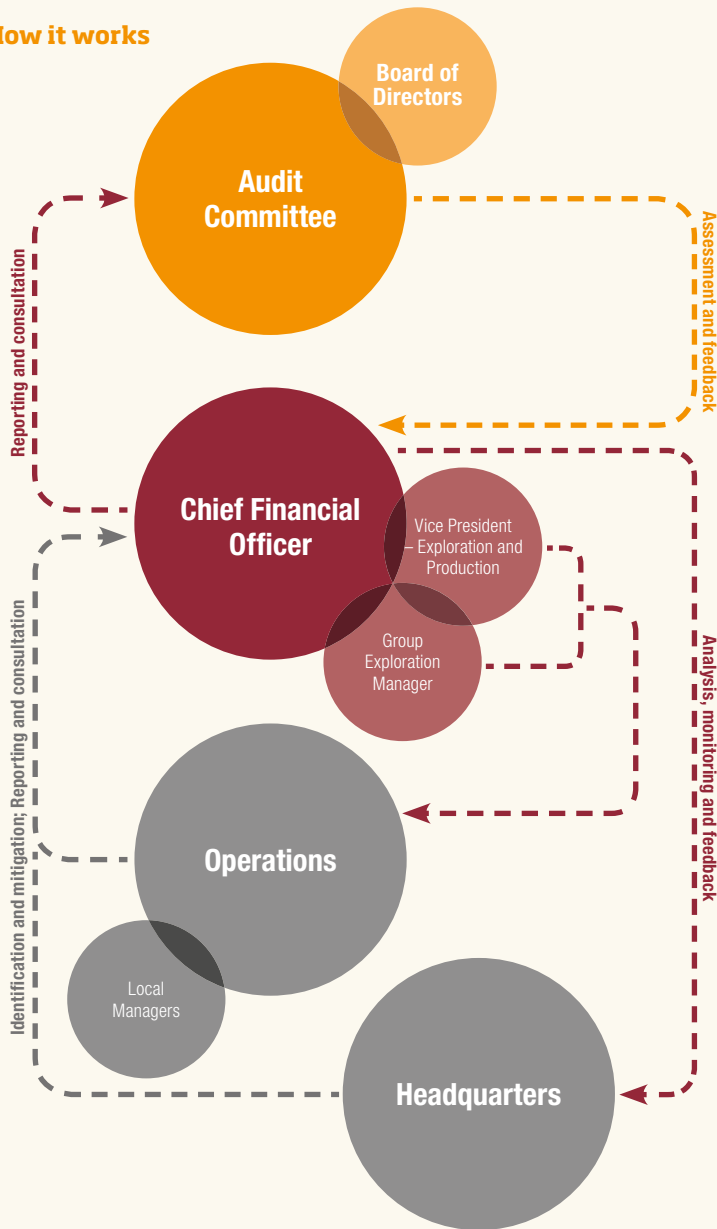
SOCO's business activities, its financial position, cash flows and liquidity position, together with an outlook of factors likely to affect the Group's future development, performance and position are discussed above and in the Chairman's and Chief Executive's Statement and Business Review on pages 14 to 16 and 18 to 41, respectively. The Group has a strong financial position and based on future cash flow projections should comfortably be able to satisfy its debt obligations (as set out in Note 23 to the financial statements) and continue in operational existence for the foreseeable future. Consequently, the Directors believe that the Group is well placed to manage its financial and operating risks successfully despite the current economic environment and have prepared the accounts on a going concern basis as described in the Annual Report of the Directors on page 49.

**Financial and operating results for 2011 set new benchmarks for the Company with record production, revenue and profits.**

# HOW WE MANAGE RISK DIRECTLY AFFECTS HOW WE DO BUSINESS

**There is an ongoing process to identify, monitor and mitigate risk**

**How it works**



Long term shareholder value is dependent on the success of the Group's activities, which are directed towards the search, evaluation and development of oil and gas resources. Exploration for, and development of, hydrocarbons is speculative and involves a significant degree of risk involving multiple factors. Critical to ensuring the ongoing success of the Company in applying its three core strategic objectives of recognising opportunity, capturing potential and realising value is the identification, assessment and mitigation of the various risk factors.

Consequently, SOCO has a formal process in place to identify and mitigate risks applicable to an upstream oil and gas business. The Board of Directors has ultimate responsibility for risk management with the Audit Committee providing detailed oversight. The Board has designated the Chief Financial Officer as the executive responsible for the Company's risk management function. He is supported in this task by the Vice President – Operations and Production and the Group Exploration Manager.

There is an ongoing process to identify, monitor and mitigate risk throughout the year with any new or changes to existing risks considered at each Audit Committee meeting. Annually, the Audit Committee undertakes a rigorous and detailed risk assessment wherein the Group's risk profile, including the mitigation measures in place to reduce risk to acceptable levels, is considered. This risk assessment is then presented to the Directors for full Board approval.

Risk management and the principal risks and uncertainties facing the Group are discussed below. Further commentary on these and additional risks can be found in Notes 3 and 4 to the financial statements. The Group's risk management policies and procedures are further discussed in the Corporate Governance Report on page 54.

**Operational Risk**

There are inherent risks in conducting exploration, drilling, and construction operations in the upstream industry. The level of risk is potentially impacted by harsh geographical conditions and associated resource availability and costs. SOCO





seeks to mitigate its operational risks through the application of industry best practice procedures throughout its operations. Mitigation may also be achieved by transferring risk, for example, by entering into partnerships or farm-outs and by maintaining minimum standard industry insurance. 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 believes that SOCO's comprehensive property, control of well, 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.

#### **Empowerment Risk**

The Group's international portfolio comprises oil and gas ventures in widespread, often remote locations with government and industry partners. Conduct of operations requires the delegation of a degree of decision making to partners, contractors and locally based personnel. As operator in a project, SOCO can directly influence operations and decision making. Where SOCO is a co-venturer it seeks to maximise its influence through active participation with management, including direct secondments, and application of internal control best practice under a procedural framework.

#### **Reserves Risk**

As discussed in Note 4 to the financial statements, the Company uses standard recognised evaluation techniques to estimate its proven and probable oil and gas reserves. However, such techniques have inherent uncertainties in their application. As the Company has projects with booked reserves in the early stages of production or development, upward or downward revisions to reserve estimates will be made when new and relevant information becomes available.

#### **Health, Safety, Environment and Social Risks**

The Group operates in an industry sector with inherent high risks associated with health, safety and the environment. Additionally, it operates in regions where there is a greater risk of economic

or social instability and where local attitudes to risk differ compared with nations with more established or developed economies. Accordingly, the Group may be exposed to specific risks in relation to social and environmental factors as well as health and safety matters, including security, and attempts to mitigate such risks by actively engaging with local communities and governments, using specialist consultants and by maintaining appropriate policies and procedures. Further details of how SOCO addresses these risks can be found in the Sustainable Development Report on pages 36 to 41.

#### **Political and Regional Risk**

Many of the Group's projects are in developing countries or countries with emerging free market systems where the regulatory environment may not be as mature as in more developed countries. There may be a high level of risk in relation to compliance with and interpretation of emerging hydrocarbon law, taxation and other regulations. SOCO seeks to minimise such risks by using in country professional advisors and by engaging directly with the relevant authorities where appropriate. Some of the Group's interests are in regions identified as potentially more susceptible to business interruptions due to the consequences of possible unrest. 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 insurance or associated business interruption insurance 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 insurance cover.

#### **Business Conduct and Bribery Risk**

SOCO operates both in an industry sector and in certain countries where the promotion of transparent procurement and investment policies is perceived as having a low priority and where

“Critical to ensuring the ongoing success of the Company is the identification, assessment and mitigation of the various risk factors.”



customary practice may fall short of the standards expected by the UK Bribery Act. The Group seeks to mitigate these risks by ensuring that it has appropriate procedures in place to eliminate bribery and that all employees, agents and other associated persons are made fully aware of the Group's policies and procedures with regard to ethical behaviour, business conduct and transparency.

Running in parallel with the Group's general risk management process, the Audit Committee has established a detailed bribery risk assessment and mitigation reporting procedure. Bribery risks are monitored throughout the year along with implementation of procedures to mitigate any new risks identified.

#### **Reputational Risk**

The Group operates in locations where social and environmental matters may be highly sensitive both on the ground and as perceived globally. This can potentially lead to a reputational risk which may influence various Group stakeholders. However, SOCO works closely with all of its stakeholders including local communities, governments and non-governmental organisations to ensure that during operations any disturbance is minimised and that on completion of the Group's activities the local population and environment will be left in, at least, as good a state as when SOCO first arrived.

See the Sustainable Development Report on pages 36 to 41 for further information.

#### **Commodity Price Risk**

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

Over time, during periods when the Group sees an opportunity to lock in attractive oil prices, it may engage in limited price hedging.

#### **Foreign Currency Risk**

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 Company may take short term hedging positions to protect the value of any cash balances it holds in non-US dollar currencies. The Group seeks to minimise the impact that debt financing has on its balance sheet by negotiating borrowings in matching currencies. The Group's convertible bonds are denominated in US dollars.

#### **Liquidity and Credit Risk**

The Group carried significant cash balances throughout the year thereby increasing its exposure to liquidity and credit risk. To mitigate these risks and to protect the Group's financial position cash balances are generally invested in short term, non-equity instruments or liquidity funds, not exceeding three months forward. Investments are generally confined to money market or fixed term deposits in major financial institutions.

**The Directors believe that the Group is well placed to manage its financial and operating risks successfully.**





## SUSTAINABLE VALUE FOR HOST COUNTRIES, LOCAL COMMUNITIES AND OUR OWN SHAREHOLDERS

### CEO's statement

Oil and gas companies have a central role in today's global energy supply. SOCO International can be a powerful force for economic development. Through our business, we create jobs, provide training and skills and support local communities.

A successful project can transform not only a company, but also the economic and social wellbeing of a host country by contributing to its ability to produce and supply its own natural resources. We recognise that built into the heart of this opportunity is the business imperative to act responsibly.

SOCO is committed to conducting our business in an honest and ethical manner and ensuring that the health and safety of people and the protection of the environment remain a business priority.

Our goal is to be a positive presence whereby we build sustainable value for the host countries and local communities, as well as for our own shareholders. That's what we mean by sustainable development.

**Ed Story**  
President and Chief Executive Officer

### Our Company

SOCO International is an upstream, international oil and gas exploration and production company. We are a participating partner in seven oil licences in Vietnam, the Republic of Congo (Brazzaville), the Democratic Republic of Congo (Kinshasa) (DRC) and Angola.

Our core business is to add shareholder value by:

- Gaining access to investment opportunities in projects or regions early on in the project life cycle where there is potential to create significant upside through our participation.
- Applying our managerial, technical and commercial expertise to progress the project through its formative stages or through periods of difficulty.
- Locking in the investment returns once our capacity to add value begins to diminish.

We currently have five projects in the early phases of exploration and two projects in the production/development phase.

In undertaking our activities we bring benefits to society through investment in developing countries, providing stimulus for emerging local economies, the creation of jobs, training for local people, support for local communities, payment of fees and taxes to host governments and the protection of the natural environment. We call this approach sustainable development.

Because of our exploration activities, our projects can vary substantially from year to year. Often these can be at the earliest stages of exploration prior to the onset of drilling or production activities.

We partner with other businesses and host governments through their national oil companies. This means that our portfolio varies by:

- a) our degree of ownership
- b) our level of operatorship

Our approach to sustainable development is tailored to individual projects. Where we are the operator, our influence is high. Where we are a minority owner and non-operator, we seek to influence our partners to integrate sustainable development into a project.

### Why sustainable development is good for our business

There are two clear benefits for SOCO from a carefully managed approach to sustainable development:

#### 1. Management of risks

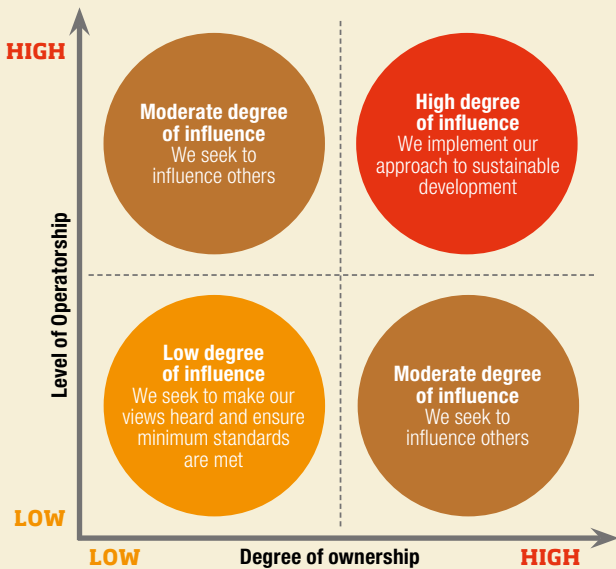
Exploration and development of hydrocarbons involves a significant degree of risk. We operate in remote areas that are often under-developed; we rely on collaboration with external partners; and we may only invest for a short time period at a particular location. A well-managed approach to our social, environmental and economic responsibilities is integral to good risk management. SOCO has particular expertise in the management of technical and commercial risks and we apply these skills to our economic, social and environmental responsibilities.

#### 2. Realisation of new opportunities

We want to build strong relationships and a reputation as a good corporate citizen so that we are welcomed as the responsible partner of choice. By harnessing our skills and capabilities as a business, and sensitively managing our operations, we can be a powerful force for sustainable development in the communities in which we operate. Sustainable development can also provide a source of competitive advantage. Our commitment to local economies and investment in communities has helped SOCO win business around the world.

**Our approach to sustainable development is tailored to individual projects based on our degree of influence**

**How it works**



Block	Ownership	Operatorship
● <b>Marine XI:</b> Congo (Brazzaville)	29.00%	Operator – SOCO
● <b>Marine XIV:</b> Congo (Brazzaville)	29.40%	Operator – SOCO
● <b>Nganzi Block:</b> Western DRC	65.00%	Operator – SOCO
● <b>Block V:</b> Eastern DRC	38.25%	Operator – SOCO
● <b>Block 9-2:</b> Vietnam	25.00%	Joint Operating Company
● <b>Block 16-1:</b> Vietnam	30.50%	Joint Operating Company
● <b>Cabinda North Block:</b> Angola	17.00%	Non-Operator

**Our Guiding Principle: A Net Positive Contribution**

Our business is guided by an overarching principle: to make a net positive contribution through balancing the needs for energy security; economic development; social improvement; and the protection of the environment.

**How we integrate sustainable development into our business**

Our Guiding Principle, which is set out adjacent, is translated into our policies and systems, it guides our selection of partners, and is realised through our actions on the ground. The Company has established standards for business conduct in three performance areas – ethical, social and environmental – as well as a comprehensive Health, Safety, Environment, Social and Security (HSESS) management system.

**The Code of Business Conduct and Ethics (The Code)**

The Guiding Principle is implemented through the Code, which was originally approved by the Board of Directors in 2004 and was most recently reviewed and updated in 2011.

The Code sets out our values of honesty and fairness and promoting trust amongst those with whom we work. Where we partner with others, we seek to work with those who share the same principles as us.

The Code applies across all our business operations, including contractors, suppliers, agents and joint venture partners. It is our policy to consider environmental, ethical, health, security and safety criteria in our selection of suppliers. A summary of the Code is available on our website.

Sustainable development is managed day-to-day through our HSESS system. This forms part of the training provided for all staff.



## Governance

Sustainable development at SOCO evolves from year to year as our business grows and the individual project cycles progress. We recognise that this is a long journey that won't be perfected overnight. However, our governance structures ensure that we constantly learn from our experiences and improve our approach.

The Chief Executive Officer is responsible for our sustainable development performance. Relevant issues are considered by the Board through a specific item on the agenda at each meeting.

Management of the day-to-day implementation is through our country managers, led by the Vice President – Operations and Production. The effectiveness of our risk management and controls over our sustainable development programme is formally assessed annually and reviewed periodically by the Audit Committee.

## Creating economic wealth, responsibly

### Our Approach

Our aim is to ensure that all of our stakeholders benefit from our operations and the wealth that we create. We contribute to the economic development of the countries where we operate, and by doing so build a reputation as a reliable, fair and responsible company.

We apply our technical, managerial and commercial expertise to create jobs in local communities; provide training and technical assistance; stimulate the local economy; enhance the capacity of host governments; pay relevant taxes and governmental fees; generate revenues from hydrocarbon production; and create returns for our shareholders.

From the initial decision to invest, through to the management and divestment of operations, we are guided by an approach to bring economic rewards to our stakeholders, safely and responsibly.

## Safety and Security

Our primary responsibility is the safety of our employees and those we work with.

Our HSESS Management System includes procedures and guidelines to secure a planned approach for identifying, analysing and managing occupational risks and ensuring that our personnel and our contractors have the appropriate competency for the task at hand. HSESS objectives are incorporated into new project activities along with specific HSESS training to ensure that HSESS disciplines are assimilated into day-to-day activities. Contractors and suppliers are selected on the basis of their HSESS competency and performance, alongside commercial, technical quality, business conduct and other considerations. Audits, inspections and monitoring is applied to key contractors on a risk based approach.

SOCO has adopted a security standard that applies to all SOCO employees, their contractors, and their families, while working or living at any of the SOCO operational activities worldwide. The standard calls for security risk assessments, monitoring security status and developing appropriate security procedures and plans for each area and operation.

### Creating Jobs and Training

One of the biggest benefits our business brings is developing new skills, creating jobs and stimulating the local job market in developing countries, often some of the poorest parts of the world.

The Code is applied to set out how we:

- Create employment by staffing as many of our jobs with the local population as possible, including as contractors and suppliers.
- Provide training to equip locals with skills that can be useful long after we have left an area.
- Assist host communities, local companies and governments with technical cooperation and capacity building.

### Our primary responsibility is the safety of our employees and those with whom we work

During 2011, there were no Lost Time Injuries (LTIs) to our staff in any of our operations worldwide and the Lost Time Injury Frequency was nil.

In Vietnam, the Te Giac Trang (TGT) development project as a whole has accumulated 5.3 million manhours with no LTIs.

The Hoang Long and Hoan Vu Joint Operating Companies (JOCs), operators of Block 16-1 and Block 9-2, respectively, conducted audits and inspections over key contractors engaged in the TGT construction, drilling and production operations.

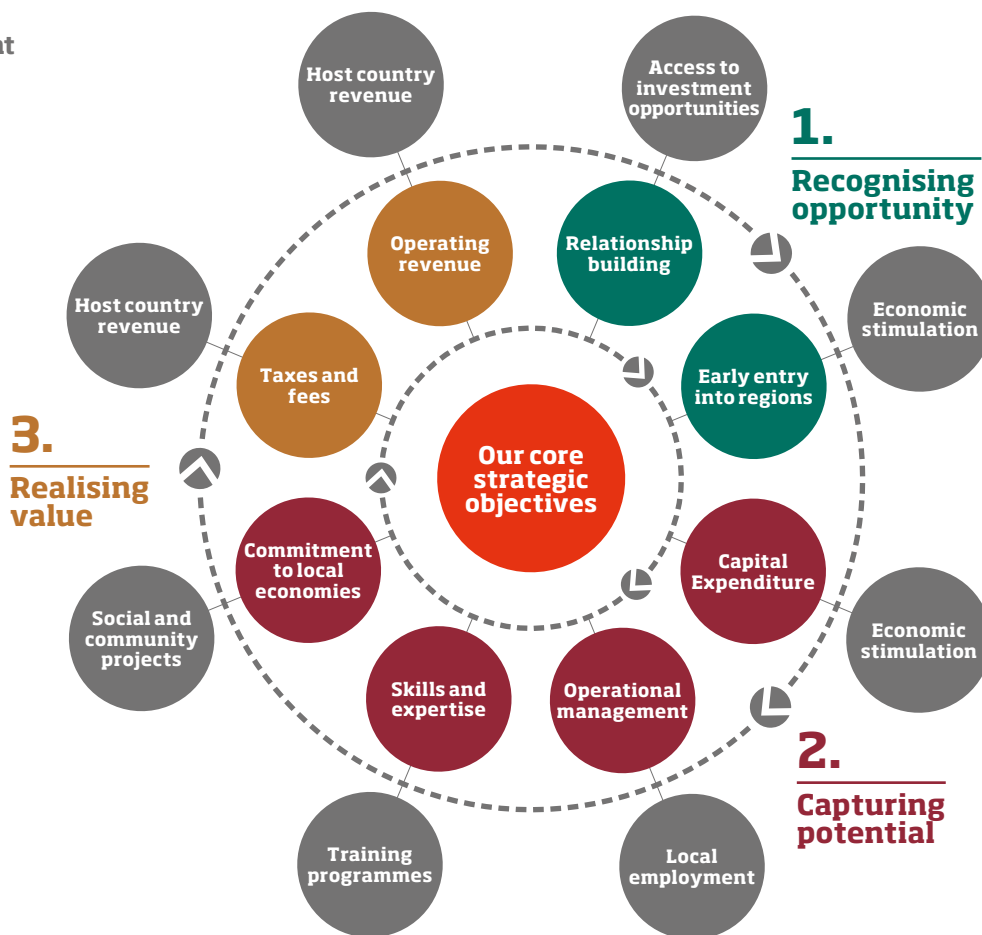
As we reported last year, in February 2011, an employee of a security company contracted by SOCO was briefly taken hostage in DRC and was released without harm after two days. SOCO management was kept fully updated at country and corporate level throughout the incident and received a detailed debrief from the contractor. Both SOCO and the contractor carried out rigorous reviews of their respective procedures after the incident and, with the findings, we remain confident that the respective procedures are sufficiently robust and adequate to identify, reduce and respond to the risk exposure.

**5.3 million**  
manhours reported at TGT  
without Lost Time Injuries (LTIs)

**0** LTIs  
during 2011 in our  
operations worldwide

**Our three part core strategy contributes to sustainable development**

**How it works**



**Commitment to Training and Capacity Building**

During 2011, SOCO provided professional training for 34 local staff from Congo (Brazzaville) and DRC. Courses included geology, finance management, geolocalisation, IT and procurement. Sponsorship has also been provided for industry through partnerships with local drilling services providers.

In Vietnam, the partners of Blocks 16-1 and 9-2, excluding Petrovietnam, have committed to contribute an annual total of \$300,000 to training and capacity building within Vietnam. In addition, the JOCs reported a total expenditure of approximately \$400,000 towards its staff training programmes. Staff at all levels of the organisations participated in training aimed at a broad range of technical skills and professional development.

**Building sustainable communities**

**Our Approach**

Our success as an international business depends on building and maintaining the support of the local communities where we operate. We take a long-term approach to listening and responding to the needs of our stakeholders, and contributing to the development of communities through targeted investments.

**Stakeholder engagement**

Our stakeholders include local communities where we operate; host governments and local authorities; our employees, contractors and business partners; and our shareholders and the investment community.

We have a formal process of stakeholder engagement in place to engage local communities where we operate. This helps us to better understand the needs of local people. Where we don't directly control an operation, we work with

our partners to ensure that communities in and around the region of our operations are engaged.

Our stakeholder engagement process includes a designated person responsible for local liaison; setting shared goals and objectives with relevant community representatives; and ensuring that we get feedback to review and improve our approach.

**Community Investment**

We have sought to ensure that support for local communities feature in all of our contracts with host governments and joint venture companies. This means that we can ensure we are directly involved in how projects are implemented on the ground – and remain accountable for their fulfilment.

We see this as an important mechanism to ensure that the communities where we operate benefit from our activities – because we believe that building strong communities in and around our operations is good for the long-term success of our business. In addition, by investing directly in these communities, we can target our contributions

### Social programmes in Congo and DRC

#### Partner Commitment

In Congo, the Marine XI and Marine XIV partners committed \$1,350,000 towards social projects in Congo during 2011. Of this, approximately \$383,000 of projects were carried out during the year, including the provision of potable water facilities, construction of a school buildings, renovation of a maternity clinic and endowment of medical equipment and the sponsorship of a professional training programme for young people with disabilities. Beyond this commitment, SOCO donated a further \$15,000 towards charitable projects in Congo during 2011.

In western DRC, the Nganzi Block partners have committed \$150,000 annual spend towards social projects. Social projects undertaken during 2011 include the provision of potable water wells and the construction of school buildings in the Bas Congo region.

#### Additional Community Donations

Beyond this commitment, SOCO donated an additional \$30,000 during 2011 towards charitable projects in the DRC. Donations included the provision of a "Hydraform" brick fabrication machine along with training, which has transformed the commonly observed activity of making bricks by hand. Following the programme's success, SOCO has expanded the training to further communities in the area surrounding Kipholo in the Bas Congo.

On Block V, in eastern DRC, SOCO provided emergency response assistance to local villagers during an epidemic of cholera.

effectively to where they are needed most. Beyond the social investments mandated in our contracts, we make additional, voluntary contributions to local and regional communities.

### Protecting the environment

#### Our Approach

Managing the environmental impacts of our operations is a key consideration wherever we do business. We always seek to ensure that the local environment is left in at least as good a state as when we arrived.

We strive to ensure industry best practice standards are achieved in our projects and we utilise the expertise of industry specialists for this purpose from early on in the project life cycle. Detailed Environmental Impact Assessments (EIAs) are undertaken at each new juncture of a project.

Because our degree of control varies between projects, we tailor our approach to the situation on the ground. Where our control is low and a partner operates the project, SOCO insists that, at a minimum, we meet all legal and regulatory requirements.

#### Managing our Environmental Performance

SOCO is committed to conducting all business activities in a responsible manner to ensure the protection of the environment. Our objective is for the impact to remain low through continuous monitoring and responsive action. Our environmental management system ensures that our potential impacts are identified and assessed and the appropriate measures are taken so that these impacts are mitigated and minimized. We promote excellence in environmental management across the project lifecycle.

- Our comprehensive Health, Safety, Environment, Social and Security (HSESS) management system identifies relevant risks, responsibilities, measurements, monitoring and responses across the whole lifecycle of a project, including with suppliers and business partners.
- EIAs are carried out at all locations prior to any exploration activities and at new junctures of a project.

- Although there have been no major environmental incidents in any of SOCO's operations, an Emergency Management Plan is in place in the event that any incident does occur.
- Audits and inspections are carried out over all key contractors.
- Climate change is a key consideration in the management of our environmental performance. Although our impacts are low relative to our sector, we seek to implement best practice standards to reduce Scope 1 emissions.

#### Environmental Performance in 2011

There were no major environmental incidents at any of our operations during 2011. The most material change in our environmental impacts during 2011 occurred when the TGT offshore field in Vietnam came on-stream as planned in August.

Last year, we set out two of our targets for environmental performance:

- **Environmental certification for the TGT field**  
In November we achieved certification in EIA Compliance issued by Vietnam's Ministry of Natural Resource and Environment for TGT Production. Working with our partners, we identified this as the most suitable, international certification standard for the project. Accordingly, the JOC is not pursuing the ISO 14000 environmental certification referred to in last year's targets. In addition, the floating production storage and offloading vessel (the Armada TGT) received its International Oil Pollution Prevention Certificate in July 2011, issued by the American Bureau of Shipping in Singapore.
- **Restoration of the Nganzi drilling sites**  
Two drilling sites (KNY-1 and BYU-1) in the Nganzi Block have been fully restored with engagement with local communities and authorities regarding their final use. Restoration at the third site is underway.



Further information is available on our website:  
[www.socointernational.com](http://www.socointernational.com)

### Environmental Processes in Vietnam

At Blocks 16-1 and 9-2, the JOCs have processes whereby all wastewater and sewage is treated prior to discharge. Solid waste is collected, segregated and transported to shore in compliance with the Vietnamese Hazardous Waste Management legislation. We use an authorised contractor for waste disposal services, including segregation and recycling where possible.

### Scope 1 Emissions

Notwithstanding two producing oil fields, the JOCs seek to minimise Scope 1 emissions by the technical processes involved. On the Ca Ngu Vang field, a contained process is utilised which transports hydrocarbons via a subsea pipeline to a processing platform, enabling fugitive emissions to the air and water to be minimised. In the case of TGT, Scope 1 emissions are minimised by recycling produced gas into the production process as gas lift and through exporting gas to a processing platform for onward sale.

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

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

Block V was designated for oil exploration by the Government of DRC (DRC), and awarded to SOCO in 2010. DRC retains a 15% interest in the Block which is of high interest to stakeholders as it encompasses a section of ViNP, including principally Lake Edward and the savannah area to its south, but specifically excluding the entirety of the Mountain Gorilla habitat. Impacts of war and civil conflict remain a primary threat to ViNP and classify it as a site in danger. We continue to believe that responsibly conducted commercial activities can join the conservation community in concerted efforts to reduce these threats.

Any activity approved by DRC and ultimately conducted must be designed to minimise any effects on the species and habitats of the specific area that may be impacted.

In 2011, environmental and social impact assessments were completed and approved, following a consultation process across a full spectrum of concerned stakeholders which has included as example:

- local villagers on the banks of Lake Edward, where we are committed to a social programme aimed at addressing specific needs identified in consultation with the community;
- ViNP officials and rangers, where we have held discussion forums, consulted with Groupe d'Etudes Environnementales du Congo on evaluation of the assessments and entered into a cooperation agreement with the Congolese Wildlife Authority (ICCN) to ensure ongoing monitoring and support of ViNP during our involvement;

**We can confirm confidently we will never seek to have operations in the Virunga Volcanoes or the Virunga equatorial rainforest.**

- high level DRC Government officials, including evaluation meetings with the Minister of Environment and his cabinet, who granted an environmental acceptability certificate for proposed aerial surveys, as discussed below.

An Environmental Monitoring Committee has been established for the specific purpose of monitoring our activities. In addition to commitments under the Block V license, SOCO has provided an official commitment letter for rehabilitation.

Activities currently contemplated include scientific research studies comprising aerial surveys over Lake Edward. Depending on the results, and following appropriate consultation, consideration will be given, potentially in the third quarter of 2012 to the conduct of further scientific studies comprising a compressed air, non-explosive seismic acquisition on Lake Edward. Other operators have conducted similar activities on Lake Albert, as well as other portions of the Albertine Rift. No operations have commenced and no drilling has been planned at the time of writing.

A close-up photograph of a green-painted metal plate with three hexagonal bolts. The plate is slightly curved and has a textured surface. The bolts are arranged vertically. The background is dark and out of focus.

# GOVERNANCE

“

The Board's role is to provide entrepreneurial leadership and develop strategy, values and standards while maintaining prudent and effective controls to assess and manage risk.

”



## A PROVEN TRACK RECORD WITH A DIVERSITY OF EXPERIENCE AND INSIGHT



### Ed Story

**Title, age:** President and Chief Executive Officer, 68

**Appointment date:** April 1997

**Committee membership:** Nominations Committee

**Background and relevant experience:** Ed Story has over 40 years' experience in the oil and gas industry, beginning with

Exxon Corporation, where he held various positions including seven years resident in the Far East. He was formerly the Vice President and CFO of Superior Oil Company, a co-founder and Vice Chairman of Conquest Exploration Company and a co-founder and President of Snyder Oil Corporation's international subsidiary. Ed was a non-executive director of Cairn Energy PLC until 2008 and is currently a non-executive director of Cairn India Limited.



### Rui de Sousa

**Title, age:** Non-Executive Chairman, 56

**Appointment date:** July 1999

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

**Background and relevant experience:** Rui de Sousa has

approximately 30 years' experience in the energy sector. He is currently a director of Quantic Limited and the President of Quantic Mining.



### Roger Cagle

**Title, age:** Executive Vice President, Deputy CEO and Chief Financial Officer, 64

**Appointment date:** April 1997

**Committee membership:** None

**Background and relevant experience:** Roger Cagle has over 35 years of experience in

the oil and gas industry including succeeding positions of responsibility with Exxon Corporation and senior management roles with Superior Oil Company. He was formerly the Chief Financial Officer of Conquest Exploration Company and the Chief Financial Officer of Snyder Oil Corporation's international subsidiary. Roger is also a non-executive director of Vostok Energy Limited.



### Michael Johns

**Title, age:** Non-Executive and Senior Independent Director, 64

**Appointment date:** June 2011

**Committee membership:** Remuneration (Chairman), Audit and Nominations Committees

**Background and relevant experience:** Michael Johns is a

solicitor by profession with over 35 years' experience as partner at international law firms. Until his retirement in 2009, he was a partner at Ashurst LLP, where he specialised in a broad range of practice areas including corporate, corporate finance and energy law and was Head of Energy, Transport & Infrastructure. Michael was previously a partner at Withers for 13 years and more recently has served as a Director of Aer Lingus Group plc.



### Olivier Barbaroux

**Title, age:** Non-Executive Director, 56

**Appointment date:** July 1999

**Committee membership:** None

**Committee advisorship:** Remuneration and Nominations Committees

**Background and relevant**

**experience:** Olivier Barbaroux has over 20 years' experience in the energy and utilities sector. He was the Chairman and CEO of Dalkia and a member of the Executive Committee of Veolia Environment until 2011. Formerly, he was the Managing Director of Compagnie Générale des Eaux, President and Chief Operating Officer of Vivendi Water S.A., the Head of the Energy Sector of Paribas and the Chief Executive Officer of the oil and gas production and exploration company Coparex International.



### Robert Cathery

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

**Appointment date:** June 2001

**Committee membership:** None

**Committee advisorship:** Remuneration and Nominations Committees

**Background and relevant**

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



### John Norton

**Title, age:** Non-Executive Director, 74

**Appointment date:** April 1997

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

**Committee advisorship:** Nominations Committee

**Background and relevant**

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



### Ettore Contini

**Title, age:** Non-Executive Director, 37

**Appointment date:** December 2001

**Committee membership:** None

**Background and relevant experience:** Ettore Contini was formerly a director of Energia E

Servize SpA and an asset manager in the private banking division of Banca del Gottardo. Ettore is currently also a director of Eurowatt-Commerce.



### Mike Watts

**Title, age:** Non-Executive Director, 56

**Appointment date:** August 2009

**Committee membership:** Audit, Remuneration and Nominations Committees

**Background and relevant**

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



### António Monteiro

**Title, age:** Non-Executive Director, 68

**Appointment date:** June 2009

**Committee membership:** Audit, Remuneration and Nominations Committees

**Background and relevant**

**experience:** Ambassador

António Monteiro has over 40 years of experience with the Portuguese Ministry of Foreign Affairs, including as Foreign Minister of Portugal, and with international organisations, including as UN High Representative for Elections in Côte d'Ivoire and as a member of the UN Secretary-General's Panel on the Referenda in the Sudan. He was formerly the Ambassador of Portugal to France and the Permanent Representative of Portugal to the United Nations, where posts included being President of the Security Council and of the Security Council's Committee established by Resolution 661 (1990). António is currently also Chairman of the Board of Directors of the Portuguese Bank Millenium BCP (Banco Comercial Português), a non-executive member of the Board of the Angolan Bank BPA (Banco Privado Atlântico), President of the Luso-Brazilian Foundation Curator's Council and a member of the Faculty of Human and Social Sciences' General Council of the Universidade Nova de Lisboa.

# POLICIES, PROCESSES AND STRUCTURES AT THE HEART OF SOCO

<p><b>1 Annual Report of the Directors</b></p> <p><b>A Principal Activity and Business Review</b> p47</p> <hr/> <p><b>B Results and Dividends</b> p47</p> <hr/> <p><b>C Directors</b> p47</p> <hr/> <p><b>D Supplier Payment Policy</b> p48</p> <hr/> <p><b>E Contributions</b> p48</p> <hr/> <p><b>F Share Capital</b> p48</p> <hr/> <p><b>G Substantial Shareholdings</b> p49</p> <hr/> <p><b>H Auditors</b> p49</p> <hr/> <p><b>I Going Concern</b> p49</p> <hr/> <p><b>J Directors' Responsibilities for the Financial Statements</b> p50</p> <hr/> <p><b>K Directors' Responsibility Statement</b> p50</p>	<p><b>2 Corporate Governance</b></p> <p><b>A Board of Directors</b> p51</p> <ul style="list-style-type: none"> <li>• Chairman and Chief Executive</li> <li>• Executive and Non-Executive Directors</li> <li>• Company Secretary</li> <li>• Board Balance and Independence</li> <li>• Reappointment</li> <li>• Succession and Appointments</li> </ul> <hr/> <p><b>B Board Structure and Process</b> p53</p> <hr/> <p><b>C Conflicts of Interest</b> p54</p> <hr/> <p><b>D Accountability and Audit</b> p54</p> <ul style="list-style-type: none"> <li>• Directors' and Auditors' Responsibilities</li> <li>• Going Concern</li> <li>• Risk Management and Internal Control</li> <li>• Internal Audit Function</li> <li>• Relations with Shareholders</li> </ul> <hr/> <p><b>E Committees</b> p55</p>	<p><b>3 Directors' Remuneration Report</b></p> <p><b>A Remuneration Committee</b> p59</p> <hr/> <p><b>B Remuneration Policy</b> p60</p> <hr/> <p><b>C Executive Directors</b> p60</p> <hr/> <p><b>D Package Components</b> p60</p> <ul style="list-style-type: none"> <li>• Basic Salary</li> <li>• Bonus</li> <li>• Long Term Incentive Plan</li> <li>• Share Option Plan</li> <li>• Pension Contributions</li> </ul> <hr/> <p><b>E Other Policies</b> p63</p> <hr/> <p><b>F Non-Executive Directors</b> p63</p> <hr/> <p><b>G Directors' Contracts</b> p63</p> <hr/> <p><b>H Directors' Transactions</b> p64</p> <hr/> <p><b>I Tables</b> p65</p>
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## HOW THE DIRECTORS ENSURE THE COMPANY OPERATES TO THE HIGHEST STANDARDS



Above: **Cynthia Cagle,**  
**Vice President – Finance**  
**and Company Secretary**

The Directors present their annual report, along with the audited financial statements of the Group for the year ended 31 December 2011. The Corporate Governance Report on pages 51 to 58 forms part of this report.

### **A Principal Activity and Business Review**

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

Information fulfilling the requirements of section 417 of the Companies Act 2006 (the 2006 Act) and paragraph 4.1.8 of the Disclosure and Transparency Rules of the Financial Services Authority (DTRs) can be found within the reports described below, which are incorporated into this report by reference. A review of the performance and development of the Group's business during the year, its position at the end of the year and its future prospects is contained in the Chairman and Chief Executive's Statement on pages 14 to 16; the

Review of Operations on pages 20 to 26; and the Financial Review on pages 28 to 30. The principal risks and uncertainties facing the Group are set out in the Risk Management report on pages 31 to 34 and, in respect of the principal financial risks and uncertainties, in Notes 3 and 4 to the financial statements. As set out in the Sustainable Development Report on pages 36 to 41, which also forms part of this report, SOCO is committed to high standards of corporate responsibility. The financial and non-financial key performance indicators (KPIs) used by management are set out on pages 21 and 29, and are summarised along with pertinent definitions in the Five Year Summary on page 96. The KPIs adopted in respect of personnel, health, safety and environmental measures reflect the small staff size and relatively small size and scope of projects directly operated by the Company. Additional KPIs will be developed for reporting on these areas at an appropriate time in the evolution of SOCO's operations. Information about the use of financial instruments by the Company and the Group is included in Note 2(n) and Note 23 to the financial statements.

### **B Results and Dividends**

The audited financial statements for the year ended 31 December 2011 are set out on pages 72 to 97. 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 (2010 – £nil).

### **C Directors**

The Directors who held office during the year, and the dates of their current service contracts or letters of appointment, which are available for inspection, are listed in the table on page 48. All Directors held office throughout the year except as noted in the table. Relevant details of the Directors, which include their Committee memberships, are set out on pages 44 to 45. Further details of Directors, their interests in the shares of the Company, their interests in any contracts relating to the Company's business and Directors' contracts are included in the Directors' Remuneration Report on pages 59 to 67. Directors of the Company are appointed either by the Board or by shareholders under the terms of the Company's Articles of Association. The business of the Company is

### Directors Holding Office during 2011

Director	Date of Contract
<b>Rui C de Sousa</b> Chairman	<b>12.07.99</b>
<b>Peter E Kingston*</b> Deputy Chairman and Senior Independent Director Retired 23.06.11	<b>14.05.97</b>
<b>Michael C Johns*</b> Appointed Senior Independent Director 23.06.11	<b>23.06.11</b>
<b>Olivier M G Barbaroux*</b>	<b>12.07.99</b>
<b>Roger D Cagle</b>	<b>14.05.97</b>
<b>Robert M Cathery*</b>	<b>19.06.01</b>
<b>Ettore P M Contini</b>	<b>11.12.01</b>
<b>António V Monteiro*</b>	<b>10.06.09</b>
<b>John C Norton*</b>	<b>14.05.97</b>
<b>Martin J D Roberts*</b> Retired 23.06.11	<b>06.09.04</b>
<b>Edward T Story</b>	<b>14.05.97</b>
<b>Michael J Watts*</b>	<b>21.09.09</b>

\* Denotes those determined by the Board to be independent Non-Executive Directors as described in the Corporate Governance Report on pages 51 to 58.

managed by the Directors who may exercise all powers of the Company subject to the Articles of Association and law.

In accordance with the Company's Articles of Association, Directors are subject to reappointment at the first Annual General Meeting of Shareholders (AGM) following appointment by the Board, and at least every three years. In accordance with the provisions of the UK Corporate Governance Code, all Directors will retire at the forthcoming AGM and offer themselves for reappointment, being eligible and having been recommended for reappointment by the Nominations Committee.

The reappointment of each Director is recommended by the Board in consideration of the results of their individual evaluation and demonstrated continued satisfactory performance, commitment and effectiveness. The Nominations Committee carefully considered its recommendations regarding these reappointments with regard to the policies and processes set out in more detail in the Corporate Governance Report on pages 51 to 58, and in particular in respect of each Director's continued independence and the relevance of tenure. The Board has given full consideration to the balance of skills, knowledge and unique breadth of experience on the Board and the manner in which each of the Directors contributes to that balance. In particular, the Board has considered the value of continuity of leadership, and these factors have been weighed in consideration of succession planning and the need to refresh Board and Committee membership. The Chairman, having given consideration to the results of the Board's formal evaluation process and other relevant factors, is satisfied that the Non-Executive Directors continue to demonstrate the commitment level appropriate and to be effective in fulfilment of the responsibilities of the role.

The Non-Executive Directors' fees, and SOCO's process for setting those fees, are set out in the Directors' Remuneration Report on pages 59 to 67. SOCO provides liability insurance for its Directors and officers. The annual cost of the cover is not

material to the Group. The Company's Articles of Association allow it to provide an indemnity for the benefit of its Directors, which is a qualifying indemnity provision for the purpose of section 233 of the 2006 Act.

#### **D 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.

#### **E Contributions**

Information regarding the Company's global charitable programmes, which are principally carried out in the countries where the Group has operations, is contained in the Sustainable Development Report on pages 36 to 41. The Company's policies prohibit political donations.

#### **F Share Capital**

Details of changes to share capital in the period and details regarding purchase of the Company's own shares into treasury are set out in Notes 26 and 33 to the financial statements, respectively. The Directors believe that acquisition of the Company's shares represented good value to shareholders, and will enhance earnings per share.

The Company currently has one class of share in issue, ordinary shares of £0.05 each, all of which are fully paid. Each ordinary share in issue carries equal rights including one vote per share on a poll at general meetings of the Company, subject to the terms of the Company's Articles of Association and law. Shares held in treasury carry no such rights for so long as they are held in treasury. Votes may be exercised by shareholders attending or otherwise duly represented at general meetings. Deadlines for the exercise of voting rights by proxy on a poll at a general meeting are detailed in the notice of meeting and proxy cards issued in connection with the relevant meeting. Voting rights relating to the shares held by the SOCO Employee Benefit Trust are not exercised. The Company's Articles of Association may only be amended by a resolution of the shareholders.

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

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

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights. Resolutions will be proposed at the 2012 AGM, as is customary, to authorise the Directors to exercise all powers to allot shares and approve a limited disapplication of pre-emption rights. Further information regarding these resolutions is set out in the circular to shareholders accompanying this Annual Report and Accounts. A resolution will also be proposed at the 2012 AGM, as is also customary, to renew the Directors' existing authority to make market purchases of the Company's ordinary share capital, and to limit such authority to purchases of up to 34,069,945 ordinary shares of £0.05 each, representing up to approximately 10% of the Company's issued ordinary share capital (excluding treasury shares) at 13 March 2012. Shares purchased under this authority may either be cancelled or held as treasury shares.

#### **G Substantial Shareholdings**

As at 13 March 2012, the Company had been notified, in accordance with the DTRs, of the interests in the issued share capital of the Company as set out in the table below.

#### **H Auditors**

A resolution to reappoint Deloitte LLP (Deloitte) as the Company's auditors will be proposed by the Directors at the forthcoming AGM. Deloitte also provide non-audit services to the Group, which are set out in Note 9 to the financial statements. All non-audit services are approved by the Audit Committee. The Directors are currently satisfied, and will continue to ensure, that this range of services is delivered in compliance with

the relevant ethical guidance of the accountancy profession and does not impair the judgement or independence of the auditors. Each of the Directors at the date of approval of this report confirms that, so far as he is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Each Director has taken all steps that he ought to have taken, having made such enquiries of his fellow Directors and the auditors and taken such other steps as are required under his duties as a Director, to make himself aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the 2006 Act.

#### **I Going Concern**

It should be recognised that any consideration of the foreseeable future involves making a judgement, at a particular point in time, about future events which are inherently uncertain. Nevertheless, at the time of preparation of these accounts and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future. For this reason, and taking into consideration the additional factors in the Financial Review on pages 28 to 30, they continue to adopt the going concern basis in preparing the accounts.

### Substantial Shareholdings

Name of Holder	Issued Shares	
	Number	% Held
Pontoil Intertrade Limited	80,862,132	23.93
BlackRock, Inc.	34,022,486	10.07
Chemsa Ltd	24,378,600	7.21
Edward T Story	12,856,794	3.80
Legal & General Group Plc	11,892,856	3.52



**J Directors' Responsibilities for the Financial Statements**

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

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

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

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

**K Directors' Responsibility Statement**

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

(a) the financial statements set out on pages 72 to 95, which have been prepared in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole; and

(b) this Directors' Report, including each of the management reports forming part of it, includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board  
13 March 2012

**Cynthia Cagle**  
Company Secretary

**The Board seeks to strike an appropriate balance between continuity of experience and succession.**

# HOW WE FULFIL OUR COMMITMENT TO THE UK CORPORATE GOVERNANCE CODE

## Dear Shareholders

I am pleased to present this introduction to our 2011 Corporate Governance Report (the CG Report), which describes how we have implemented and applied the principles of the UK Corporate Governance Code (the Code). SOCO is committed to the highest standards of governance, and we welcome the recommendations of the new Code. In particular, the annual re-election of all Directors was implemented at the last Annual General Meeting of Shareholders (AGM), giving shareholders the opportunity to examine the contributions and continued effectiveness of each Director.

Our 2011 Board evaluation was externally facilitated in this first year following the Code recommendation for external facilitation at least once every three years. The Directors expressed an appreciation for the fresh perspective and new insight brought about by the externally facilitated process. The facilitator's report indicates that the Directors consider the Board to be effective and are satisfied with the manner in which the Board carries out its role. Being attentive to self-criticism, the evaluation process was utilised to identify areas where the effectiveness of the Board might be improved. The CG Report seeks to describe how we intend to benefit from this process.

The independence of Directors was identified as a matter against which the external facilitator would apply particular scrutiny. The facilitator reported that each Director expressed, in confidence, the strong belief in the continued

independence of their fellow Directors. This included, in particular, the Board's long tenured Directors, who are believed to bring a valuable quality and effectiveness to the Board as a whole. The CG Report sets out full details of the processes we undertake to ensure Director independence is retained and how the Board seeks to balance the benefits of experience and refreshment. Additionally, the CG Report describes changes to the Board's Committee memberships, which are intended to provide full participation of its newest Directors and to allow them to benefit from the experience of former Committee members.

The 2011 Board evaluation additionally identified diversity as a matter for increased scrutiny in consideration of the announced intent to revise Code provisions addressing this. The Board recognises the benefits of diversity and has established gender diversity in particular as a priority for future recruitment, in addition to the continued attention to individual merit, experience, independence and complementary Board skills.

The following pages provide further detail of how we fulfil our commitment to good corporate governance, and in particular those principles related to the role and effectiveness of the Board.

**Rui de Sousa**  
Chairman

The Company is committed to the principles contained in the UK Corporate Governance Code (the Code) that was issued in 2010 by the Financial Reporting Council for which the Board is accountable to shareholders.

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

## Statement of Compliance with the Code

Throughout the year ended 31 December 2011, the Company has complied with the provisions set out in the Code.

## **A** Board of Directors

The Board's role is to provide entrepreneurial leadership and develop strategy, values and standards while maintaining prudent and effective controls to assess and manage risk. The Board is responsible for ensuring that the Company meets its obligations to stakeholders and has adequate resources to meet its strategic objectives. The Board of Directors, whose names and biographical details are set out on pages 44 to 45, comprises nine Directors in addition to the Chairman. After an assessment process set out in more detail below, six of these nine, including the Senior Independent Director, have been identified in the Annual Report of the Directors on page 48 as independent in character and judgement giving full consideration to those circumstances that the Code states may appear relevant. Notwithstanding this, the Board is satisfied that each of the Company's Directors strictly abides by their legal and ethical duties owed to the Company to act objectively and in the best interests of the Company and its shareholders as a whole.

## Chairman and Chief Executive

The roles of the Chairman and Chief Executive Officer are separated and their responsibilities are clearly established, set out in writing and agreed by the Board. The Chairman and the Chief Executive collectively are responsible for the leadership of the Company. The Chairman is responsible for the leadership of the Board, ensuring its effectiveness on all aspects of its role

and setting its agenda. The Chief Executive is responsible for leading the executives and ensuring their effectiveness in the running of the Company's business and implementing strategy and policy. Together the Chairman and Chief Executive Officer are responsible for promoting the highest standards of integrity and probity.

#### **Executive and Non-Executive Directors**

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

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

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

#### **Company Secretary**

The Company Secretary, who is appointed by the Board, is responsible for facilitating the communications and processes of the Board, both

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

#### **Board Balance and Independence**

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

does not result in a failure to retain a sufficient contingent of independent Directors.

The independence of each Non-Executive Director is assessed at least annually. Independence was additionally identified as a matter for increased scrutiny in the externally facilitated Board evaluation, as described more fully in the Nominations Committee report. To be identified as independent a Director must be determined independent in character and judgement and free from any relationships or circumstances which are likely to affect, or could appear to affect, their judgement including in particular those set out in the Code. Particular scrutiny is applied in assessing the continued independence of Directors having served over nine years, with attention to ensuring that interactions with Executive Directors have not in any way eroded their independence and that their allegiance remains clearly aligned with shareholders. Board refreshment and tenure are considered together, and weighed for relevant benefit in the foreseeable circumstances, given further that the Board should not be enlarged to a size that is unwieldy.

In conducting its current assessment the Board referred to guidance setting out criteria deemed relevant to determining whether a Director continues to exhibit those qualities and behaviours it considers essential to be considered independent. A specific set of focused criteria was applied to the assessment of long tenured Directors.

Consideration was also given to the results of individual evaluation and continued satisfactory performance as well as each Director's ability to allocate sufficient time to discharge their respective Board and Committee responsibilities. Following assessment, Ambassador António Monteiro was determined to be independent. Mr Michael Johns, the Senior Independent Non-Executive Director, was determined to be independent notwithstanding a former role as partner for a legal advisor that has ceased to have a material business relationship with the Company. Dr Mike Watts was also determined to be independent despite a former cross-directorship with the Chief Executive. These relationships have



ceased and are not relevant to the determination of independence under the Code. Any current outside links to other Directors are not considered significant and in particular do not result in reciprocal influence.

After particular scrutiny, Mr John Norton, Mr Olivier Barbaroux and Mr Robert Cathery, each having served on the Board for more than nine years, were determined to be independent. Each of these Directors continues to display an appropriate independence from Executive Directors. They each continue to express their individual viewpoints, debate issues and objectively scrutinise and challenge management. Each seeks clarification and amplification as deemed required, including through direct access to the Group's employees and external advisors. After careful consideration of the relevant factors, the Board has determined that the tenure of these Directors has not affected their independence or their ability to bring judgement to bear in the discharge of their duties as Board and Committee members. The Board considers that the varied and relevant experience of its independent Directors combined provide an exceptional balance of skills and experience required for the business.

### Reappointment

In accordance with the Code, all Directors are subject to annual election by shareholders, which was voluntarily adopted by the Company at the 2011 AGM. Reappointment of each Director is recommended in consideration of the results of individual evaluation and demonstrated continued satisfactory performance, commitment and effectiveness. Consideration is given to the broad capabilities represented on the Board and the ability of these to meet the unique challenges facing the Company. Consideration is additionally given to the balance of the Board's composition and the need for diversity and refreshment.

A Non-Executive Director term exceeding six years is subject to particularly rigorous review. The process for considering reappointments is described more fully in the Nominations Committee section below. Following this process the Board recommends the reappointment of the retiring Directors, who have each offered themselves for reappointment.

### Succession and Appointments

The Company's process for succession seeks first to ensure that the Board comprises an appropriate balance of knowledge, skills, independence and experience. The Company has an ongoing process for assessing the specific competencies required on the Board, giving consideration to relevant factors arising from Board and individual Director evaluations, including effectiveness and time commitment. This assessment also considers aspects of diversity and how this could contribute to maximum Board effectiveness. After assessment of the competencies required, the Board is satisfied that the current Non-Executive Directors comprise an appropriate balance of knowledge, skills, independence and experience. The Board benefits from gender diversity around the Board table with participation by the Company Secretary at formal and informal meetings of the Board and its Committees. The Board additionally identified gender diversity as a matter for increased scrutiny in its externally facilitated Board evaluation, and has established this as a priority for future recruitment.

Succession which allows for refreshment while maximising continuity of experience is considered to be in the best interest of shareholders. SOCO considers a Non-Executive Director's most appropriate term of office as generally longer than that envisioned in Code guidelines. The Company undertakes projects requiring long term life cycles from licence negotiation through production operations. Longstanding Directors who have acquired, over a number of years, a sound and detailed knowledge of the Company's business are highly valued as uniquely qualified to contribute to the Company's leadership. Excluding the Chairman, the Board seats four long tenured Non-Executive Directors, who serve on the Board along with three newly appointed over the last three years. The Company considers it has achieved an appropriate balance between the benefits of continuity and refreshment. The Company has additionally sought to maximise the benefits of independence, refreshment and continuity in constituting each of its Committees.

Board appointments are made in consideration of the process for succession, and against objective criteria which are developed in consideration of

the assessment of Board competencies and attributes. Appointments are made through a formal process led by the Nominations Committee, which is set out in more detail in the Nominations Committee report and was applied in the appointment of Mr Michael Johns in 2011. Following an appointment, the Company Secretary facilitates a process of induction and assimilation determined appropriate to the appointee's particular role and experience.

### B Board Structure and Process

The Board typically has four scheduled meetings a year and holds additional meetings as necessary. During 2011, the Board held four scheduled meetings as deemed required for the effective discharge of its duties during the period. Attendance of Directors at scheduled Board meetings and attendance of members at the Audit, Remuneration and Nominations Committees is set out in the table on page 58. Although a scheduling conflict prevented Dr Mike Watts from attending the Board and Remuneration Committee meetings held in March 2011, he however was fully prepared and available for consultation and participation by telephone. Mr Bob Cathery and Mr Ettore Contini each missed a single meeting due to unforeseen and unavoidable personal circumstances. All members were otherwise in attendance at all Board and Committee meetings.

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. 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.

#### **C Conflicts of Interest**

Directors have power to authorise, where appropriate, a situation where a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. Such authority is in accordance with section 175 of the 2006 Companies Act. Procedures are in place for ensuring that the Board's powers of authorisation are operated effectively. Directors are required to notify the Company of any conflicts of interest or potential conflicts of interest that may arise, before they arise either in relation to the Director concerned or his connected persons. The decision to authorise each situation is considered separately on its particular facts. Only Directors who have no interest in the matter are able to take the relevant decision, and must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will impose such limits or conditions as they deem appropriate when giving authorisation or when an actual conflict arises. These may include provisions relating to confidential information, attendance at Board meetings and availability of Board papers, along with other measures as determined appropriate. The Board reviews its conflict authorisations at least annually.

#### **D Accountability and Audit Directors' and Auditors' Responsibilities**

The responsibilities of the Directors and auditors are set out in the Annual Report of the Directors on pages 47 to 50 and in the Independent Auditors' Report on page 71.

#### **Going Concern**

The Group's financial statements have been prepared on a going concern basis as described in the Financial Review on page 30 and the Annual Report of the Directors on page 49.

#### **Risk Management and Internal Control**

The Directors are responsible for establishing, maintaining and reviewing the effectiveness of a sound system of internal control which is designed to provide reasonable assurance regarding the reliability of financial information and to safeguard the shareholders' investment and the assets of the Company and Group. Given the inherent limitations in any system of internal control, even a sound system can only provide reasonable assurance, and not absolute assurance, that the Company will not be hindered in achieving its business objectives or be protected against material misstatement or loss. The Board has put in place formally defined lines of responsibility and delegation of authority and has delegated to executive management the implementation of material internal control systems. Documented policies and procedures are in place for key systems and processes and the authority of the Directors is required for key matters.

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

The Board has the primary responsibility for identifying the major business risks facing the Company and Group and developing appropriate policies to manage those risks. The risk management approach is used to focus attention on the Group's most significant areas of risk and to determine key control objectives. The Board has applied Principle C.2 of the Code, by establishing

a continuous process, which has been in place throughout the year to the date of this report and which is in accordance with revised guidance on internal control published by the Financial Reporting Council in October 2005, for identifying, evaluating and managing the significant risks the Group faces.

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

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

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

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

member undertakes specific review processes in their areas of financial and audit, technical and operating, diplomatic and commercial and legal expertise and reports the results of their work to the full Committee and to the Board.

### Internal Audit Function

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

### Relations with Shareholders

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

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

The Company has assigned a senior executive the responsibility for investor relations and has employed an outside agency, both to provide

assistance in the dissemination of information to shareholders and the general public and to actively solicit feedback as to the effectiveness of such efforts. Additionally, the Company maintains an ongoing, active dialogue with institutional shareholders, specifically and proactively seeking opportunities for face-to-face meetings at least twice a year, coincident with half year and full year results, between fund managers and Company executive management. In 2011, the Company has also actively sought an increased dialogue with shareholders and other stakeholders regarding its sustainable development policies and procedures.

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.

### **E** 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 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 44 and 45.

A review of each Committee's membership was completed in December 2011 in order to ensure optimum utilisation of competencies on the Board while maintaining a balance between the benefits of refreshment and continuity. Certain committee memberships have been realigned and advisory

roles created which the Board believes provides for full participation of its newest Directors and additionally allows them to benefit from the experience of former committee members. Attendance at scheduled committee meetings by all members serving during the period is set out in the table on page 58. Whilst only Committee members are entitled to attend meetings and vote, Directors in advisory roles are generally invited to attend and other Directors may be 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.

### Audit Committee

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

### Composition of the Audit Committee

The Audit Committee is chaired by Mr John Norton and additionally comprises Mr Michael Johns, the Senior Independent Non-Executive Director (appointed 23 June 2011), and Ambassador António Monteiro and Dr Mike Watts who are independent Non-Executive Directors. The qualifications of each of the members are set out on pages 44 and 45. 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. Although Mr Norton is a longstanding Director, his professional experience fully prepared him for maintaining independence and objectivity in this circumstance, and the Board is completely satisfied that these attributes are diligently applied in the discharge of his duties.

#### **Meetings**

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

The Committee held three meetings in 2011 and has conducted one meeting to date in 2012, all of which were attended by executive management and external auditors. A private session, without executives present, was held during two of these meetings. Additionally, a number of other informal meetings and communications took place between the Chairman, various Committee members, external auditors and the Company's executives and employees.

#### **Overview of Activities**

The Committee reviewed and approved the terms and scope of the audit engagement, the audit plan and the results of the audit with the external auditors, including the scope of services associated with audit-related regulatory reporting services. An assessment of the effectiveness of the audit process was made, giving consideration to reports from the auditors on their internal quality procedures. Additionally, auditor independence and objectivity were assessed, giving consideration to the auditors' confirmation that their independence is not impaired, the overall extent of non-audit services provided by the external auditors (as described further below) and the past service of the auditors who were first appointed in 2002. During the period, the Senior Audit Partner assigned to the Company was

changed in accordance with the external auditor's policy for rotation and relevant ethical guidance. The Committee also considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditors. The Board concurred with the Committee's recommendation for the reappointment of Deloitte LLP as the Company's auditors for 2012, which will be proposed to shareholders at the forthcoming AGM.

The Committee undertook a detailed risk assessment whereby it reviewed existing risks and identified new risks as appropriate. The likelihood and significance of each risk was considered along with associated mitigating factors and was reported to the Board. Any new, or changes to existing, risks were monitored throughout the year and considered at each Audit Committee meeting. As part of this process, the Committee has established a detailed bribery risk assessment and mitigation procedure designed to ensure that the Company has appropriate procedures in place to eliminate bribery and that all employees, agents and other associated persons are made fully aware of the Group's policies and procedures. The Committee has reviewed, and is satisfied with, the Company's arrangements for "whistleblowing", whereby staff may raise concerns regarding improprieties in confidence, which would be addressed with appropriate follow-up action.

On behalf of the Board, the Committee has reviewed the effectiveness of the Company's internal controls and risk management systems, including consideration of an internal audit function, which is more fully described in the Risk Management and Internal Control section of this report. The Committee has reviewed and approved the related compliance statements set out therein. The Committee has additionally reviewed and approved the statements regarding compliance with the Code. The Committee reviewed and discussed with management and the auditors the Company's relevant financial information prior to recommendation for Board approval. This included in particular the financial statements and other material information presented in the annual and

half year reports. The Committee considered the significant financial reporting issues, accounting policies and judgements impacting the financial statements, and the clarity of disclosures. The Committee conducted a review of its TOR for continued appropriateness.

#### **External Auditors – Non-Audit Services**

The external auditors are appointed primarily to carry out the statutory audit and their continued independence and objectivity is fundamental to that role. In view of their knowledge of the business, there may be occasions when the external auditors are best placed to undertake other services on behalf of the Group. The Audit Committee has a policy which sets out those non-audit services which the external auditors may provide and those which are prohibited. Within that policy, any non-audit service must be pre-approved by the Committee. Before approving a non-audit service, consideration is given to whether the materiality of the fees, the nature of the service, or the level of reliance to be placed on it by SOCO would create, or appear to create, a threat to independence. If it is determined that such a threat might arise, approval will not be granted unless the Audit Committee is satisfied that appropriate safeguards are applied to ensure independence and objectivity are not impaired. The auditor is prohibited from providing any services which result in certain circumstances that have been deemed to present such a threat, including auditing their own work, taking management decisions for the Group or creating either a mutuality or conflict of interest. The Company has taken steps to develop resources and relationships in order to establish availability of alternate advisors for financial and other matters. Additionally, the Committee closely monitors the terms on which the Remuneration Committee, with approval of the Audit Committee, has independently appointed the Company's auditors as advisors. The advisors' terms of reference restrict the provision of certain services in order to maintain auditor independence and the scope and value of services to the Group is under continuous review.

The Committee approved the non-audit services provided by the external auditors in 2011, having concluded such services were compatible with auditor independence and were consistent with relevant ethical guidance. Details of non-audit services are set out in Note 9 to the financial statements.

#### Nominations Committee

The Nominations Committee is chaired by Mr Rui de Sousa, the Non-Executive Chairman of the Company. Mr Ed Story, the Chief Executive Officer, is a Committee member. Committee membership additionally comprises independent Non-Executive Directors Dr Mike Watts, who served throughout 2011, and Ambassador António Monteiro and Mr Michael Johns, who were appointed following the review conducted in December 2011. Messrs John Norton, Olivier Barbaroux and Robert Catherly stood down as members and were appointed as Advisors in December 2011.

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. Further details of the discharge of these responsibilities are set out below in addition to sections above regarding in particular board balance, independence, succession and appointments.

The Committee held three meetings in 2011 and has conducted one meeting to date in 2012. 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, experience and diversity represented on the Board, which was utilised to facilitate the Board's review of Director independence, including tenure in particular. The Committee made recommendations to the Board concerning plans for succession reflecting the need for refreshment while taking into account the skills, experience and diversity needed on the Board to best meet the specific challenges and opportunities facing the Company. The results of these reviews were in turn utilised in developing the Committee's recommendations regarding potential Board appointments as well as for continuation in office and reappointment of retiring Directors.

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

#### Process for Board Appointments

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

The Committee successfully conducted a search utilising this process in 2011 to identify independent candidates who could refresh and add value to the Board through complementary skills and attributes following the retirement of Mr Peter Kingston and Mr Martin Roberts at the 2011 AGM, which resulted in the appointment of Mr Michael Johns in June 2011. Mr Johns not only brings a wide range of valuable skills to the Board, he additionally provides specific complementary expertise in particular through his background as a senior lawyer specialising in the oil and gas sector. Mr Johns has been appointed Senior Independent Director, Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. Following a period of induction and assimilation the Board will continue planning for succession, again seeking to benefit from refreshment while maximising continuity of experience.

#### Performance Evaluation

During 2011, the Committee led the Board in evaluating its own performance and that of its Committees and individual Directors. The evaluation was externally facilitated in confidence by a firm that has provided secretariat and governance advice to the Company. The evaluation entailed both detailed questionnaires and interviews. The external facilitator sought evaluation of the Board and its effectiveness as a whole, but with an emphasis on the critical issues the Board will face in the next three to five years and with increased scrutiny in areas including Director independence, the approach to gender diversity, and Directors' training. The Directors expressed an appreciation for the fresh perspective and new insight brought about by the externally facilitated process.

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, and the Chairman led discussions with the Committee and the full Board regarding the results. The Senior Independent Director facilitated relevant discussions regarding the role of the Chairman. The results included a commitment by the Board to continue its primary focus on corporate strategy. The Board confirmed its commitment to a rigorous process for the

assessment of independence, and is satisfied it has led to an appropriate designation of independent Directors. The Board established a focus on gender diversity as a matter of priority in future recruitment, and management committed to provide more detailed and regular reporting to the Board on the Company's extensive social programmes. Actions for improvement are being undertaken as deemed appropriate, with effect from the March 2012 Board meeting. Additionally, the evaluation results were utilised to assess Director effectiveness, time commitments of Non-Executive Directors and training and development needs of each Director, which were reviewed by the Chairman. The Committee performed a review of its TOR as part of this process.

#### Remuneration Committee

The Remuneration Committee is chaired by Mr Michael Johns (appointed 23 June 2011), the Senior Independent Non-Executive Director. Remaining Committee membership comprises independent Non-Executive Director Ambassador António Monteiro, who served throughout 2011, and Dr Mike Watts, who was appointed following the review conducted in December 2011. Messrs Olivier Barbaroux and Robert Cathery stood down as members and were appointed as Advisors in December 2011. The names and qualifications of each of the members are set out on pages 44 and 45. The Committee is responsible for recommending for approval by the full Board the remuneration of the Chairman, the

Executive Directors and the Company Secretary. During 2011, the Committee conducted a review of its TOR for continued effectiveness. Details of the Committee's policies and objectives are set out in the Directors' Remuneration Report on pages 59 to 67.

#### Meeting Attendance by Directors

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

● Denotes 2011 scheduled meeting attended  
○ Denotes 2011 scheduled meeting not attended  
- Denotes 2011 no meeting scheduled or not a member

● Denotes 2012 scheduled meeting attended  
- Denotes 2012 no meeting scheduled or not a member



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

### Dear Shareholders

On behalf of the Board, I am pleased to present the remuneration report for the financial year ended 31 December 2011.

### Performance of the Company

2011 has been an exceptional year for SOCO, having achieved the long term goal of commercialising the TGT field through first oil in August 2011. The Committee considers this to be the most important event in the Company's history. It has transformed the financial position (as shown in our results) and offers the prospect of significant cash generation, from the Company's own exploration success, to fund future exploration in accordance with SOCO's business strategy. Other key highlights are set out within this report.

### Incentive out-turns

- **Annual bonus.** The maximum amount (100% of salary for Executive Directors) was awarded for performance during 2011.
- **Long term incentive plan.** 53% of the potential maximum has vested in respect of LTIP awards made in January 2009. This reflects TSR performance against the comparator group of between median and upper quartile in the three year period to January 2012.

### Executive remuneration policy

The Committee regularly reviews executive remuneration arrangements to ensure that they remain aligned with the interests of shareholders and the overall business strategy. It also continues to be mindful of the prevailing economic and executive remuneration environment when assessing the remuneration framework.

During 2011, the Committee concluded that the current arrangements continued to be effective in achieving these aims. Key decisions regarding remuneration policy were as follows:

- **Salary increases of 5%.** Executive Directors' salaries were frozen for 2011 and will be increased by 5% for 2012. This increase takes into account both inflation and increases across the wider employee population.
- **No increase in annual or long term incentive opportunity.** The Committee believes it continues to have an appropriate mix between fixed and variable remuneration, and that the annual and long term incentive maxima also remain appropriate.
- **Introduction of shareholding guideline.** Executive Directors are now required to build up a minimum shareholding equivalent to their annual salary, to ensure further commitment to shareholder alignment and long term stewardship. Both Executive Directors hold, and continue to build, significant shareholdings in the Company.

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

**Michael Johns**  
Remuneration Committee Chairman

The Directors' Remuneration Report has been prepared in accordance with Schedule 8 of the Accounting Regulations under the Companies Act 2006 and the Listing Rules of the Financial Services Authority. The disclosures contained in this report that are specified for audit by the regulations and are covered in the scope of the Independent Auditors' Report on page 71, are separately identified below and (where relevant) are presented in US dollars consistent with the Group's audited financial statements. A resolution to approve the report will be proposed at the forthcoming Annual General Meeting (AGM).

The Company has complied throughout the period with the provisions relating to Directors' remuneration set out in the UK Corporate Governance Code (the Code), and has applied the principles set out in the Code as described below.

### **A** Remuneration Committee

The Remuneration Committee currently comprises the following Non-Executive Directors:

- **Chairman:** Michael Johns (appointed 23 June 2011), who is also the Senior Independent Non-Executive Director.
- **Members:** Ambassador António Monteiro (served throughout 2011) and Dr Mike Watts (appointed December 2011).

Peter Kingston served as Remuneration Committee Chairman during the year until he retired from the Board on 23 June 2011. In addition, Messrs Olivier Barbaroux and Robert Cathery stood down as members of the Committee during December 2011 but will still be invited to attend meetings and provide guidance to the Committee where appropriate. Mr Rui de Sousa (SOCO Chairman) also attends meetings and provides guidance where appropriate.

The current composition of the Committee was determined following a review in December 2011 of each of the Company's committees, which is more fully described in the Corporate Governance Report on pages 51 to 58 and was intended to ensure optimum utilisation of competencies on the Board while maintaining a balance between the benefits of refreshment and continuity. Additional information regarding the Committee is also contained in that report.

The Board is keenly aware of its duty to ensure, on behalf of shareholders, that the Committee is wholly independent. All members and advisors 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 a shareholder, in the matters delegated to the Committee. No Director plays a role in deciding his own remuneration.

The Committee is responsible for determining and agreeing with the full Board a Company-wide remuneration policy that is aligned with the Company's business strategy and ultimately the creation of shareholder value. Within the context of that policy, the Committee is responsible for setting the total remuneration packages of the Executive Directors and the Company Secretary. The Committee also monitors the remuneration practices and trends throughout the Group's internationally based workforce, including senior staff who contribute most significantly to achieving the Company's strategic aims. Additionally, the Committee is responsible for setting the remuneration of the Non-Executive Chairman. The Committee's recommendations and decisions are developed in full consideration of the Code, institutional guidelines and evolving market practice, with particular attention being given to the challenges represented by the current economic environment.

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

Deloitte LLP (Deloitte), who have voluntarily signed up to the Remuneration Consultants' Code of Conduct, were independently retained by the Committee as advisors following a tender process. In the year they 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. 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 51 to 58. 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 to ensure it is not material to the assessment of independence. 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. The Committee is satisfied that the remuneration advice it receives from Deloitte is independent.

## **B** Remuneration Policy

The policies described in this report have been applied throughout 2011. The Committee monitors remuneration policies on a continuing basis including consideration of evolving market practice and relevant guidance; shareholder views and results of previous voting; policies applied to the wider employee base; and with due regard to the current economic climate. Any proposed change which is material is only implemented following a full review and approval process deemed appropriate to such change. Where appropriate, shareholders would also be consulted about any change in remuneration policy.

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

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

## **C** Executive Directors

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

Benchmarking, which was previously conducted annually, is generally conducted on a three year cycle or upon an indication of a change in market ranges. Results of benchmarking exercises are monitored for indications of potential unwarranted upward ratcheting. Pay conditions elsewhere in the Company are taken into account to ensure the relationship between the pay of the Company's Directors and its employees remains appropriate. Similar benchmarking techniques are applied to non-Board employees and the Committee monitors senior staff remuneration packages during the review of Executive Directors' remuneration packages.

## **D** Package Components

Executive remuneration comprises a fixed basic salary and eligibility to receive an annual performance based cash bonus. Individuals may also be eligible to receive awards under long term

incentive plans designed to provide reward linked to the longer term performance of the Company. At target performance the Executive Directors' packages are structured to deliver 60% of the total package in variable remuneration. At exceptional performance levels this increases to 80% of the total package.

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

The table below provides a summary of the key remuneration elements for Executive Directors.

### Basic Salary

Basic salaries for the Executive Directors (who are both US citizens) are denominated in US dollars, consistent with the Group's reporting currency and the primary currency of Group operations. Basic salary is fixed at appointment or in relation to changes in responsibility, and is reviewed annually in consideration of demonstrated performance. 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 additionally take into consideration advice from remuneration consultants regarding relevant current market practice for salary levels and salary increases, and consideration of how these have been applied to the wider employee base.

Following the annual review conducted in December 2011, and after considering pay increases for the general employee population, inflation, the outstanding contribution made by the individuals and the exceptional performance of the Company, with effect from 1 January 2012 each Executive Director's base salary has been increased by 5% (2011 – nil%).

### Bonus

Bonus awards are considered in two levels, wherein expected performance will result in awards in a target range of up to 50% of salary, with a stretch level providing a maximum annual cash bonus opportunity of up to 100% of salary. The Remuneration Committee, however, reserves the right to exercise its discretion and award a bonus above this maximum amount in the event of truly exceptional performance in the year, subject to prior consultation with shareholders appropriate to the circumstances. In the event of exercising such a discretion, which to date has not occurred, careful consideration will be given to how this will be delivered to participants to ensure alignment with shareholders. 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 strategic goals, safety and environmental measures and financial measures against budgeted levels are additionally established as deemed appropriate.

The performance measures for 2012, including both financial and non-financial measures which are compatible with risk policies, are intended to focus behaviour and activity towards deploying the Company's strategy of progressing projects, capturing their potential and realising value for shareholders at an appropriate stage. This emphasises achievements required to grow the business over the longer term and avoids promoting excess risk taking to achieve a short term bonus opportunity. The actual achievement of each goal is ranked against a scale of expectations. The Committee retains discretion over the amount of bonus paid out to ensure that appropriate consideration is given to the relative importance of the achievements in the year and the actual contribution of these towards furthering the Company's strategic plan. The specific targets set against these measures are considered to be commercially sensitive and are therefore not set out herein. However, we can broadly indicate that performance measures in 2012 will include goals associated with continued phases of Vietnam development and exploitation, progressing the portfolio and a focus on future implementation of the corporate strategy. Goals targeting appropriate stewardship of the Company's resources in the current economic environment will continue to be emphasised. Additionally, objectives over safety and environmental measures will naturally remain a priority.

In the 2010 Annual Report, the Committee set out three areas of emphasis in stating its broad indication of 2011 performance measures including: the Te Giac Trang (TGT) development project, being of major significance to the Company; stewardship of resources in the current economic environment; and safety and environmental performance over the expanding operations. First oil was achieved at TGT on 22 August, within days of SOCO's own target and ahead of the plan approved by partners. Various setbacks were naturally encountered throughout the long term project, but were managed within the

### Key Elements of Executive Remuneration

Element	Commentary
Salary	For 2012, Executive Director salary increases are 5% (2011: nil), in line with inflation and increases for the general employee population.
Bonus	Maximum annual opportunity of 100% of salary, target of 50% of salary, based on individual and corporate targets related to the achievement of strategic objectives.
Long term incentive plan (LTIP)	LTIP renewed at our 2011 AGM. Annual awards of up to 200% of salary (2011: 190% of salary). Performance based on relative TSR: 25% (2011: 30%) of award vests for median performance and 100% vests for performance in the 84 <sup>th</sup> percentile.
Shareholding requirements	Shareholding requirement of one x salary for all Executive Directors.
Service contracts	Notice periods do not exceed 12 months and a policy of mitigation applies in respect of any termination payments.



aggressive timetable. Project costs were stewarded in line with partner budgets. The project was administered under strict health and environmental safety procedures, and no lost time injuries (LTIs) were reported throughout the full life of the multi-year project. A record of zero LTIs or environmental incidents was additionally achieved on all producing, drilling and development operations undertaken on our projects worldwide during 2011. Plateau production targets will only be tested through implementation of an agreed field production and reservoir management plan, but will only be a consideration in future bonus awards if not met.

Corporate goals focused on protecting a strong financial standing and ensuring appropriate funding for the Group's programmes, in particular in the lead up to first oil at TGT. The measure of performance is evidenced by the year end cash position of over \$160 million, reflecting cash flows from operations, net of capital expenditures and repurchases of the Company's own bonds and shares. Bonds with a par value of \$35.4 million were repurchased at a gain and cancelled, reducing debt and related future interest obligations. The repurchase of 1.5 million treasury shares was deemed to be at favourable market rates and will increase earnings per share. In addition, an extension was obtained for the Te Giac Den licence in Vietnam, and evaluation of that licence as well as the Group's Africa licences has progressed through two seismic programmes and a two well drilling programme. Although the drilling did not result in a commercial discovery, the Committee considered this to be far outweighed by the significance of achieving first oil at TGT, which the Committee considers the most significant event in the history of the Company.

In two of the last three years the Committee has reported that, despite its measured performance against goals, actual bonus awards were scaled back. While this practice was not applied to the wider employee base, it was considered appropriate to emphasise a commitment to the alignment of Executive Directors with shareholders. The Committee believes a 2011 bonus award at the maximum policy opportunity of 100% is consistent with this commitment, in consideration of the performance reported above and in particular the long term objective of first oil at TGT coming to

fruition, manifesting the creation of shareholder value from the largest project in the Company's history, and thus ensuring financial stability during a time of utmost importance.

### Long Term Incentive Plans

SOCO's long term incentive plan (LTIP) was approved by shareholders at the 2011 AGM, replacing a previous plan which terminated in May 2011 (without prejudice to the subsisting participants). Participation in the Company's LTIP is discretionary and determined in consideration of corporate and individual performance. Awards are subject to limits on individual participation whereby the market value, as measured at the date of grant, of shares subject to awards made in any financial year will generally not exceed 200% of the executive's base salary. The Committee has discretion, which has not been exercised, to exceed this limit if deemed justified in exceptional circumstances up to 400% of base salary. The LTIP is intended to provide a continued mechanism for motivating and retaining Executive Directors and senior staff members in a way that is aligned with shareholders' interests. In 2011, a number of best practice features were introduced: the threshold vesting level was reduced to ensure that potential rewards are not excessive and targets remain sufficiently stretching; and the plan now contains a malus provision under which the Committee may reduce the number of shares subject to a participant's subsisting awards.

An employee benefit trust currently holds sufficient SOCO shares to satisfy all shares conditionally awarded under the current and previous LTIP, as more fully described in Note 26 to the financial statements. Decisions governing acquisitions of shares into the trust are considered and approved by the full Board. In line with corporate governance guidelines, the aggregate number of new issue shares which may be subject to awards under all relevant executive share schemes shall not exceed 5% of the ordinary share capital of the Company in any rolling 10 year period. Accordingly, at 31 December 2011, 17.0 million new issue shares (2010 – 17.0 million) may be subject to awards, of which there is available capacity remaining of 11.6 million shares (2010 – 11.4 million).

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

The Remuneration Committee's selection of performance criteria is kept under review to ensure these measures remain appropriate to SOCO's circumstances and strategy, and most effectively support the delivery of value creation over time. While the Committee has taken into account the potential impact of market volatility and other potential shortcomings of a relative total shareholder return (TSR) measure, it continues to provide the primary basis for determining the value generated for shareholders over the longer term. Furthermore, it is the primary indicator of the Company's overall corporate performance. The Committee also believes that underpinning TSR results by reference to the Group's oil and gas reserves, a key business metric, provides an appropriate complement for considering that relative TSR is a genuine reflection of underlying performance. Accordingly, no change to the performance measure is proposed, as the Company's long term goals remain unchanged and the Committee considers it will continue to align most closely the executives' interests to those of shareholders. Performance targets for awards to date have been set with reference to the Company's relative TSR performance over a three year period against a range of comparator companies in the oil exploration and production sector. Prior to the vesting of an award, the achievement of actual underlying financial and operational performance of the Company will also be considered by the Committee. For awards to date, this shall primarily be assessed, on the basis of appropriate external advice, in terms of the additions to and the

management and quality of the Group's oil and gas reserves in view of goals set by the Board. The Committee will continue to monitor whether TSR is the measure which best aligns long term awards to shareholder value.

In consideration of corporate and individual performance, along with the intent to retain and motivate with an appropriate level of reward clearly focused on long term stability, discretionary awards in 2011 were granted over shares with a market value of 190% of base salary. The TSR comparator group for awards made in respect of the periods between 2009 and 2011 is set out in the table below.

Measurement of the Company's performance criteria is carried out with reference to external data sources provided by the Committee's remuneration advisors to ensure its independence. No award will vest if the TSR ranking is the median. The vesting schedule is set out in the table below.

Following measurement of the Company's performance against the comparator group for awards granted in January 2009, 53% of the awards have been declared vested. After careful consideration, the Committee is satisfied that the performance criteria measurement has resulted in a vesting level appropriate to the underlying performance of the Company over the performance period. Those awards not declared vested have lapsed.

Further details of incentive share awards are set out in the table on page 66 and in Note 28 to the financial statements. Charges which have been reflected in the Group's income statement in respect of incentive schemes are set out in Note 28 to the financial statements.

### LTIP Comparator Group

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

\*through 2010 \*\*from 2011

### Share Option Plan

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

### Pension Contributions

The Company contributes 15% of salary each year in respect of the Executive Directors' pension benefits, which has been delivered as contributions to a money purchase plan up to scheme limits and a cash supplement. No changes in contribution levels are currently contemplated.

### E Other Policies

With prior approval of the Board, Executive Directors are allowed to accept non-executive appointments on other boards and to retain the associated directors' fees. Under this policy Mr Ed Story serves on the board of Cairn India Limited for which he retained associated fees for 2011 in the amount of \$2,300. Mr Roger Cagle serves on the board of Vostok Energy Limited and previously served on the board of Dominion Petroleum Limited and retained associated fees for 2011 in the amount of £40,000.

### Shareholding requirement

During 2011, the Board formalised a policy requiring Executive Directors to build up a minimum shareholding equivalent to their annual salary. This is intended to emphasise a commitment to the alignment of Executive Directors with shareholders and a focus on long term stewardship. The current Executive Directors have held, and continue to build, a meaningful shareholding since founding the Company in 1997.

### F 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. After review of these factors, the annual fees payable to the Senior Independent Director and the Non-Executive Directors were set at £50,000 from appointment and £45,000 with effect from 1 January 2012, respectively. Annual fees for services payable to the Chairman remain unchanged from those rates reflected in the table on page 65. 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.

### G Directors' Contracts

Executive Directors' contracts are for an indefinite period and are terminable by either party on giving one year's notice, which may be satisfied with a payment in lieu of notice. The contracts do not contain specific termination provisions. The Committee has a duty to prevent the requirement to make payments that are not strictly merited, and endorses the principle of mitigation of damages on early termination of a service contract. Any payment

### LTIP Vesting Schedule

TSR Performance	Vesting
Below median	No vesting
Median (50 <sup>th</sup> percentile)	25% of the award vests
Pro-rating applies between these points and between ranking positions, to more closely reflect SOCO's TSR performance relative to the next highest and lowest comparators.	
Upper 16 <sup>th</sup> (84 <sup>th</sup> percentile)	100% of the award vests

on early termination will be assessed on the basis of the particular circumstances, but in any event will not be in respect of any period beyond the one year specified by contract.

The Non-Executive Directors' appointments are terminable at the will of the parties but are envisaged to establish an initial term of three years after which they will be reviewed annually. The dates of the Directors' service contracts or letters of appointment, which may not coincide with their initial date of appointment, are set out in the Annual Report of the Directors on page 48.

## H Directors' Transactions

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

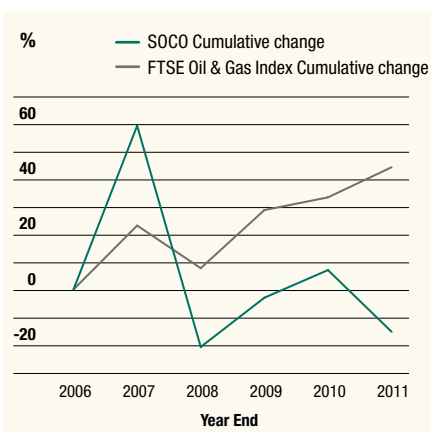
In March 2008, the Company, through its Group subsidiary, entered into a production sharing contract over Block V, located in eastern DRC. Mr Roger Cagle served as Non-Executive Chairman of Dominion Petroleum Limited, one of the co-venturers, until February 2012.

Under the terms of an acquisition approved by shareholders in 1999, the Company and its strategic shareholder group (Investor Group), including Quantic Limited (Quantic) in which Mr Rui de Sousa has a non-notifiable share interest, jointly participate in certain regions in which the Investor Group utilises its long established industry and government relationships to negotiate and secure commercial rights in oil and gas projects. In the 2004 Annual Report and Accounts the form of participation to be utilised was set out to be through equity shareholdings in which the Investor Group holds a minority interest in special purpose entities created to hold such projects. The shareholding terms have been modelled after the SOCO Vietnam Ltd arrangement which was negotiated with third parties. Quantic's minority holdings in the subsidiary undertakings, which principally affected the profits or net assets of the Group, are shown in Note 17 of

the financial statements. The Group has entered into a consulting agreement, which is terminable by either party on 30 days' written notice, wherein Quantic is entitled to a consulting fee in the amount of \$50,000 per month in respect of such services as are required to review, assess and progress the realisation of oil and gas exploration and production opportunities in certain areas.

Pursuant to warrants to subscribe for the same number of ordinary shares in the Company, which had been acquired under the terms of the 1999 transaction described above (Warrants), during 2010 a connected party to Mr Rui de Sousa exercised Warrants over 6,036,804 ordinary shares at a weighted average market price of £3.99, resulting in a gain of £23.2 million on exercise. During 2011, no Warrants were held and no exercises were made.

## Total Shareholder Return



Source: Datastream

Note: This graph illustrates five year TSR performance against the FTSE Oil & Gas Index and therefore does not represent either the comparator group or time period against which performance is assessed under the LTIP.



## I Directors' Remuneration Report Tables

### Director's Emoluments (Audited)

	Fees/basic salary \$000's	Benefits in kind <sup>1</sup> \$000's	Annual bonus \$000's	Total 2011 \$000's	Total 2010 \$000's
<b>Executive Directors</b>					
E Story	838	56	838	1,732	1,102
R Cagle	629	99	629	1,357	876
<b>Non-Executive Directors<sup>2</sup></b>					
R de Sousa	289	–	–	289	232
M Johns <sup>3</sup>	42	–	–	42	–
P Kingston <sup>3,4</sup>	50	–	–	50	100
O Barbaroux	64	–	–	64	62
R Cathery	64	–	–	64	62
E Contini	64	–	–	64	62
A Monteiro	64	–	–	64	62
J Norton	64	–	–	64	62
M Roberts <sup>3</sup>	31	–	–	31	62
M Watts	64	–	–	64	62
<b>Aggregate emoluments</b>	<b>2,263</b>	<b>155</b>	<b>1,467</b>	<b>3,885</b>	<b>2,744</b>

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

<sup>2</sup> Non-Executive Directors' fees are set in GB pounds and are reported in US dollars at the annual average exchange rate.

<sup>3</sup> Emoluments paid to M Johns, P Kingston and M Roberts are in proportion to their dates of service.

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

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

### Directors' Pension Entitlements (Audited)

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

	2011 \$000's	2010 \$000's
E Story	126	126
R Cagle <sup>1</sup>	94	94
	<b>220</b>	<b>220</b>

<sup>1</sup> In 2010, in addition to this, \$0.5 million of Mr Roger Cagle's basic salary was paid as an employer contribution to a retirement benefit plan.

# DIRECTORS' REMUNERATION REPORT

continued

## Directors' Incentive Share Awards (Audited)

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

	As at 1 Jan 2011	Granted/ Awarded	Exercised	Lapsed	As at 31 Dec 2011	Date potentially exercisable <sup>2</sup>	Expiry date
<b>E Story</b>							
LTIP <sup>1</sup>	257,600	–	–	–	257,600	07.01.12 <sup>3</sup>	–
	288,800	–	–	–	288,800	17.12.12	–
	277,600	–	–	–	277,600	10.12.13	–
	–	344,000	–	–	344,000	09.12.14	–
<b>R Cagle</b>							
LTIP <sup>1</sup>	193,200	–	–	–	193,200	07.01.12 <sup>3</sup>	–
	216,400	–	–	–	216,400	17.12.12	–
	208,200	–	–	–	208,200	10.12.13	–
	–	258,000	–	–	258,000	09.12.14	–

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

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

<sup>3</sup> Following measurement of the Company's performance against the comparator group for awards potentially exercisable from 7 January 2012, 53% of the awards have been declared vested. Those awards not declared vested have lapsed.

The market price of the ordinary shares at 31 December 2011 was £2.926 and the range during the year to 31 December 2011 was £2.78 to £4.00.

## Directors' Interests

The Directors who held office at 31 December 2011 had the following interests (all of which were beneficial except as noted below) in the ordinary shares in the Company and contingent rights or options to acquire ordinary shares (Options) at 31 December 2011:

	Number of Shares		Number of Options <sup>1</sup>	
	2011	2010	2011	2010
<b>Executive Director</b>				
E Story	<b>12,856,794</b>	12,856,794	<b>1,168,000</b>	824,000
R Cagle <sup>2</sup>	<b>8,617,916</b>	8,617,916	<b>1,472,900</b>	1,039,000
<b>Non-Executive Director</b>				
R Sousa <sup>3</sup>	<b>9,008,820</b>	8,908,820	–	–
M Johns	<b>10,000</b>	–	–	–
O Barbaroux	<b>88,000</b>	88,000	–	–
R Cathery	<b>400,000</b>	400,000	–	–
E Contini	<b>220,000</b>	220,000	–	–
A Monteiro	–	–	–	–
J Norton	<b>460,000</b>	460,000	–	–
M Watts <sup>4</sup>	<b>77,291</b>	72,670	–	–

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

<sup>2</sup> At 31 December 2011, Mr Roger Cagle's interests included 3,139,439 ordinary shares (2010 – 3,139,439) and 597,100 Options (2010 – 421,200) held by Ms Cynthia Cagle, the Options having been granted to her in respect of her services to the Group.

<sup>3</sup> 300,000 ordinary shares (2010 – 200,000) are held by Mr Rui de Sousa personally.

8,708,820 ordinary shares (2010 – 8,708,820) are held by Palamos Limited, a connected person to Mr de Sousa.

<sup>4</sup> Subsequent to 31 December 2011, Dr Mike Watts bought 1,495 SOCO ordinary shares, which were acquired on the open market pursuant to a trading plan entered into on 29 September 2009.

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

There have been no other changes in the interests of the Directors between 31 December 2011 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 13 March 2012 and signed on its behalf by:

**Michael Johns**  
Remuneration Committee Chairman



HEAVY



# FINANCIAL STATEMENTS



“

**Operating profit arising from continuing production operations for 2011 was \$156.9 million versus \$29.1 million in 2010.**

”

## THE FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AND ON A GOING CONCERN BASIS



Left: **Neil Gibson,**  
**Manager, Group Reporting,**  
**Taxation & Treasury**

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

### **Financial Statements**

**Independent Auditor's Report** **p71**

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**Consolidated Income Statement** **p72**

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**Statements of Comprehensive Income** **p73**

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**Balance Sheets** **p74**

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**Statements of Changes in Equity** **p75**

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**Cash Flow Statements** **p76**

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**Notes to the Consolidated Financial Statements** **p77**

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**Five Year Summary** **p96**

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We have audited the financial statements of SOCO International plc for the year ended 31 December 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and parent Company Balance Sheets, the Group and parent Company Statements of Changes in Equity and the Group and parent Company Cash Flow Statements and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

## Respective Responsibilities of Directors and Auditor

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

## Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

In our opinion:

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

## Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

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

**Bevan Whitehead**  
(Senior Statutory Auditor)  
for and on behalf of Deloitte LLP

**Chartered Accountants and Statutory Auditor**  
London, United Kingdom  
13 March 2012

# CONSOLIDATED INCOME STATEMENT

for the year to 31 December 2011

	Notes	2011 \$000's	2010 \$000's
<b>Continuing operations</b>			
Revenue	5, 6	234,156	48,390
Cost of sales		(67,789)	(12,395)
<b>Gross profit</b>		<b>166,367</b>	35,995
Administrative expenses		(9,422)	(6,858)
<b>Operating profit</b>		<b>156,945</b>	29,137
Investment revenue	5	1,080	1,301
Other gains and losses	7	3,298	938
Finance costs	8	(2,684)	(525)
<b>Profit before tax</b>	6	<b>158,639</b>	30,851
Tax	6, 11	(70,046)	(18,548)
<b>Profit for the year from continuing operations</b>		<b>88,593</b>	12,303
<b>Discontinued operations</b>			
Operating profit from discontinued operations	12	–	36,473
Other gains and losses on discontinued operations	7	–	1,067
Finance costs from discontinued operations	8	–	(53)
Profit on disposal		–	80,116
<b>Profit before tax from discontinued operations</b>	6	–	117,603
Tax	6, 11	–	(28,474)
<b>Profit for the year from discontinued operations</b>		–	89,129
<b>Profit for the year</b>		<b>88,593</b>	101,432
<b>Earnings per share (cents)</b>			
	14		
From continuing operations		26.4	3.8
From discontinued operations excluding profit on disposal		–	2.7
From profit on disposal		–	24.4
<b>Basic</b>		<b>26.4</b>	30.9
From continuing operations		26.3	3.5
From discontinued operations excluding profit on disposal		–	2.5
From profit on disposal		–	22.4
<b>Diluted</b>		<b>26.3</b>	28.4

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year to 31 December 2011

	Notes	2011 \$000's	2010 \$000's
Profit for the year		<b>88,593</b>	101,432
Unrealised currency translation differences		<b>4,215</b>	(5,538)
<b>Total comprehensive income for the year</b>	26	<b>92,808</b>	95,894



# BALANCE SHEETS

as at 31 December 2011

	Notes	Group		Company	
		2011 \$000's	2010 \$000's	2011 \$000's	2010 \$000's
<b>Non-current assets</b>					
Intangible assets	15	193,102	144,256	–	–
Property, plant and equipment	16	793,565	692,979	44	116
Investments	17	–	–	627,152	532,460
Financial asset	18	40,617	37,448	–	–
		<b>1,027,284</b>	874,683	<b>627,196</b>	532,576
<b>Current assets</b>					
Inventories	20	10,230	16,405	–	–
Trade and other receivables	21	79,859	24,377	530	503
Tax receivables		467	334	241	134
Cash and cash equivalents		160,075	260,438	2,637	114,362
		<b>250,631</b>	301,554	<b>3,408</b>	114,999
<b>Total assets</b>		<b>1,277,915</b>	1,176,237	<b>630,604</b>	647,575
<b>Current liabilities</b>					
Trade and other payables	22	(49,481)	(45,871)	(3,555)	(1,295)
Tax payable		(13,527)	(2,013)	(90)	(94)
		<b>(63,008)</b>	(47,884)	<b>(3,645)</b>	(1,389)
<b>Net current assets (liabilities)</b>		<b>187,623</b>	253,670	<b>(237)</b>	113,610
<b>Non-current liabilities</b>					
Convertible bonds	23	(46,572)	(77,968)	–	–
Deferred tax liabilities	19	(37,540)	(24,073)	–	–
Long term provisions	24	(32,749)	(13,095)	–	–
		<b>(116,861)</b>	(115,136)	–	–
<b>Total liabilities</b>		<b>(179,869)</b>	(163,020)	<b>(3,645)</b>	(1,389)
<b>Net assets</b>		<b>1,098,046</b>	1,013,217	<b>626,959</b>	646,186
<b>Equity</b>					
Share capital	25	27,544	27,534	27,544	27,534
Share premium account		72,721	72,622	72,721	72,622
Other reserves	26	140,747	149,205	93,762	100,592
Retained earnings	27	857,034	763,856	432,932	445,438
<b>Total equity</b>		<b>1,098,046</b>	1,013,217	<b>626,959</b>	646,186

The financial statements were approved by the Board of Directors on 13 March 2012 and signed on its behalf by:

**Rui de Sousa**  
Chairman

**Roger Cagle**  
Director

# STATEMENTS OF CHANGES IN EQUITY

for the year to 31 December 2011

	Notes	Group				Total \$000's
		Called up share capital \$000's	Share premium account \$000's	Other reserves (see Note 26) \$000's	Retained earnings (see Note 27) \$000's	
As at 1 January 2010		24,451	71,077	11,317	656,423	763,268
New shares issued		3,083	1,545	159,047	–	163,675
Share-based payments		–	–	(9,612)	–	(9,612)
Transfer relating to share-based payments		–	–	(1,431)	1,431	–
Transfer relating to convertible bonds		–	–	(2,022)	2,022	–
Transfer relating to the unwinding of discount on redeemed bonds		–	–	(8,086)	8,086	–
Unrealised currency translation differences		–	–	(8)	(5,538)	(5,546)
Retained profit for the year		–	–	–	101,432	101,432
<b>As at 1 January 2011</b>		<b>27,534</b>	<b>72,622</b>	<b>149,205</b>	<b>763,856</b>	<b>1,013,217</b>
New shares issued	25	10	99	–	–	109
Purchase of own shares into treasury		–	–	(6,829)	–	(6,829)
Share-based payments	28	–	–	975	–	975
Transfer relating to convertible bonds		–	–	(370)	370	–
Equity component of repurchased and cancelled bonds	23	–	–	(2,211)	–	(2,211)
Unrealised currency translation differences		–	–	(23)	4,215	4,192
Retained profit for the year		–	–	–	88,593	88,593
<b>As at 31 December 2011</b>		<b>27,544</b>	<b>72,721</b>	<b>140,747</b>	<b>857,034</b>	<b>1,098,046</b>

	Notes	Company				Total \$000's
		Called up share capital \$000's	Share premium account \$000's	Other reserves (see Note 26) \$000's	Retained earnings \$000's	
As at 1 January 2010		24,451	71,077	(58,447)	473,002	510,083
New shares issued		3,083	1,545	159,047	–	163,675
Unrealised currency translation differences		–	–	(8)	(21,686)	(21,694)
Retained loss for the year		–	–	–	(5,878)	(5,878)
<b>As at 1 January 2011</b>		<b>27,534</b>	<b>72,622</b>	<b>100,592</b>	<b>445,438</b>	<b>646,186</b>
New shares issued	25	10	99	–	–	109
Purchase of own shares into treasury		–	–	(6,829)	–	(6,829)
Unrealised currency translation differences		–	–	(1)	(4,571)	(4,572)
Retained loss for the year	13	–	–	–	(7,935)	(7,935)
<b>As at 31 December 2011</b>		<b>27,544</b>	<b>72,721</b>	<b>93,762</b>	<b>432,932</b>	<b>626,959</b>

# CASH FLOW STATEMENTS

for the year to 31 December 2011

	Notes	Group		Company	
		2011 \$000's	2010 \$000's	2011 \$000's	2010 \$000's
<b>Net cash from (used in) operating activities</b>	29	<b>90,183</b>	36,682	<b>(5,697)</b>	(7,191)
<b>Investing activities</b>					
Purchase of intangible assets		(51,242)	(29,438)	–	–
Purchase of property, plant and equipment		(100,954)	(122,452)	(1)	(77)
Decrease in liquid investments		–	151,954	–	–
Investment in subsidiary undertakings		–	–	(102,703)	(25,732)
Proceeds on disposal of subsidiary	12	–	85,867	–	–
<b>Net cash (used in) from investing activities</b>		<b>(152,196)</b>	85,931	<b>(102,704)</b>	(25,809)
<b>Financing activities</b>					
Purchase of own shares into treasury		(6,829)	–	(6,829)	–
Share-based payments	26	–	(10,477)	–	(10,477)
Repurchase of convertible bonds	23	(35,629)	–	–	–
Repayment of borrowings	23	–	(165,949)	–	–
Proceeds on issue of ordinary share capital	25	109	163,674	109	163,674
<b>Net cash (used in) from financing activities</b>		<b>(42,349)</b>	(12,752)	<b>(6,720)</b>	153,197
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(104,362)</b>	109,861	<b>(115,121)</b>	120,197
<b>Cash and cash equivalents at beginning of year</b>		<b>260,438</b>	155,619	<b>114,362</b>	240
Effect of foreign exchange rate changes		3,999	(5,042)	3,396	(6,075)
<b>Cash and cash equivalents at end of year</b>		<b>160,075</b>	260,438	<b>2,637</b>	114,362



## 01 General information

SOCO International plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 99. 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 20 to 26 and 28 to 30, respectively.

## 02 Significant accounting policies

### (a) Basis of preparation

The financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (IFRS) and on a going concern basis of accounting for the reasons set out in the Annual Report of the Directors on page 49 and in the Financial Review on page 30. The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost basis, except for the valuation of hydrocarbon inventory and the revaluation of certain financial instruments. The financial statements are presented in US dollars as it is the functional currency of each of the Company's subsidiary undertakings and is generally accepted practice in the oil and gas sector. The functional currency of the Company remains GB pounds although its financial statements are presented in US dollars to be consistent with the Group. The principal accounting policies adopted are set out below.

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

At the date of authorisation of these financial statements, the following IFRS, International Accounting Standards (IAS), which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):

- IFRS 7 (amended) Disclosures – Transfers of Financial Assets
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 13 Fair Value Measurement
- IAS 1 (amended) Presentation of Items of Other Comprehensive Income

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 will impact both the measurement and disclosures of financial instruments
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

### (c) Basis of consolidation

The Group financial statements consolidate the accounts of SOCO International plc and entities controlled by the Company (its subsidiary undertakings) drawn up to the balance sheet date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method whereby the assets, liabilities and contingent liabilities acquired and the consideration given are recognised in the Group accounts at their fair values as at the date of the acquisition.

### (d) Investments

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

### (e) Interests in joint ventures

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

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

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

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

### 02 Significant accounting policies continued

#### (g) Revenue

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

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

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

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

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

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

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

##### Depreciation and depletion

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

##### Impairment of value

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

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

##### Other tangible non-current assets

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

##### Decommissioning

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

#### (i) Changes in estimates

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

#### (j) Inventories

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

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

**(k) Leases**

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

**(l) Share-based payments**

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

**(m) Taxation**

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

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

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

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

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

**(n) Financial instruments**

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

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

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

Where a financial instrument is classified as a financial asset at fair value through profit or loss it is initially recognised at fair value. At each balance sheet date the fair value is reviewed and any gain or loss arising is recognised in the income statement. 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.

Upon redemption of convertible bonds, in accordance with their terms at inception, the carrying amount of the liability is adjusted through the income statement to match the redemption amount. Where bonds are repurchased in the market, the repurchase cost is allocated between the repurchased liability and the repurchased embedded option to convert, using the same method described above. The difference between the amount allocated to the liability and the carrying amount of the liability is recorded in the income statement, and the amount allocated to the repurchase of the embedded option to convert is debited to equity.



### 02 Significant accounting policies *continued*

#### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Equity instruments repurchased are deducted from equity at cost.

#### (o) Foreign currencies

The individual financial statements of each Group company are stated in the currency of the primary economic environment in which it operates (its functional currency). Transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are recorded at the rates of exchange prevailing at that date, or if appropriate, at the forward contract rate. Any resulting gains and losses are included in net profit or loss for the period.

For the purpose of presenting consolidated financial statements the results of entities denominated in currencies other than US dollars are translated at the average rate of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on retranslation at the closing rate of the opening net assets and results of entities denominated in currencies other than US dollars are dealt with through equity and transferred to the Group's retained earnings reserve.

#### (p) Pension costs

The contributions payable in the year in respect of pension costs for defined contribution schemes and other post-retirement benefits are charged to the income statement. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

### 03 Financial risk management

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

#### Credit risk

The Group's non-current financial asset that is subject to credit risk comprises a financial asset at fair value through profit or loss arising in respect of the Group's disposal of its Mongolia interest (see Note 18). The Group's and Company's other financial assets comprise investments, trade receivables and cash and cash equivalents. The Group seeks to minimise credit risk by only maintaining balances with creditworthy third parties including major multi-national oil companies subject to contractual terms in respect of trade receivables. The credit risk on liquid funds is limited as the Board only selects institutions with high credit-ratings assigned by international credit-rating agencies and endeavours to spread cash balances and liquid investments over more than one institution. The level of deposits held by different institutions is regularly reviewed. The Group's maximum exposure to credit risk as at 31 December 2011 was \$277.1 million (2010 – \$319.4 million).

#### Foreign currency risk

The Group primarily conducts and manages its business in US dollars. Cash balances in Group subsidiaries are usually held in US dollars, but smaller amounts may be held in GB pounds or local currencies to meet immediate operating or administrative expenses, or to comply with local currency regulations. From time to time the Group may take short term hedging positions to protect the value of any cash balances it holds in non-US dollar currencies. The impact of a 10% movement in foreign exchange rates on the Group's net assets as at 31 December 2011 would not have been material (2010 – \$11.0 million) and would not have been material with respect to the Group's profit in 2011 and 2010.

#### Liquidity risk

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

#### Interest rate risk

The Group earns interest on its cash, cash equivalents and liquid investments at floating and fixed rates. Fixed rate interest is charged on the Group's convertible bonds (see Note 23). The fair value of the Group's non-current financial asset (see Note 18) is also dependent on the discount rate used. Management assesses the Group's sensitivity to changes in interest rates. If interest rates had been 0.5% higher or lower and all other variables held constant, the Group's profit for the year ended, and its net assets at, 31 December 2011 would decrease or increase by \$2.1 million (2010 – \$2.7 million).

### Commodity price risk

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

### Regulatory risk

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

### Contractual risk

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

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt (see Note 23), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 25, 26 and 27 and in the Statement of Changes in Equity. During the year the Company purchased 1,497,852 of its own ordinary shares, of £0.05 each, into treasury (see Note 26) and repurchased and cancelled convertible bonds with a par value of \$35.4 million (see Note 23).

## 04 Critical judgements and accounting estimates

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

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

#### Oil and gas assets

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

#### Financial asset

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

#### Convertible bonds

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

### (b) Key sources of estimation uncertainty

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

#### Oil and gas reserves

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

#### Decommissioning provision

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 05 Total revenue

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

	2011 \$000's	2010 \$000's
<b>Continuing operations</b>		
Oil and gas sales (see Note 6)	234,156	48,390
Investment revenue	1,080	1,301
	<b>235,236</b>	49,691
<b>Discontinued operations</b>		
Oil sales (see Note 6)	–	64,660
	<b>235,236</b>	114,351

### 06 Segment information

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

	Continuing operations				Discontinued operations	2011
	SE Asia \$000's	Africa <sup>3</sup> \$000's	Unallocated \$000's	Total \$000's	\$000's	Group \$000's
Oil and gas sales (see Note 5)	234,156	–	–	234,156	–	234,156
Profit (loss) before tax <sup>1</sup>	165,563	–	(6,924)	158,639	–	158,639
Tax charge (see Note 11)	70,033	–	13	70,046	–	70,046
Depletion and depreciation	19,298	–	111	19,409	–	19,409

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

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

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

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

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

Included in revenues arising from South East Asia (continuing and discontinued operations) are revenues of \$84.5 million, \$60.4 million and \$29.6 million (2010 – South East Asia \$54.4 million, \$34.2 million and \$12.5 million) which arose from the Group's largest individual customers.

### Geographical information

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

#### Revenue

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

	2011 \$000's	2010 \$000's
Vietnam	61,959	48,389
China	54,885	–
Malaysia	44,195	–
Japan	25,923	–
South Korea	15,934	19,560
Thailand	–	35,922
Other	31,260	9,179
	<b>234,156</b>	<b>113,050</b>

#### Non-current assets

	2011 \$000's	2010 \$000's
United Kingdom	44	116
Vietnam	793,446	692,760
Other – Africa	193,177	144,359
	<b>986,667</b>	<b>837,235</b>

#### 07 Other gains and losses

	2011 \$000's	2010 \$000's
Change in fair value of financial asset (see Note 18)	3,169	1,202
Gain on repurchased and cancelled convertible bonds (see Note 23)	270	–
Currency exchange loss	(141)	(264)
Currency exchange gain arising on discontinued operations	–	1,067
	<b>3,298</b>	<b>2,005</b>

#### 08 Finance costs

	2011 \$000's	2010 \$000's
Interest payable in respect of convertible bonds (see Note 23)	5,958	9,724
Other interest payable and similar fees	75	64
Unwinding of discount on provisions (see Note 24)	771	393
Unwinding of discount on provisions arising on discontinued operations	–	53
Unwinding of discount on redeemed bonds (see Note 23)	–	8,086
Capitalised finance costs	(4,120)	(17,742)
	<b>2,684</b>	<b>578</b>

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 7.91% (2010 – 13.27%) to the expenditures on the qualifying asset (see Notes 4 and 23).



## 09 Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2011 \$000's	2010 \$000's
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	202	135
Fees payable to the Company's auditor and their associates for other services to the Group:		
Audit of the Company's subsidiaries	14	17
<b>Total audit fees</b>	<b>216</b>	<b>152</b>
Audit related assurance services	80	74
Other assurance services	137	27
Corporate finance services	–	171
<b>Total non-audit fees</b>	<b>217</b>	<b>272</b>

The amounts payable to Deloitte LLP by the Group in respect of audit related assurance services comprises \$80,000 relating to the Group's half year review (2010 – \$74,000). Other assurance services includes advisory services relating to remuneration, induction and the Company's long term incentive plan in the amount of \$76,000 (2010 – \$19,000) and agreed upon procedures relating to the Group's Africa region in the amount of \$55,000 (2010 – nil).

Details of the Company's policy on the use of auditors for non-audit services are set out in the Corporate Governance Report on pages 51 to 58.

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

## 10 Staff costs

The average monthly number of employees of the Group including Executive Directors was 14 (2010 – 15), of which 12 (2010 – 12) were administrative personnel and 2 (2010 – 3) were operations personnel. Their aggregate remuneration comprised:

	2011 \$000's	2010 \$000's
Wages and salaries	6,225	4,474
Social security costs	276	215
Share-based payment expense (see Note 28)	975	865
Other pension costs under money purchase schemes	426	421
	<b>7,902</b>	<b>5,975</b>

In addition to the above, other benefits were provided to employees in the amount of \$0.3 million (2010 – \$0.3 million). In accordance with the Group's accounting policy \$3.3 million of the Group's staff costs above have been capitalised (2010 – \$2.2 million).

## 11 Tax

	Continuing operations		Discontinued operations		Group	
	2011 \$000's	2010 \$000's	2011 \$000's	2010 \$000's	2011 \$000's	2010 \$000's
Current tax	56,579	10,531	–	25,622	56,579	36,153
Deferred tax (see Note 19)	13,467	8,017	–	2,852	13,467	10,869
	<b>70,046</b>	<b>18,548</b>	<b>–</b>	<b>28,474</b>	<b>70,046</b>	<b>47,022</b>

The Group's corporation tax is calculated at 50% (2010 – 50%) of the estimated assessable profit for the year in Vietnam. During 2011 and 2010 both current and deferred taxation have arisen in overseas jurisdictions only.

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

	2011 \$000's	2010 \$000's
Profit before tax on continuing operations	158,639	30,851
Profit before tax on discontinued operations	–	117,603
Profit before tax	158,639	148,454
Profit before tax at 50% (2010 – 50%)	79,320	74,227
Effects of:		
Non-taxable income and non-deductible expenses	(13,159)	(183)
Tax losses not recognised	3,967	2,939
Non-taxable profit on disposal	–	(40,058)
Taxes not related to profit before tax	–	7,979
Adjustments to tax charge in respect of previous years	(82)	2,118
<b>Tax charge for the year</b>	<b>70,046</b>	<b>47,022</b>

The prevailing tax rate in the jurisdictions in which the Group produces oil and gas is 50%. The tax charge in future periods may also be affected by the factors in the reconciliation.

## 12 Discontinued operations

In July 2010, SOCO announced that it had entered into a conditional sale and purchase agreement, with an effective date of 1 January 2010, for the sale of its wholly owned subsidiary SOCO Thailand LLC (SOCO Thailand) to Salamander Energy plc. The disposal completed in September 2010 for an initial value of \$105.0 million (subject to certain financial adjustments), plus contingent cash consideration of \$1.0 million (the Disposal). SOCO Thailand was the 99.9993% shareholder of SOCO Exploration (Thailand) Co Limited, the entity that held the Group's interest in the Bualuang Field, offshore of Thailand and which was a component of the Group's South East Asia segment (see Note 6). The results of the Group's discontinued Thailand interest is shown on the consolidated income statement and in Note 6. Net operating cash flows from discontinued operations are shown in Note 29. Upon completion the Group recognised a gain, excluding contingent consideration, of \$80.1 million and cash inflow of \$85.9 million reflecting the \$105.0 million cash consideration less the Group's share of cash held by the Thailand interest of \$16.3 million, transaction costs of \$1.8 million and financial adjustments of \$1.0 million.

## 13 Loss attributable to SOCO International plc

The loss for the financial year dealt with in the accounts of the Company was \$7,935,000 (2010 – loss of \$5,878,000 inclusive of dividends from subsidiary undertakings). As provided by section 408 of the Companies Act 2006, no income statement or statement of comprehensive income is presented in respect of the Company.

## 14 Earnings per share

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

	2011 \$000's	2010 \$000's
Earnings from continuing operations	88,593	12,303
Effect of dilutive potential ordinary shares: Interest on convertible bonds	–	68
Earnings for the purposes of diluted earnings per share on continuing operations	88,593	12,371
Earnings from discontinued operations	–	89,129
Earnings for the purposes of diluted earnings per share on continuing and discontinued operations	88,593	101,500
	<b>Number of shares ('000)</b>	
	2011	2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	336,072	328,459
Effect of dilutive potential ordinary shares:		
Share awards, options and warrants	1,348	14,046
Convertible bonds (see Note 23)	–	14,560
Weighted average number of ordinary shares for the purpose of diluted earnings per share	337,420	357,065

At 31 December 2011, up to 4,859,552 potential ordinary shares in the Company that are underlying the Company's convertible bonds (see Note 23) and that may dilute earnings per share in the future were not included in the calculation of diluted earnings per share because they were antidilutive for the year ended 31 December 2011.

## 15 Intangible assets

	Group \$000's
<b>Exploration and evaluation expenditure</b>	
As at 1 January 2010	103,462
Additions	40,794
As at 1 January 2011	144,256
Additions	48,846
<b>As at 31 December 2011</b>	<b>193,102</b>

Intangible assets comprise the Group's exploration and evaluation projects which are pending determination.

## 16 Property, plant and equipment

			Group	Company
	Oil and gas properties \$000's	Other \$000's	Total \$000's	Other \$000's
<b>Cost</b>				
As at 1 January 2010	596,417	1,409	597,826	1,074
Additions	158,363	167	158,530	77
Disposals (see Note 12)	(39,076)	(40)	(39,116)	–
Currency exchange	–	(31)	(31)	(31)
As at 1 January 2011	<b>715,704</b>	<b>1,505</b>	<b>717,209</b>	<b>1,120</b>
Additions	<b>119,984</b>	<b>9</b>	<b>119,993</b>	<b>1</b>
Currency exchange	–	(8)	(8)	(8)
As at 31 December 2011	<b>835,688</b>	<b>1,506</b>	<b>837,194</b>	<b>1,113</b>
<b>Depreciation</b>				
As at 1 January 2010	23,887	1,204	25,091	912
Charge for the year	9,629	149	9,778	119
Disposals (see Note 12)	(10,572)	(40)	(10,612)	–
Currency exchange	–	(27)	(27)	(27)
As at 1 January 2011	<b>22,944</b>	<b>1,286</b>	<b>24,230</b>	<b>1,004</b>
Charge for the year	<b>19,298</b>	<b>111</b>	<b>19,409</b>	<b>75</b>
Currency exchange	–	(10)	(10)	(10)
As at 31 December 2011	<b>42,242</b>	<b>1,387</b>	<b>43,629</b>	<b>1,069</b>
<b>Carrying amount</b>				
<b>As at 31 December 2011</b>	<b>793,446</b>	<b>119</b>	<b>793,565</b>	<b>44</b>
As at 31 December 2010	692,760	219	692,979	116

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



## 17 Fixed asset investments

### Principal Group investments

The Company and the Group had investments in the following subsidiary undertakings as at 31 December 2011 which principally affected the profits or net assets of the Group, all of which are indirectly held.

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

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

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

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

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

## 18 Financial asset

In 2005, the Group disposed of its Mongolia interest to Daqing Oilfield Limited Company. Under the terms of the transaction the Group will receive a subsequent payment amount of up to \$52.7 million, once cumulative production reaches 27.8 million barrels of oil, at the rate of 20% of the average monthly posted marker price for Daqing crude multiplied by the aggregate production for that month. The subsequent payment amount is included in non-current assets as a financial asset at fair value through profit or loss. The timescale for the production of crude oil in excess of 27.8 million barrels and the price of Daqing marker crude oil are factors that cannot accurately be predicted. However, based upon the Directors' current estimates of proven and probable reserves from the Mongolia interests and the development scenarios as discussed with the buyer, the Directors believe that the full subsequent payment amount will be payable. The fair value of the subsequent payment amount was determined using a valuation technique as there is no active market against which direct comparisons can be made (Level 3 as defined in IFRS 7). Assumptions made in calculating the fair value include the factors mentioned above, risked as appropriate, with the resultant cash flows discounted at a commercial risk free interest rate. The fair value of the financial asset at the date of completion of the sale was \$31.5 million. As at 31 December 2011 the fair value was \$40.6 million (2010 – \$37.4 million) after accounting for the change in fair value (see Note 7).

## 19 Deferred tax

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

	(Accelerated) decelerated tax depreciation \$000's	Other temporary differences \$000's	Tax losses \$000's	Group \$000's
As at 1 January 2010	(10,916)	(11,917)	12	(22,821)
(Charge) credit to income	(11,178)	309	–	(10,869)
Disposal of subsidiary (see Note 12)	6,212	3,405	–	9,617
As at 1 January 2011	<b>(15,882)</b>	<b>(8,203)</b>	<b>12</b>	<b>(24,073)</b>
Charge to income (see Note 11)	<b>(8,927)</b>	<b>(4,528)</b>	<b>(12)</b>	<b>(13,467)</b>
<b>As at 31 December 2011</b>	<b>(24,809)</b>	<b>(12,731)</b>	<b>–</b>	<b>(37,540)</b>

There are no unprovided deferred taxation balances at either balance sheet date except in relation to gross losses that are not expected to be utilised in the amount of \$72.4 million (2010 – \$51.7 million).

## 20 Inventories

Inventories comprise crude oil and condensate.

## 21 Other financial assets

	Group		Company	
	2011 \$000's	2010 \$000's	2011 \$000's	2010 \$000's
<b>Amounts falling due within one year</b>				
Trade receivables	<b>63,649</b>	6,904	–	–
Other receivables	<b>12,219</b>	14,382	<b>48</b>	53
Prepayments and accrued income	<b>3,991</b>	3,091	<b>482</b>	450
	<b>79,859</b>	24,377	<b>530</b>	503

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

## 22 Other financial liabilities

	Group		Company	
	2011 \$000's	2010 \$000's	2011 \$000's	2010 \$000's
Trade payables	<b>17,114</b>	13,833	–	–
Other payables	<b>12,967</b>	17,092	<b>334</b>	614
Accruals and deferred income	<b>19,400</b>	14,946	<b>3,221</b>	681
	<b>49,481</b>	45,871	<b>3,555</b>	1,295

There is no material difference between the carrying value of trade payables and their fair value. Accruals and deferred income includes interest payable of \$0.3 million (2010 – \$0.5 million) in respect of convertible bonds (see Note 23). The above financial liabilities are held at amortised cost and are not discounted as the impact would not be material.

## 23 Convertible bonds

In May 2006, the Group issued bonds at a par value of \$250 million which will be convertible into ordinary shares of the Company at any time, at the option of the bondholder, from June 2006 until six days before their maturity date of 16 May 2013. At the initial conversion price of £5.46 per share there were 24,952,000 ordinary shares of the Company underlying the bonds. On 16 May 2010, bonds with a par value of \$165.9 million were redeemed at the option of each bondholder. The accelerated unwinding of the discount relating to the redeemed bonds was charged to finance costs in 2010 in the amount of \$8.1 million and capitalised in accordance with IAS 23 Borrowing Costs.

During 2011, the Company repurchased and subsequently cancelled bonds with a par value of \$35.4 million and a carrying value of \$33.7 million for a consideration of \$35.6 million which was allocated between the repurchase of the liability component and the repurchase of the equity component, being the embedded conversion option. In accordance with IAS 32 Financial Instruments, a gain of \$0.3 million was recorded relating to the difference between the fair value of the consideration allocated to the liability component and the carrying value of the liability component of the cancelled bonds. The consideration allocated to the equity component was deducted in equity. If the bonds have not been previously purchased and cancelled, redeemed or converted, the remaining bonds will be redeemed at par value on 16 May 2013. Interest of 4.5% per annum will be paid semi-annually up to that date.

	2011 \$000's	2010 \$000's
Liability component at 1 January	78,449	234,104
Bonds cancelled upon repurchase	(35,629)	–
Gain on cancelled bonds (see Note 7)	(270)	–
Equity component of cancelled bonds (see Note 26)	2,211	–
Redeemed bonds	–	(165,949)
Unwinding of discount on redeemed bonds (see Note 8)	–	8,086
Other interest charged (see Note 8)	5,958	9,724
Interest paid	(3,870)	(7,516)
<b>Total liability component as at 31 December</b>	<b>46,849</b>	<b>78,449</b>
Reported in:		
Interest payable in current liabilities (see Note 22)	277	481
Non-current liabilities	46,572	77,968
<b>Total liability component as at 31 December</b>	<b>46,849</b>	<b>78,449</b>

The interest charged for the year is calculated by applying an effective interest rate of 7.91% (2010 – 13.27%) to the liability component for the period which includes the 4.5% paid in cash semi-annually. There is no material difference between the carrying amount of the liability component of the convertible bonds, which is carried at amortised cost, and their fair value. This fair value is calculated by discounting the future cash flows at the market rate.

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

	2011 \$000's	2010 \$000's
Within one year	2,191	3,782
Within two – five years	49,785	89,724
<b>Total as at 31 December</b>	<b>51,976</b>	<b>93,506</b>

## 24 Long term provisions

### Decommissioning

	Group \$000's
As at 1 January 2011	13,095
New provisions and changes in estimates	18,883
Unwinding of discount (see Note 8)	771
<b>As at 31 December 2011</b>	<b>32,749</b>

The provision for decommissioning is based on the net present value of the Group's share of the expenditure which may be incurred at the end of the producing life of each field (currently estimated to be 17 – 19 years) in the removal and decommissioning of the facilities currently in place.

## 25 Share capital

	2011 \$000's	2010 \$000's
<b>Issued and fully-paid</b>		
340,539,452 ordinary shares of £0.05 each (2010 – 340,419,452)	27,544	27,534

As at 31 December 2011 authorised share capital comprised 500 million (2010 – 500 million) ordinary shares of £0.05 each with a total nominal value of £25 million (2010 – £25 million). The Company issued 120,000 new ordinary shares of £0.05 each during 2011 (2010 – 9,814,172) upon the exercise of certain share options (see Note 28).

## 26 Other reserves

					Group
	Merger reserve \$000's	Own shares \$000's	Share- based payments \$000's	Convertible bonds \$000's	Total \$000's
As at 1 January 2010	56,882	(631)	(58,346)	13,412	11,317
Shares issued	159,047	–	–	–	159,047
Share-based payments	–	–	(9,612)	–	(9,612)
Transfer relating to share-based payments	–	–	(1,431)	–	(1,431)
Transfer relating to convertible bonds	–	–	–	(2,022)	(2,022)
Unwinding of discount on redeemed bonds	–	–	–	(8,086)	(8,086)
Currency exchange translation differences	–	–	(8)	–	(8)
<b>As at 1 January 2011</b>	<b>215,929</b>	<b>(631)</b>	<b>(69,397)</b>	<b>3,304</b>	<b>149,205</b>
Purchase of own shares into treasury	–	(6,829)	–	–	(6,829)
Share-based payments	–	–	975	–	975
Transfer relating to convertible bonds	–	–	–	(370)	(370)
Equity component of cancelled bonds (see Note 23)	–	–	–	(2,211)	(2,211)
Currency exchange translation differences	–	–	(23)	–	(23)
<b>As at 31 December 2011</b>	<b>215,929</b>	<b>(7,460)</b>	<b>(68,445)</b>	<b>723</b>	<b>140,747</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 26 Other reserves continued

	Company			Total \$000's
	Merger reserve \$000's	Own shares \$000's	Share- based payments \$000's	
As at 1 January 2010	–	(631)	(57,816)	(58,447)
Shares issued	159,047	–	–	159,047
Currency exchange translation differences	–	–	(8)	(8)
As at 1 January 2011	<b>159,047</b>	<b>(631)</b>	<b>(57,824)</b>	<b>100,592</b>
Purchase of own shares into treasury	–	<b>(6,829)</b>	–	<b>(6,829)</b>
Currency exchange translation differences	–	–	<b>(1)</b>	<b>(1)</b>
<b>As at 31 December 2011</b>	<b>159,047</b>	<b>(7,460)</b>	<b>(57,825)</b>	<b>93,762</b>

During the year the Company purchased 1,497,852 of its own ordinary shares (Shares) into treasury at a cost of \$6.8 million (2010 – nil). The number of treasury Shares held by the Group and the number of Shares held by the SOCO Employee Benefit Trust (Trust) at 31 December 2011 was 1,607,852 (2010 – 110,000) and 4,156,922 (2010 – 4,156,922), respectively. The market price of the Shares at 31 December 2011 was £2.926 (2010 – £3.696). The Trust, a discretionary trust, holds Shares for the purpose of satisfying long term incentive awards for senior management of the Group, details of which are set out in Note 28 and in the Directors' Remuneration Report on pages 59 to 67. 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.

The Statement of Comprehensive Income for the year ended 31 December 2010 has been re-presented to exclude an amount of \$11.5 million comprising transfers into other reserves from retained earnings because they did not result in a change in equity.

### 27 Retained earnings

	Group		
	Retained profit \$000's	Unrealised currency translation differences \$000's	Total \$000's
As at 1 January 2010	658,690	(2,267)	656,423
Profit for the year	101,432	–	101,432
Transfer relating to share-based payments	1,431	–	1,431
Transfer relating to convertible bonds	2,022	–	2,022
Unwinding of discount on redeemed bonds	8,086	–	8,086
Unrealised currency translation differences	–	(5,538)	(5,538)
As at 1 January 2011	<b>771,661</b>	<b>(7,805)</b>	<b>763,856</b>
Profit for the year	<b>88,593</b>	–	<b>88,593</b>
Transfer relating to convertible bonds	<b>370</b>	–	<b>370</b>
Unrealised currency translation differences	–	<b>4,215</b>	<b>4,215</b>
<b>As at 31 December 2011</b>	<b>860,624</b>	<b>(3,590)</b>	<b>857,034</b>

The retained profit for the Company is as set out in the Statement of Changes in Equity.

## 28 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 59 to 67. The Group recognised total expenses of \$975,000 (2010 – \$865,000) in respect of the schemes during the year, a proportion of which was capitalised in accordance with the Group's accounting policies.

### Long Term Incentive Plan (LTIP)

The Company operates a LTIP for senior employees of the Group. Awards vest over a period of three years, subject to performance criteria which have been set with reference to the Company's total shareholder return (TSR) relative to a range of comparator companies. Consideration may also be given to assessment as to whether the TSR performance is consistent with underlying performance. Awards are normally forfeited if the employee leaves the Group before the award vests. 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 SOCO Employee Benefit Trust (Trust) (see Note 26). No awards were exercised during the year ended 31 December 2011. The Company has no legal or constructive obligation to repurchase or settle awards in cash. Details of awards outstanding during the year are as follows:

	2011 No. of share awards	2010 No. of share awards
As at 1 January	1,863,000	6,089,932
Granted	778,000	627,800
Exercised	–	(4,629,804)
Lapsed	–	(224,928)
As at 31 December	2,641,000	1,863,000

There were no awards exercisable at 31 December 2011 or 2010. Awards outstanding at the end of the year have a weighted average remaining contractual life of 2.0 (2010 – 2.2) years. The weighted average market price and estimated fair value of the 2011 grants (at grant date) were £2.97 and £0.856, respectively.

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

### Share options

The Company operated a discretionary share option scheme for key employees of the Group which expired in April 2007 without prejudice to the subsisting rights of participants. Options are exercisable at a price equal to the average quoted market price of the Company's Shares on the date of grant. The vesting period is three years, subject to performance criteria based on the Company's TSR relative to a range of comparator companies. Unexercised options expire at the end of a seven or 10 year period, in accordance with the plan rules. Options are normally forfeited if the employee leaves the Group before the options vest. During 2009, the Company established a new discretionary share option scheme. As at 31 December 2011, no awards had been made under that scheme. Options would normally be equity-settled through newly issued Shares. The Company has no legal or constructive obligation to repurchase or settle options in cash. Details of options outstanding during the year are as follows:

	2011 No. of share options	2011 Weighted average exercise price £	2010 No. of share options	2010 Weighted average exercise price £
As at 1 January	1,000,000	1.20	1,200,000	1.10
Exercised	(120,000)	0.56	(200,000)	0.56
As at 31 December	880,000	1.29	1,000,000	1.20
Exercisable as at 31 December	680,000	0.61	918,000	0.53

The weighted average market price at the date of exercise during the year was £3.47 (2010 – £4.03). Options outstanding at the end of the year have a weighted average remaining contractual life of 1.9 (2010 – 2.7) years.

## 29 Reconciliation of operating profit to operating cash flows

	Group		Company	
	2011 \$000's	2010 \$000's	2011 \$000's	2010 \$000's
Operating profit (loss) from continuing operations	156,945	29,137	(8,298)	(6,608)
Operating profit from discontinued operations	–	36,473	–	–
	156,945	65,610	(8,298)	(6,608)
Share-based payments	975	865	975	865
Depletion and depreciation	19,409	9,778	75	119
<b>Operating cash flows before movements in working capital</b>	<b>177,329</b>	<b>76,253</b>	<b>(7,248)</b>	<b>(5,624)</b>
Decrease (increase) in inventories	6,175	(873)	–	–
(Increase) decrease in receivables	(57,610)	(11,193)	(198)	76
Increase (decrease) in payables	12,588	5,412	1,326	(2,322)
<b>Cash generated by (used in) operations</b>	<b>138,482</b>	<b>69,599</b>	<b>(6,120)</b>	<b>(7,870)</b>
Interest received	1,095	1,364	428	688
Interest paid	(3,943)	(7,580)	(5)	(9)
Income taxes paid	(45,451)	(26,701)	–	–
<b>Net cash from (used in) operating activities</b>	<b>90,183</b>	<b>36,682</b>	<b>(5,697)</b>	<b>(7,191)</b>
<b>Cash generated from operating activities comprises:</b>				
Continuing operating activities	90,183	12,419	(5,697)	(7,191)
Discontinued operating activities	–	24,263	–	–
	90,183	36,682	(5,697)	(7,191)

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.

## 30 Operating lease arrangements

	2011 \$000's	2010 \$000's
Minimum lease payments under operating leases recognised in income for the year	9,118	499

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:

	2011 \$000's	2010 \$000's
Within one year	29,040	470
In two to five years	146,359	–
After five years	19,144	–
	194,543	470

Operating lease payments mainly represent rentals payable by the Group for floating, production, storage and offloading (FPSO) facilities and for certain of its office properties. The FPSO lease is for a term of seven years with an option to extend for a further seven years.

### 31 Capital commitments

At 31 December 2011 the Group had exploration licence and cost carry commitments not accrued of approximately \$36.2 million (2010 – \$29.9 million).

### 32 Related party transactions

During the year, the Company recorded a net credit in the amount of \$0.1 million (2010 – \$0.6 million) in respect of services rendered between Group companies. There were no balances outstanding with Group undertakings as at 31 December 2011. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

#### Remuneration of key management personnel

The remuneration of the Directors of the Company, who are considered to be its key management personnel, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 59 to 67.

	2011 \$000's	2010 \$000's
Short term employee benefits	4,106	3,397
Post-employment benefits	220	220
Share-based payments	975	865
	<b>5,301</b>	<b>4,482</b>

#### Directors' transactions

Transactions with the Directors of the Company, who are considered to be its key management personnel, are disclosed in the Directors' Remuneration Report on pages 59 to 67.

### 33 Events after the balance sheet date

Subsequent to 31 December 2011 the Company purchased a further 995,235 of its own ordinary shares into treasury at a cost of \$4.5 million. Also see Note 26.



# FIVE YEAR SUMMARY

	Year to 31 Dec 2011 \$000's	Year to 31 Dec 2010 \$000's	Year to 31 Dec 2009 \$000's	Year to 31 Dec 2008 \$000's	Year to 31 Dec 2007 \$000's
<b>Consolidated income statement</b>					
Oil and gas revenues – continuing operations	234,156	48,390	69,339	44,976	–
Operating profit – continuing operations	156,945	29,137	51,640	28,848	(7,858)
Operating profit – discontinued operations <sup>1</sup>	–	36,473	38,811	37,743	65,645
Profit for the year	88,593	101,432	51,118	411,060	32,314
	2011 \$000's	2010 \$000's	2009 \$000's	2008 \$000's	2007 \$000's
<b>Consolidated balance sheet</b>					
Non-current assets	1,027,284	874,683	712,444	635,089	517,744
Net current assets	187,623	253,670	84,542	315,044	44,272
Non-current liabilities	(116,861)	(115,136)	(33,718)	(239,747)	(233,049)
Net assets	1,098,046	1,013,217	763,268	710,386	328,967
Share capital	27,544	27,534	24,451	24,322	23,549
Share premium	72,721	72,622	71,077	70,369	68,355
Other reserves	140,747	149,205	11,317	14,697	49,437
Retained earnings	857,034	763,856	656,423	600,998	187,626
Total equity	1,098,046	1,013,217	763,268	710,386	328,967
	Year to 31 Dec 2011 \$000's	Year to 31 Dec 2010 \$000's	Year to 31 Dec 2009 \$000's	Year to 31 Dec 2008 \$000's	Year to 31 Dec 2007 \$000's
<b>Consolidated cash flow statement</b>					
Net cash from operating activities	90,183	36,682	77,030	45,056	49,009
Capital expenditure	152,196	151,890	73,901	217,613	178,590

	Year to 31 Dec 2011	Year to 31 Dec 2010	Year to 31 Dec 2009	Year to 31 Dec 2008	Year to 31 Dec 2007
<b>Financial key performance indicators (continuing and discontinued operations)</b>					
Realised oil price per barrel (\$) <sup>2</sup>	<b>112.94</b>	75.66	55.70	66.62	70.69
Operating cost per barrel (\$) <sup>3</sup>	<b>9.42</b>	12.41	9.82	10.30	6.93
DD&A per barrel (\$) <sup>4</sup>	<b>7.86</b>	6.68	5.44	4.25	5.32
Basic earnings per share (cents) <sup>5</sup>	<b>26.4</b>	30.9	17.3	143.8	11.5
Diluted earnings per share (cents) <sup>5</sup>	<b>26.3</b>	28.4	15.4	124.3	10.2
<b>Non-financial key performance indicators (continuing and discontinued operations)</b>					
Total shareholder return (%) <sup>6</sup>	<b>(20.8)</b>	10.3	22.4	(50.2)	59.2
Production (barrels of oil per day) <sup>7</sup>	<b>5,437</b>	4,648	6,415	4,464	6,316
Total proven and probable reserve additions (mmbøe) <sup>8,9</sup>	<b>–</b>	–	3.4	25.0	2.6
Proven and probable reserves (mmbøe) <sup>9</sup>	<b>130.3</b>	132.6	142.5	144.1	160.9
Employee tenure (years) <sup>10</sup>	<b>9</b>	8	8	7	6
Professional development (days) <sup>11</sup>	<b>91</b>	89	22	20	40
Lost time injuries frequency (thousand man-hours) <sup>12</sup>	<b>0.000</b>	0.000	0.000	0.001	0.000
Emissions (tonnes) <sup>13</sup>	<b>Negligible</b>	Negligible	Negligible	Negligible	Negligible

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

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

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

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

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

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

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

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

<sup>9</sup> Reserves are net to the Group's working interest expressed in millions of barrels of oil equivalent (see Reserves Statistics on page 98).

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

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

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

<sup>13</sup> Scope One emissions in tonnes of carbon dioxide produced by projects operated by SOCO.

# RESERVE STATISTICS

Unaudited, net working interest (mmboe)

## Net proven oil and gas reserves

	Total	Vietnam <sup>1</sup>	Congo <sup>1</sup>
<b>Reserves as at 31 December 2010</b>	<b>73.6</b>	<b>69.9</b>	<b>3.7</b>
<b>Changes in the year</b>			
Additions	-	-	-
Revision to previous estimates	-	-	-
Purchase of reserves	-	-	-
Change of interest	-	-	-
Sale of reserves	-	-	-
Production	(2.3)	(2.3)	-
<b>Reserves as at 31 December 2011</b>	<b>71.3</b>	<b>67.6</b>	<b>3.7</b>

## Net proven and probable oil and gas reserves

	Total	Vietnam <sup>1</sup>	Congo <sup>1</sup>
<b>Reserves as at 31 December 2010</b>	<b>132.6</b>	<b>123.4</b>	<b>9.2</b>
<b>Changes in the year</b>			
Additions	-	-	-
Revision to previous estimates	-	-	-
Purchase of reserves	-	-	-
Change of interest	-	-	-
Sale of reserves	-	-	-
Production	(2.3)	(2.3)	-
<b>Reserves as at 31 December 2011</b>	<b>130.3</b>	<b>121.1</b>	<b>9.2</b>

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

	2011	2010	2009	2008	2007
<b>Reserves as at 1 January</b>	<b>132.6</b>	142.5	144.1	160.9	160.6
<b>Changes in the year</b>					
Additions	-	-	-	7.0	-
Revision to previous estimates	-	-	3.4	18.0	2.6
Purchase of reserves	-	-	-	-	-
Change of interest	-	-	(2.7)	(11.0)	-
Sale of reserves	-	(8.2)	-	(29.2)	-
Production	(2.3)	(1.7)	(2.3)	(1.6)	(2.3)
<b>Reserves as at 31 December</b>	<b>130.3</b>	132.6	142.5	144.1	160.9

Note: mmboe denotes millions of barrels oil equivalent.

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

## Registered Office

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United Kingdom

Registered in England  
Company No. 3300821

### Website

[www.socointernational.com](http://www.socointernational.com)

### Company Secretary

**Cynthia B Cagle**

### Financial Calendar

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

## Advisors

### Auditors

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### Bankers

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