

# Asian focus



**SALAMANDER  
ENERGY**

PURE ASIAN  
ENERGY

# About us

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## Who we are, what we do

Salamander Energy is an Asia-focused independent exploration and production company with 20 licences across Indonesia, Thailand, Vietnam and Lao PDR.

### Group strengths

#### Regional focus

Asia is home to both high growth energy markets and some of the largest producing oil and gas basins in the world. As the largest independent E&P in the region, Salamander's regional focus has helped the Group to:

- build a deep understanding of the region's petroleum geology;
- maintain and deepen its network of contacts and relationships;
- source value accretive M&A opportunities via unilateral discussions;
- and anticipate and respond to changes in the operating and economic environment.

#### Knowledge and relationships

Our strong local knowledge and relationships with national and regional governments, national oil companies, key service providers and peers provide Salamander with a sustainable competitive edge. On a technical and operational level, the Group uses the intelligence and expertise gained from its producing and development assets and deploys it in its exploration and appraisal activity.

#### Balance sheet

The Group is well funded for its future activities. At the end of 2010 the Group had cash and cash equivalents of approximately \$99 million and a net debt position of approximately \$190 million. A growing production profile is driving revenue and cash flow growth. This, combined with a disciplined approach to capital investment, translates into a growing free cash profile providing the Group with the financial flexibility to reduce debt, accelerate developments and fund further exploration.

#### Acreege position

Salamander has built a portfolio focused on three main regions, namely onshore Northeast Thailand, offshore Western Gulf of Thailand and East Kalimantan, Indonesia where it has majority, operated stakes in plays that combine reserves/resources with both exploration upside and room for material growth (both organic and inorganic). In all of these areas Salamander has scale combined with a technical competitive advantage and the relationships necessary to enable the Group to identify the opportunities to dominate the play.

#### Exploration leverage

The Group has built one of the largest in-region technical teams of any oil and gas company operating in Southeast Asia. This is comprised of individuals who combine regional and international knowledge, who can apply the best technology available globally with an in-depth understanding of the geology. The Group high grades its prospect inventory and is funded to drill 12 to 14 E&A wells a year from its current portfolio. In 2011 the Group plans to drill 9 exploration and 4 appraisal wells targeting 312 MMboe of net unrisked resource (95 MMboe on a risked basis).

# Highlights of the year

## Operations

- Average daily production increased by 49% to 20,300 boepd (2009: 13,600 boepd)
- Phase 4 of Bualuang development completed, improved crude pricing
- South Sembakung field development underway
- Disappointing H1 2010 exploration results, finished year with important Angklung discovery

## Financial

- Revenue increased by 106% to \$323 million (2009: \$157 million)
- EBITDAX increased by 102% to \$177 million (2009: \$87.6 million)
- Loss before tax of \$114 million (2009: \$3 million)
- Profit before tax, adjusted for non-cash items, of \$31 million (2009: \$8 million)
- Year-end cash balance of \$99.2 million (including restricted bank deposits of \$9.4 million)
- Net debt of \$190.2 million (2009: \$119.3 million)

## Outlook

- 2011 average daily production rate forecast to be 22,000 – 23,000 boepd
- 13 E&A wells targeting 312 MMboe of net unrisksed resource (95 MMboe of net risksed resource)
- South Sembakung field development continues with production expected on stream in 2012
- Testing of Dao Ruang-2 appraisal well commenced

EBITDAX \$m	
2010	177.0
2009	87.6
2008	54.1

Production Mboepd	
2010	20,300
2009	13,600
2008	9,600

Reserves MMboe	
2010	66.3
2009	64.8
2008	67.7

Revenue \$m	
2010	323.4
2009	157.1
2008	100.8

## Chairman's and Chief Executive's review



The past year has seen the Group deliver production growth, broaden its operations and further consolidate its position as a prominent Asian oil and gas exploration and production company. Salamander has a highly distinctive blend of operating expertise, commercial skills and regional focus, which together with well developed relationships with government organisations, national oil companies and partners across the Asian region, will continue to provide the platform for further value creation.

We continue to see Asia as having a highly dynamic and resilient macro-economic environment. This is reflected in both the attractive regional growth rates and the buoyant energy markets – in particular the increasing demand for indigenous gas, as evidenced by rising domestic gas prices in our key markets of Thailand and Indonesia. Having traded in an unusually stable range for most of 2010, oil prices broke out of this range towards the end of the year and have increased rapidly during the first quarter of 2011 due in part to political uncertainty in the Middle East and North Africa.

### Financial results

Increased production and higher commodity prices were reflected in the Group's financial results with revenue increasing by 106% to \$323.4 million (2009: \$157.1 million) and operating cash flow before working capital adjustments growing by 108% to \$174.4 million. The Group reports a loss before tax of \$113.7 million (2009: \$3.0 million), after net impairment charges of \$48.6 million and exploration expenses of \$95.9 million. Before charging these non-cash items, the Group's profit before tax was \$30.8 million (2009: 8.4 million).

Average realisations of \$73.16 per bbl (2009: \$51.37) and \$5.12 per Mscf (2009: \$4.03) were achieved during the year.

### Asset development

Within the Group's broad portfolio, we have been focussing on developing our position within selected regional plays where we have large, material operated positions, with discovered resources or current production that offer both further upside and room to grow. We see competitive advantage for the Group in these areas due to our acreage position and technical knowledge.

During the period we consolidated our position in the Gulf of Thailand, through the acquisition of the 40% minority interest in the B8/38 production licence containing the Bualuang oil field, providing further production and greater exposure to exploration upside. Recently we have seen the reserves increase in the Bualuang field and the contract award for the Bravo platform which are key steps in order to further exploit the field and deliver future production growth.

The Group deepened its position in East Kalimantan, Indonesia, through the acquisition of our minority non-operating partner in the Bontang PSC, taking our interest to 100% in that PSC, and through the acquisition of a 69% operated interest in the Bangkanai PSC, containing the Kerendan gas field. During December we announced an oil and gas discovery in the Bontang PSC with the Angklung-1 exploration well. We believe this to be an important discovery, proving up a gas play with a high quality reservoir and significant resource potential located some 60 km from the Bontang LNG plant, which is currently short of gas supply. We were also encouraged to discover an Upper Miocene oil play which offers a substantial additional prize above and beyond the gas potential.

Finally, in the Khorat basin, onshore north east Thailand we have seen encouragement in the Dao Ruang-2 well, which has encountered fractures and seen gas while drilling. We have now started testing operations on this well and will announce the results in due course. This well was located and planned on the basis of our high resolution 3D seismic dataset, which has been instrumental in understanding the sub-surface architecture and in locating the productive fracture networks in these gas accumulations. The Group holds a leading acreage position in the onshore Khorat basin and, in the event of a commercial flow rate from Dao Ruang-2, has a number of follow up opportunities on which to utilise its knowledge and experience of the play.

## Operational performance

The first half of 2010 saw some disappointments as the Group drilled high risk, frontier wells in Lao PDR and Vietnam and experienced a reserve downgrade on the Kambuna field. Operational performance improved in the second half with a minor discovery recorded in the Southern Kutei basin and a clear exploration success delivered with the Angklung discovery. The Company has started 2011 in positive fashion, delivering reserves upgrades on the Bualuang field.

On the production front we are pleased to report 2010 daily average production of 20,300 boepd, up 49% from the 2009 average production rate. 2010 saw all production assets perform well with the exception of Kambuna field, which was shut in for a period during the first half of the year due to downstream pipeline maintenance.

## People

Our people are central to delivering the successful results we are starting to see from the business, and on behalf of the Board we would like to thank them for their efforts. We have strengthened the senior management team this year with a number of high quality additions and have built one of the leading and most capable teams in the region.

The whole team shares management's commitment to excellence in all matters related to health and safety. HSE practices in the industry have come under increased scrutiny in 2010 and more detail on Group performance can be found in the Corporate Responsibility section of this report. Whilst it was disappointing that the Group recorded its first lost time incident during 2010, the overall safety record is excellent and the Board and employees are committed to maintaining this.

## Outlook

We forecast average daily production for 2011 will be between 22,000 and 23,000 boepd. We are taking a conservative approach to managing the balance sheet and plan to deliver the current year's capital programme below forecast post tax cash generation. As part of that work programme, the Group continues to pursue an extensive exploration and appraisal programme with a lower risk profile relative to 2010.

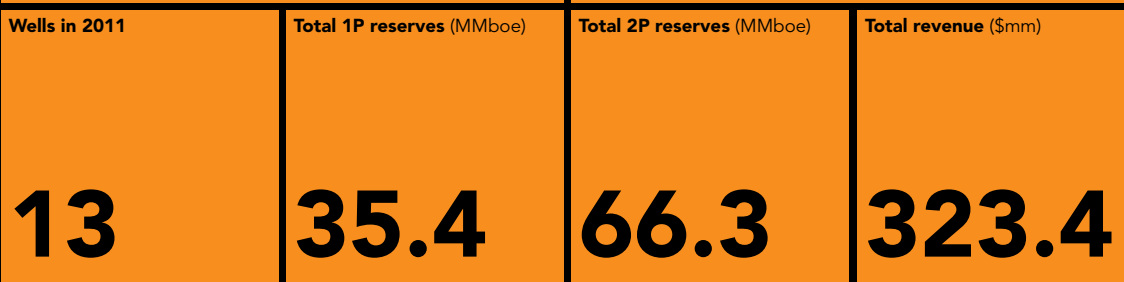
We believe the Group will demonstrate its ability to create further value through focussing on selected regional plays offshore and onshore Thailand and in East Kalimantan. Additionally, exposure to targeted exploration plays, in particular our position in offshore northern Vietnam, offers major upside potential.

Importantly, we see the potential to reach 30,000 boepd by 2013 from our current asset base, a 50% increase from current levels. We expect this production growth to lead to substantial revenue and cash flow growth in the same period.

While we have had a strong start to the year, the Board believes the Company is only just beginning to reveal the enormous potential we see in our people, our assets, and in the wider operating platform we have developed in the heart of one of the most vibrant and dynamic economic regions in the world today.



# Salamander Energy at a glance



## Thailand

	Liquids (bopd)	Gas (mcf)	Total (boepd)
<b>Production (Net WI)</b>			
Sinphuhorm	41	8,310	<b>1,429</b>
Bualuang	8,195	–	<b>8,195</b>
<b>Total</b>			<b>9,624</b>

### 1P reserves



● Liquids (MMbbls)	14.8
● Gas (Bcf)	35.2
<b>Total (MMboe)</b>	<b>20.6</b>

### Contingent resource



● Liquids (MMbbls)	10.5
● Gas (Bcf)	355.4
<b>Total (MMboe)</b>	<b>69.7</b>

### 2P reserves



● Liquids (MMbbls)	27.6
● Gas (Bcf)	105.1
<b>Total (MMboe)</b>	<b>45.1</b>

### Revenue



● Liquids (\$mm)	182.8
● Gas (\$mm)	21.1
<b>Total (\$mm)</b>	<b>203.9</b>

## Indonesia

	Liquids (bopd)	Gas (mcf)	Total (boepd)
<b>Production (Net WI)</b>			
ONWJ	1,368	11,046	<b>3,209</b>
SES	2,023	5,422	<b>2,926</b>
Kambuna	1,354	15,565	<b>4,596</b>
<b>Total</b>			<b>10,731</b>

### 1P reserves



● Liquids (MMbbls)	7.2
● Gas (Bcf)	43.1
<b>Total (MMboe)</b>	<b>14.8</b>

### Contingent resource



● Liquids (MMbbls)	35.5
● Gas (Bcf)	521.4
<b>Total (MMboe)</b>	<b>122.3</b>

### 2P reserves



● Liquids (MMbbls)	9.2
● Gas (Bcf)	68.4
<b>Total (MMboe)</b>	<b>21.2</b>

### Revenue



● Liquids (\$mm)	78.6
● Gas (\$mm)	43.8
<b>Total (\$mm)</b>	<b>122.4</b>

Focus Area 1  
**Onshore Thailand**

2010 Production:  
**1.4 Mboepd**

2P Reserves:  
**18.1 MMboe**

Contingent Resources:  
**59.6 MMboe**

- Selected regional plays:
- Phu Horm Production
  - North Phu Horm Development
  - Dao Ruang Appraisal
  - L26/50 Exploration



Focus Area 2  
**Western Gulf of Thailand**

2010 Production:  
**8.2 Mboepd**

2P Reserves:  
**27 MMboe**

Contingent Resources:  
**10.1 MMboe**

- Selected regional plays:
- Bualuang Field Production
  - Bravo Platform & Development Drilling
  - Step Out Exploration



Focus Area 3  
**East Kalimantan**

2010 Production:  
**0 Mboepd**

2P Reserves:  
**2.4 MMboe**

Contingent Resources:  
**76.4 MMboe**

- Selected regional plays:
- Angklung Discovery
  - Kerendan Field Development
  - South Sembakung Field Development
  - Tutung Appraisal & Development
  - South East Sangatta & Bontang Exploration



## Established Asian Operator



As the largest independent E&P in the region, Salamander's regional focus has helped the Group to:

- build a deep understanding of the region's petroleum geology;
- maintain and deepen its network of contacts and relationships;
- source value accretive M&A opportunities via unilateral discussions and;
- anticipate and respond to changes in the operating and economic environment.

Asia has experienced strong GDP growth in recent years (see chart 1) a trend that is not expected to reverse in the near future. This continued economic growth has, not surprisingly, led to increased energy demand in our main countries of operation. With gas making up an increasingly important part of the domestic supply mix, and with gas markets being liberalised in Indonesia as oil subsidies are phased out, we have also seen gas prices grow significantly in comparison to Henry Hub over the past 5 years (see chart 2). Looking forward domestic demand continues to outstrip supply and charts (3) and (4) highlight the predicted level of this shortfall looking forwards. This provides an opportunity for Salamander to commercialise domestic gas resources with the main alternative for local governments being to import higher cost LNG.

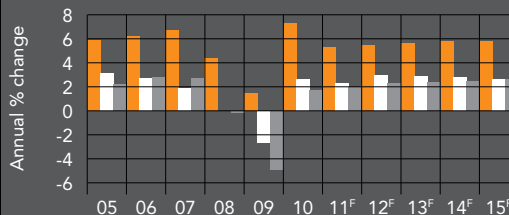
Our strong local knowledge and relationships with national and regional governments, national oil companies, key service providers and peers provide Salamander with a sustainable competitive edge. On a technical and operational level, the Group uses the intelligence and expertise gained from its producing and development assets and deploys it in its exploration and appraisal activity.

IMF forecast GDP growth rate in SE Asia in 2011.

# 5%

### GDP growth

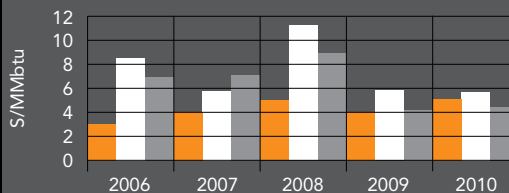
Source: IMF



- Southeast Asia
- United States
- United Kingdom

### Gas realisations

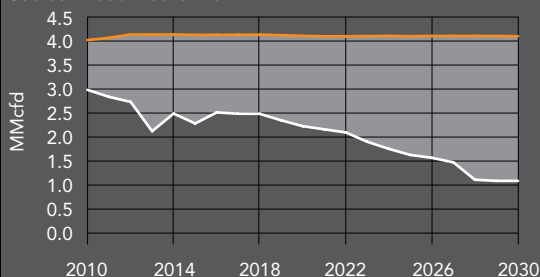
Source: Platts



- Salamander realisation
- UK NBP
- Henry Hub

### Kalimantan gas supply and demand

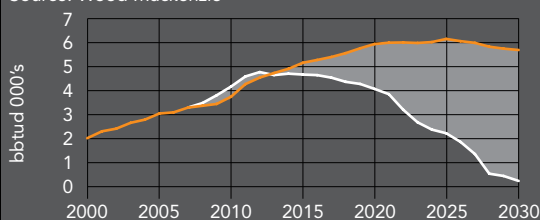
Source: Wood Mackenzie



- Total demand
- Total supply
- Shortfall

### Thai gas supply demand gap

Source: Wood Mackenzie



- Total demand
- Total supply
- Shortfall



1

1  
Wat Mahathat, Ayutthaya,  
Thailand.

2  
Floating Market, Damnoen  
Saduak Thailand.

3  
East Kalimantan Coast,  
Indonesia.

4  
A Petani at work in the rice  
fields, Indonesia.



2



3



4

## Focus on selected plays



The company has acquired a portfolio of assets that contains several different geological plays. As we have started to sample this portfolio a number of plays have started to emerge where some value has already been created but there remains significant potential for further growth.

The three areas which fit these criteria are onshore Thai gas, Western Gulf of Thailand and East Kalimantan gas and oil. The Group is starting to focus its activity on these areas and the next phase of growth is likely to be driven from them. All of these plays contain similar characteristics that have the potential to create material value.

Salamander's acreage position has materiality and scale:

- large operated equity positions;
- material reserves/resource with upside potential;
- step out exploration opportunities; room for material growth.

The Group has competitive advantages that provide an opportunity to dominate the play:

- the acreage bank to exploit a play if it shows commercial potential;
- own proprietary data that provides a superior understanding of the target prospects;
- understanding the petroleum geology of a basin better than competitors.

Strong relationships with key stakeholders:

- governments;
- national oil companies;
- partners;
- service providers;
- local communities.

Focused plays within the portfolio where the group has a material position and a competitive advantage.

# 3





2

1  
FPSO and Alpha Well Head Platform, Bualuang Oil Field, Gulf of Thailand.

2 and 5  
Flare during flow testing of the Angklung-1 well, Bontang PSC, East Kalimantan, Indonesia.

3  
John Bell (L), General Manager, Thailand and Mike Buck (R), Chief Operating Officer on location at the Dao Ruang-2 well site, Block L15/50, Onshore Thailand.

4  
Floating hose, Bualuang Oil Field, Gulf of Thailand.



3



4



5

## Growing cash flow profile



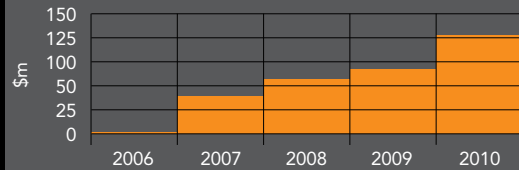
One of the strategic objectives on forming Salamander was that within five years it would be free cash generative. Continued investment in production

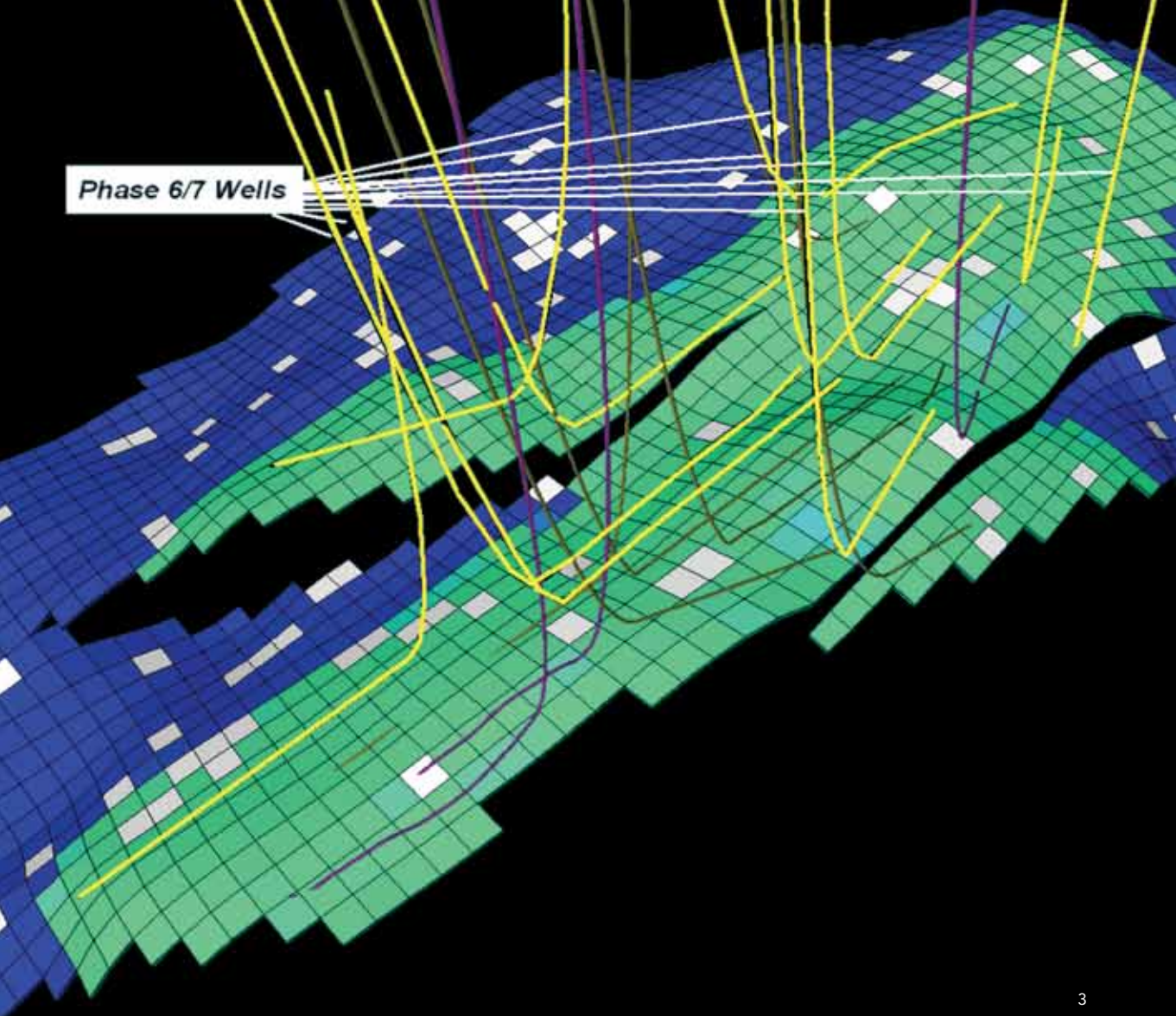
and development assets has driven production growth over the past five years at a compound average growth rate of 36%. With visible medium term production growth from development projects that the Group is investing in during 2011, the Group expects to become increasingly cash generative over the coming years. When combined with a disciplined approach to capital investment this will translate into a growing free cash flow profile providing the Group with the financial flexibility to reduce debt, accelerate developments and fund further exploration.

CAGR of production 2006 – 2010. This trend should continue and drive cash flow growth in coming years.

# 36%

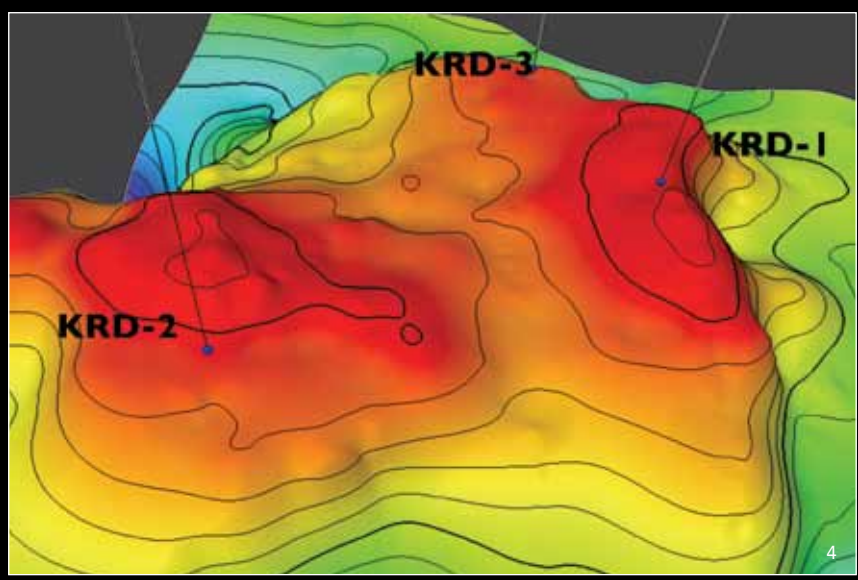
Debt adjusted cash flow





3

- 1 Hakuryu-5 semi submersible rig on location and drilling Angklung-1 exploration well, Bontang PSC, East Kalimantan, Indonesia.
- 2 MB Century 26 rig during the Dao Ruang-2 appraisal well, Block 15/50, Onshore Northeast Thailand.
- 3 Computer simulation of Phase 6 and 7 of development drilling at Bualuang Field, B8/38, Gulf of Thailand.
- 4 3D seismic of the Kerendan gas field (with wells KRD-1 KRD-3) and the west Kerendan prospect (next to well KRD-2), Bangkanai PSC, East Kalimantan, Indonesia.



4

## Sustaining exploration programme



The Group has built one of the largest in-region technical teams of any oil and gas company operating in SE Asia. This is comprised of

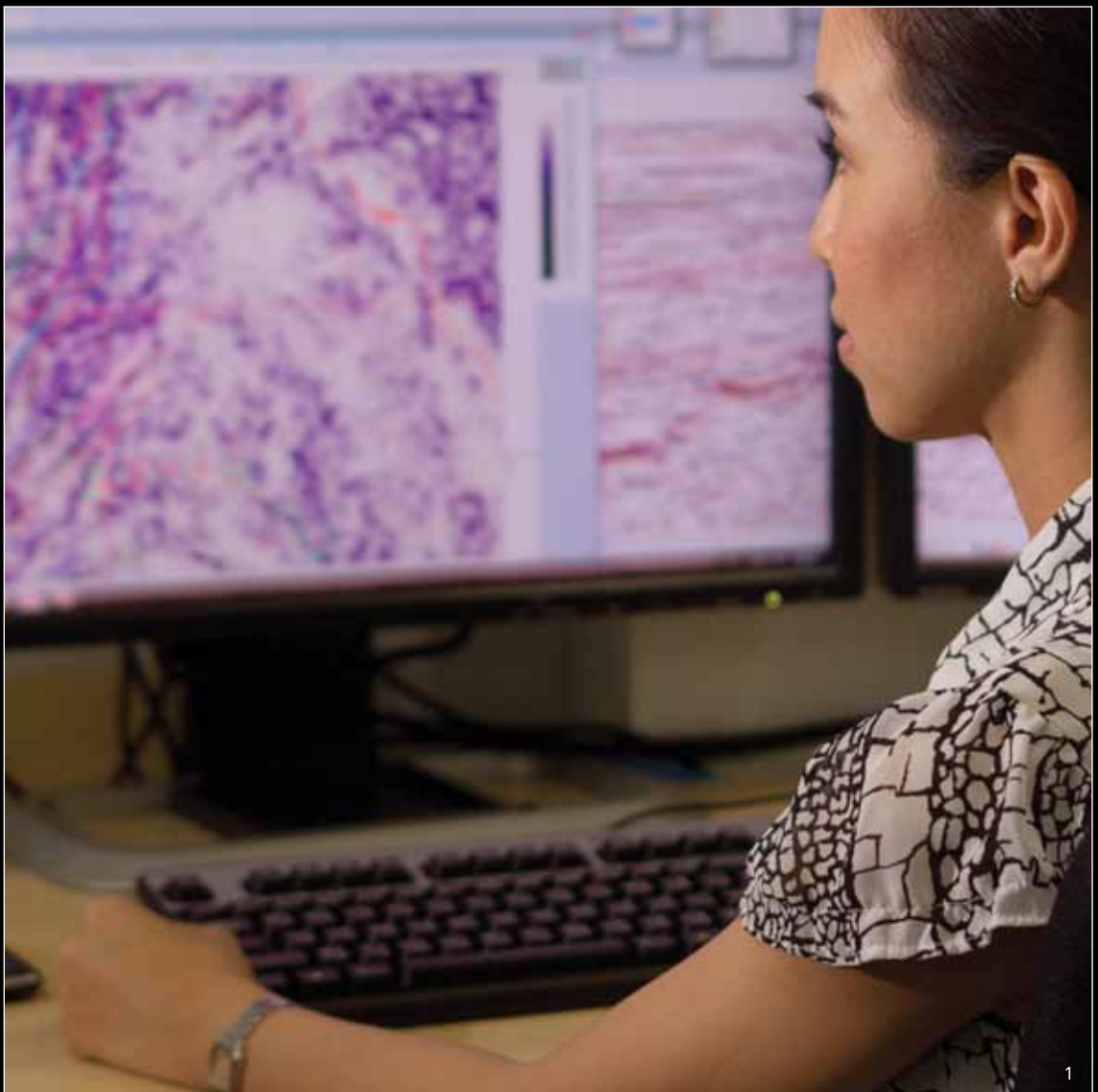
individuals who combine regional and international knowledge, the ability to apply the best technology available globally and an in-depth understanding of the geology. Salamander has an extensive E&A portfolio. The Group high grades its prospect inventory and is funded to drill 12 to 14 E&A wells a year. Where possible the Group seeks to farm down higher risk prospects freeing up capital to be redeployed in lower-mid risk activity, whilst retaining material exposure to a successful well result. In 2011 the Group plans to drill 9 exploration and 4 appraisal wells targeting 312 MMboe of net unrisksed resource (95 MMboe on a risksed basis).

MMboe on a net unrisksed basis targeted by the 2011 drilling programme with an average chance of success of 30%.

# 312

### Exploration and appraisal timetable

Timing	Prospect	Licence	Country	Equity	Gross mean resources Oil Eq (MMboe)	CoS	Net resources	
							Unrisksed (MMboe)	Risksed (MMboe)
Q1	Dao-Ruang-2	L15/50	Thailand	50%	42	30%	21	6.3
	Dao-Ruang-3	L15/50	Thailand	50%	42	30%	21	6.3
	South Sebuku	Bengara-1 PSC	Indonesia	41%	13	70%	5	3.8
Q2	Bualuang East Terrace	B8/38	Thailand	100%	7	66%	7	4.6
	Bualuang NW Terrace	B8/38	Thailand	100%	15	35%	15	5.3
	Bualuang Far East	B8/38	Thailand	100%	20	35%	20	7.0
	Sungai Lahei	Bangkanai PSC	Indonesia	69%	31	13%	22	2.8
	Jupoi	Bangkanai PSC	Indonesia	69%	75	8%	52	4.1
	Tutung-A3	Bontang PSC	Indonesia	100%	10	70%	10	7.0
Q3	Cat Ba	101-100/04	Vietnam	50%	99	20%	50	9.9
	Kambuna North	Glagah Kambuna TAC	Indonesia	50%	5	12%	3	0.3
Q4	TBC	SE Sangatta PSC	Indonesia	75%	50	20%	38	7.5
	Bedug/Kecapi	Bontang PSC	Indonesia	100%	50	60%	50	30.0
<b>Total</b>					<b>459</b>	<b>30%</b>	<b>312</b>	<b>95</b>



1

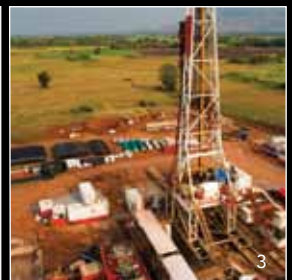
1  
Warissara Saraphon,  
Senior geophysicist analysing  
seismic in the Bangkok office.

2  
A geology field trip in the  
Southeast Sangatta PSC,  
East Kalimantan, Indonesia.

3  
MB Century 26 rig drilling  
Dao Ruang-2 well, L15/50  
Onshore Northeast Thailand.



2



3

## Key performance indicators

KPI	2010	Comment	Outlook
<b>Working interest production</b>	<b>20,300 boepd</b>	Production increased by 49% compared to the previous year. The increase was driven by a first full year of production from the Kambuna field, an increased equity interest in the Bualuang field and higher than expected production from ONWJ, where a new operator invested to increase production.	A further phase of development drilling in 2011 will drive production from the Bualuang field up to c. 10,500 bopd. Group production is expected to increase to between 22,000 and 23,000 boepd in 2011.
<b>Finding, development and acquisition cost per barrel</b> (3 year average)	<b>\$24.29 per boe</b>	Represents an all in cost of the reserves base. 2010 was a disappointing year for exploration.	Low cost acquisitions such as the Bangkanai asset will see figure lowered as low cost reserves are added.
<b>Operating costs</b>	<b>\$15.11 per boe</b>	Opex per bbl was up slightly on 2009. The main cause of this was the acquisition of an additional 40% interest in the Bualuang field. Bualuang has an FPSO and therefore the highest operating cost of the Group's assets.	Unit operating costs should be reduced in 2011. Production from Bualuang is expected to increase which should lead to a reduction in unit operating costs as higher volumes pass through the FPSO. Production from Kambuna has now switched to permanent as opposed to rental facilities which will reduce unit operating costs on this asset.
<b>Operating cash flow</b>	<b>\$29.63 per boe</b>	Operating cash flow per barrel grew strongly as a result of increasing gas realisations, higher oil prices and an increase in the proportion of oil in the production mix	With production from the Bualuang oil field, the most cash generative asset, expected to increase and gas prices across the region continuing to rise operating cash flow is expected to increase.
<b>Reserves replacement</b> (3 year average)	<b>279%</b>	The Group increased reserves during 2010 as a result of an upgrade on the Bualuang oil field, and the acquisition of an additional 40% interest in the same asset.	With a Gas Sales Agreement for the Kerendan gas field expected to be signed during 1H 2011 the Group has visibility on significant reserves additions from its development activity and will continue to seek additional resources through its E&A drilling programme.
<b>Lost time injury frequency</b>	<b>0.4 injuries per million man hours</b>	The Group reported its first LTI in 2010 when a contractor on a drilling support vessel slipped over.	The Group target zero Lost Time Injuries every year and has an active HSE plan to help try to achieve this.



Group production reached record levels during 2010 averaging 20,300 boepd, continuing our track record of delivering year-on-year production growth for a fifth successive year. Indeed the compound average growth rate since 2006 is 36%. With a number of further developments underway, and others expected to be approved during 2011, the Group can foresee production growing to 30,000 boepd for 2013. The reserves upgrade at the Bualuang field more than offset the downgrade at Kambuna and consequently Group reserves as at 1 January 2011 stood at 66.3 MMboe. Whilst the initial exploration results in 2010 were disappointing, the success of the Angklung-1 exploration well in November meant that the Group ended the year with a significant discovery that has material upside potential. The exploration programme remains active with a further 13 exploration and appraisal wells planned in 2011.

### Health, safety and the environment

Events in the Gulf of Mexico during 2010 have heightened public scrutiny of oil and gas companies' health, safety and environmental ('HSE') performance and underlined the critical importance of following proper procedures while executing exploration and production operations. Whilst our HSE record was already better than the industry average, since the Gulf of Mexico events the Group has reinforced the strict adherence to its operational policies and procedures in all of its operating offices through meetings and engagement from Board level executives and senior management throughout the organisation. We are also working closely with regulators to promote awareness and with our contractors to ensure that they are committed to meeting the same standards that the Group seeks to achieve and maintain.

The Group is proud to have maintained an excellent HSE record in 2010. Over 2.5 million man hours were worked during the year on operated projects. Unfortunately the Group recorded its first, and so far its only, Lost Time Injury ('LTI') on a contracted drilling support vessel in Vietnam. Thankfully the incident was isolated and relatively minor in nature. As a result of Salamander's investigation, and in cooperation with the contractor concerned, the contractor has been able to improve the safety measures in place

on its worldwide fleet. On the Group's development operations, more than half a million operated man hours have now been completed at the Bualuang oil field without an LTI.

At Kambuna, project and operations activities exceed 2.5 million man hours without an LTI. It is pleasing that we are able to continue to report that both the Group's Lost Time Injury Frequency ('LTIF') and Total Recordable Injury Rate ('TRIR') are well below the Oil and Gas Producers' ('OGP') averages for Southeast Asia. More detail on the Group's HSE performance can be found in the Corporate Responsibility section of this report.

### Reserves and resources

The Group entered 2010 with 64.8 MMboe of proved and probable (2P) reserves. Following revisions due to a reserves upgrade and the acquisition of an additional 40% interest in the Bualuang oil field, set against a downgrade to the Kambuna field, a further 8.5 MMboe net were added during the year whilst total Group production for 2010 was 7.0 MMboe. As a result, at 31 December 2010 the Group's 2P reserves were 66.3 MMboe, a 2.3% increase on the previous year and a reserves replacement ratio of 121%.

### Production and development

The Group's average daily production for 2010 increased by 49% year on year to 20,300 boepd. This comprised 66% liquids and 34% gas. The growth was primarily attributable to a full year's production from the Kambuna field and additional production from the Bualuang oil field reflecting further development drilling and the Group's increased equity interest in the field.

Further growth is expected during 2011 with net daily production expected to average between 22,000 and 23,000 boepd. Growth will be driven by additional development drilling on the Bualuang oil field. In addition the Group will be drilling three development wells on the South Sembakung field as it invests in bringing new assets on stream.

Further growth in the near to medium term will come from a combination of future phases of development on the Bualuang oil field and the development of the Group's gas assets in East Kalimantan. The East Kalimantan gas portfolio includes the South Sembakung and Kerendan fields which, along with the South Sebuk and Tutung discoveries, are expected to be producing approximately 8,000 boepd net to Salamander by 2014.

## Thailand

### Bualuang Oil Field, Block B8/38 (100%, Operator)

Gross production from the Bualuang field averaged approximately 8,200 boepd in 2010. Phase IV of the field development was successfully completed in 1H 2010 and saw the conversion of three of the original slant wells into horizontal producing wells with horizontal sections of between 600 and 800 metres.

The field had produced over 7.2 million barrels by the end of 2010 with no lost time injuries reflecting the Group's stated commitment to health and safety. The uptime on both the FPSO and the wellhead platform has also been excellent, exceeding 99%.

The current Bualuang Alpha wellhead platform has recently been extended to facilitate the installation of more electric pump drives and therefore to allow ten of the 12 well slots on the platform to be used as oil producers. The current phase of development drilling will result in ten producers and two water disposal wells being on line. This programme will increase production during 2011 to an average of approximately 10,500 bopd.

During the period the Group completed the acquisition of the remaining 40% interest in the B8/38 licence that it did not already own. Following the completion of this transaction the Board decided to accelerate the development plan for the field. As part of this plan in 4Q 2010 the Group commenced activities to design, build and install the 16 slot Bualuang Bravo wellhead platform. The contract for the Bravo platform was awarded in 1Q 2011 for delivery in mid-2012. The Group plans to utilise the Bravo platform to double the number of horizontal production wells with drilling commencing in 2H 2012. These new wells will complete a skimming network across the attic of the reservoir and it is anticipated that this will result in the field's production growing to 15,000 bopd in 2013.

### Sinphuhorm Gas Field, Production licences EU1/E5N (9.5%)

Daily production from the Sinphuhorm gas field was in line with expectations and averaged 87 MMscfd. The operator, Hess, is commencing a workover programme on two of the existing production wells and also undertook a pressure survey in the Phu Horm-1 discovery well. This well is located in the

northern part of the structure some 4.5 kilometres away from the producing wells. The pressure survey showed limited decline at PH-1 compared to the producing wells indicating partial connectivity to the production area in the south of the field. This suggests that the northern part of the Sinphuhorm structure may have the potential to contain significant additional reserves as yet untapped by the current development wells. A 3D seismic survey commenced over the field in late 2010 to image the fracture network within the reservoir and optimise the chances of success with future appraisal drilling to assess the upside potential of the field.

## Indonesia

### Kambuna Gas and Condensate Field, Glagah-Kambuna TAC (50%, Operator)

Gross production from the field averaged 9,200 boepd during 2010. This comprised 31 MMscfd of gas and 2,700 barrels of condensate per day. Production during 1Q 2010 was at temporarily reduced levels as a result of production being shut in. This was initially due to the buyer (PLN) bringing one of its gas turbines at the Belawan power plant on line, and then due to the gas transporter (PGN) completing maintenance on the pipeline delivering Kambuna gas to the power plant. From May 2010 onwards, once these downstream issues were resolved, the field reliably produced at or above the daily contracted quantity ('DCQ') volume of 40 MMscfd and 3,500 barrels of condensate per day.

In October 2010 the Group completed the construction of the permanent onshore receiving facilities at Pangkalan Brandan. This enabled the Group to release the rented facilities that it had been using. As a result the commissioning of the permanent facilities will considerably reduce the operating costs associated with the Kambuna field.

In August 2010 the Group announced a revision to its reserve estimate for the Kambuna field. It reduced its net entitlement proven and probable reserves by 1.8 MMboe (7.5 MMboe on a net working interest basis) as a result of observing a faster than anticipated pressure decline in the Kambuna-3 well. Since then the pressure decline has continued, although there are indications of some pressure support from outside the high quality reservoir area, and this gas influx may contribute further to recoverable reserves. We continue to monitor this situation closely and manage the reservoir to maximise recovery of both reserves and data. In order to sustain the productive capacity of the field the installation of compression facilities has been brought forward to 2011.

### Offshore Northwest Java PSC ('ONWJ')/ Southeast Sumatra PSC ('SES') (5% in both)

Production from ONWJ exceeded expectations averaging 64 Mboepd whilst production from SES was in line with expectations averaging 59 Mboepd. Extensive infill drilling continued across both of these licences throughout the year. The new operator of ONWJ, Pertamina, continues to pursue a more active programme to add reserves and arrest production decline. Oil production rates from ONWJ are now back to a level not seen since 2004.

### Kerendan Field Development, Bangkanai PSC (69%, Operator)

The Group completed the acquisition of a 69% operated interest in the Bangkanai PSC during 2010, which contains the Kerendan gas field development and surrounding exploration acreage. The Kerendan gas field was discovered by Unocal in 1982 and flowed 15.5 MMscfd gas and 330 bpd of condensate on a long term test from the Kerendan-1 well but was not progressed at that time due to the then limited gas market opportunities.

A plan of development for the Kerendan field was approved by BP Migas in July 2006. The Group is currently finalising the negotiation of a Gas Sales Agreement for 20 MMscfd over 20 years. Start of production is targeted in 2014. The gas will supply a new build 120 MW power plant located close to the field, which will be connected by transmission lines to the rest of the Kalimantan electricity grid.

### South Sembakung Development, Simenggaris PSC (21.5%)

The development of the South Sembakung gas field continues with three development wells planned in 1H 2011. Construction of the gas processing facilities commenced in 2010 and will continue during 2011. First gas production is anticipated during 1H 2012 at volumes of c. 25 MMscfd. The Gas Sales Agreement is at a price of \$3.00 per Mscf plus an inflator linked to prevailing methanol prices and will see the gas piped to the nearby Bunyu Island Methanol Plant. Further seismic acquisition over the field area and on surrounding exploration discoveries and prospects is underway.

### Exploration and appraisal

The Group drilled a total of six exploration and appraisal wells in 2010. Whilst the riskier wells in the earlier part of the programme proved disappointing, the year closed with gas discoveries in the Kutai PSC (Dambus-1) and the Bontang PSC (Angklung-1). Dambus is currently considered to be sub-commercial

as a stand-alone accumulation. The Angklung discovery however has opened up a seismically well defined Pliocene channel sand play with significant reserves potential located within 60 kilometres of the Bontang LNG plant, which is short of feedstock. The well also found Upper Miocene sands with indications of oil over a long vertical section. If these sands can be found in locations with better preservation of permeability they will offer considerable follow on potential.

### Indonesia

#### Bontang PSC (100%, Operator)

The Angklung-1 well was drilled in November 2010 in the offshore portion of the licence area. It encountered approximately 23 metres of net gas pay in a high quality Lower Pliocene sandstone. Test analyses confirm that the reservoir has high porosity and permeability. The well flowed at a rate of 24 MMscfd from a ten metre interval. The flow rate was constrained by surface equipment and it has been calculated that it would have flowed at approximately 50 MMscfd without these constraints. It is a sweet gas with no indication of H<sub>2</sub>S or CO<sub>2</sub>.

The gas bearing Pliocene sandstone correlates with strong amplitude anomalies on the 3D seismic data implying that this distinctive seismic signature indicates the location of gas-charged sandstones. Initial interpretation of the results of the Angklung-1 well implies mean resources of 290 Bcf in the Pliocene sands over the Angklung structure. Applying this seismic calibration to the Kecapi and Bedug prospects, which are adjacent to Angklung and in the same channel sand complex, gives potential mean resources of 209 Bcf and 344 Bcf respectively. There are additional channel features elsewhere on the block containing a number of other prospects and the Group is continuing its technical work to further evaluate the potential of the Pliocene sandstone gas play across its full prospect inventory in the Bontang PSC.

In addition to the gas discovery in the Pliocene sandstone, the Angklung-1 well encountered a gross 256 metre section of interbedded sandstones and shales in the deeper, Upper Miocene section. This was interpreted to contain a net 120 metres of oil bearing sandstones which have low permeability and are not considered to be net pay at this location. The presence of such a thickness of sandstone in the Upper Miocene has not been seen in previous wells on the acreage and the Group is currently analysing the depositional setting and distribution of the Miocene sandstones to aid it in identifying this oil play fairway.

## Indonesia continued

The Group plans to drill a follow up to the Angklung-1 well in 4Q 2011 and will be looking to select a location where it can both appraise the Pliocene gas play and explore for the Miocene oil play.

On the Tutung gas-condensate discovery, the Group has completed preparations for the Tutung Alpha-3 appraisal well that is scheduled to be drilled in 2011. On successful completion of the Tutung Alpha-3 well a plan of development will be submitted to BP Migas.

### Southeast Sangatta PSC (75%, Operator)

The Southeast Sangatta PSC is in the Kutei basin immediately adjacent to the Bontang PSC. The Angklung discovery extends into the Southeast Sangatta block and the acreage contains a number of comparable leads on trend with Angklung. It also contains a separate Oligocene-Eocene play in the north of the licence. Both 2D and 3D seismic surveys were acquired in 1Q 2011 and will be used to locate a well in 4Q 2011 either to appraise the Angklung discovery or to explore one of the other prospects that the 3D data set is expected to define.

### Glagah-Kambuna TAC (50%, Operator)

An exploration well on the North Kambuna prospect is planned for 3Q 2011. North Kambuna is a combination structural-stratigraphic trap at the level of the Belumai sandstone, the primary reservoir in the Kambuna Field. An underlying Lower Belumai sand may also be prospective in the North Kambuna structure. The North Kambuna prospect will be reached by a well drilled directionally from the Kambuna platform and in the event of success the well can be brought on stream immediately through the existing facilities.

### Kutai PSC (23.4%)

The operator of the Kutai PSC drilled two exploration wells in 2010. The Dambus-1 well found excellent quality gas bearing sandstones in a stacked sequence of Miocene age. However it appears that some of the sandstones are juxtaposed and leak across the bounding fault so reducing the net pay. As a result the discovery was deemed to be sub-commercial. The Marindan-1 exploration well encountered thin hydrocarbon bearing sandstone and carbonate reservoirs but the operator deemed the volume of hydrocarbons to be insufficient to justify commercial development.

Further 3D seismic acquisition is planned in the vicinity of the Dambus discovery to fully define the follow up potential in the area.

### Bengara I PSC (41.7%)

The South Sebuku-2 appraisal well is scheduled to spud in April 2011. South Sebuku is a gas discovery located 15 kilometres away from the South Sembakung field development. If the well is successful it is anticipated that a plan of development will be submitted in 2H 2011 that would see the discovery being tied to market through the South Sembakung facilities.

## Thailand

### Block B8/38 (100%, Operator)

In 1H 2010 the Group completed a 3D seismic survey over the B8/38 licence area. The survey defined numerous prospects on the block. These include the Bualuang East Terrace prospect, which is an undrilled fault terrace adjacent to the main Bualuang field; and the Bualuang NW Terrace prospects that comprise a series of small but numerous fault terraces located directly on the oil migration fairway from the basin centre to the Bualuang field. It is planned that the B8/38 exploration prospects will be drilled in 2011 once the Ocean Sovereign jack up rig has completed the development drilling on the Bualuang field.

### L15/50 (50%, Operator)

Block L15/50 contains the Dao Ruang discovery that is estimated to contain mean prospective resource of 500 Bcf. The objective in Dao Ruang is a Permian Pha Nok Khao fractured carbonate reservoir. The key to achieving commercial flow rates is thought to lie in the ability to intersect the open fracture network. Until recently, exploration of this play in the Khorat plateau of Northeast Thailand has involved drilling on the basis of sparse 2D seismic. Salamander has pioneered the use of high resolution multi-azimuth 3D seismic to identify the fracture zones and then target these with slanted wells through the reservoir.

The Dao Ruang-2 appraisal well was drilled on the faulted eastern margin of the structure to planned TD in March 2011 and slanted through the reservoir in order to maximise the chances of intersecting as many of the seismically identified fractures as possible. The well penetrated a number of fracture zones associated with an increase in gas while drilling. There were strong gas shows at TD and, as it was still within structural closure, the well was deepened to further investigate the structure. On completion of drilling and logging of Dao Ruang-2 the decision was taken to test the well and these operations are now underway.

The Dao Ruang-3 appraisal well will be drilled once the MB Century 26 rig has finished operations on the Dao Ruang-2 well. It will appraise the faulted northern flank of the Dao Ruang structure and is being drilled orthogonally to the Dao Ruang-2 well.

#### **L26/50 (50% Operator)**

The results of the Bang Nouan-1 well on the neighbouring Savannakhet PSC in Lao PDR were significant for L26/50 prospectivity in that the discovery of a highly porous and permeable zone within the Pha Nok Khao reservoir has helped to de-risk four large, potentially gas bearing structures in the adjacent L26/50 block. These structures are located closer to the mapped source kitchen and confirmation from the Bang Nouan-1 well of the presence of a working hydrocarbon system in the area has provided sufficient encouragement for the Group to shoot a high resolution 3D seismic survey on L26/50 in 2Q 2011.

#### **L13/48 (16.3%)**

In early 2010 APICO, the operator of L13/48, completed operations on the Si That-3 appraisal well in Northeast Thailand. The well intersected a fractured permeable section in the target Permian Pha Nok Khao carbonate reservoir but the productive horizons were below the closure of the Si That structure and were found to be water bearing. In 2H 2010 APICO and its partners decided to withdraw from the L13/48 licence and this has now been relinquished.

#### **L27/43 (27.3%)**

During the first half of 2010, APICO, the operator of L27/43, completed operations on the Phu Kheng-1 exploration well in Northeast Thailand. The well encountered gas shows in both the lower Nam Phong formation and the shallower Phu Kradung formation. Hydraulic fracture testing was completed on both of these intervals; however the low permeability of the rock limited the effectiveness of the fracturing operations and neither zone flowed on test. As a result the well was plugged and abandoned. The prospectivity of the acreage is the subject of further review as there are reports of a recent gas discovery on neighbouring acreage close to the southeastern corner of block L27/43.

### **Vietnam**

#### **DBSCL-01 (75%, Operator) & Block 31 (35%, Operator)**

In June 2010 the Group announced that the Tom Su Lua-1X exploration well in Block DBSCL-01, southern Vietnam, had been plugged and abandoned as a dry hole. The well encountered both potential seals

and high quality reservoir sandstones but these were water-wet in the Tertiary clastic section.

Subsequently the Group announced that the Tom Hum Xanh-1X exploration well in Block 31, offshore Southern Vietnam, had not encountered hydrocarbons and would be plugged and abandoned as a dry hole. This well penetrated a section of basal tertiary volcanics overlying the granitic basement but encountered no hydrocarbon shows. The well data is now being reviewed to determine where within the Vinh Chau graben a working hydrocarbon source may be operating.

#### **Block 101-100/04 (50%, Operator)**

In March 2010 the Group announced that it had agreed to acquire a 50% operated interest in Block 101-100/04, located in the Hanoi Trough, offshore Northern Vietnam. The primary prospectivity in the block is a 'buried hill' oil play with a number of structures on trend with the producing Beibu Wan fields to the east and the recent Ham Rong oil discovery in the adjacent Block 106 to the west. 101-100/04 is covered by 2D and 3D seismic data and this will be used to locate a well on the Cat Ba prospect.

The Cat Ba prospect has gross mean prospective resources of 99 MMbo. The Group has contracted the Aquamarine Driller jack up rig and plans to drill the Cat Ba exploration well in 3Q 2011.

### **Lao PDR**

#### **Savannakhet PSC (30%, Operator)**

The Bang Nouan-1 exploration well was a high risk well looking to confirm an eastwards extension of the Pha Nok Khao formation play fairway that is producing on the western side of the Khorat Plateau basin in Thailand.

The well was plugged and abandoned without finding commercial hydrocarbons; however it did confirm several elements of the hydrocarbon play. Gas shows in the secondary objective Kuchinarai formation demonstrate that long distance gas migration from the source kitchen is occurring. The well also found a high permeability reservoir within the Pha Nok Khao formation which constitutes a target for future wells in the area. The well result provides technical support to reduce the risks associated with other large prospects across the border in Thailand in Block L26/50, which lie on the migration route for gas migrating from the kitchen area.

In December 2010 the Group and its partners elected to relinquish the Savannakhet PSC.

## Lao PDR continued

### Champasak and Saravan PSC (20%)

A 2D seismic survey is underway in the block to define prospects for drilling in 2012.

## Philippines

In August 2010 the Group and its partners relinquished the SC41 licence in the Sandakan basin, having been unable to secure a farm in partner ahead of the deadline for renewing the licence and committing to drilling a deepwater exploration well in 2011.

## Summary

The 2011 drilling programme includes 13 exploration and appraisal wells commencing with predominantly high value step out exploration and appraisal drilling in 1H, before moving to targets with a larger potential resource in 2H. The combined programme is targeting 312 MMboe of mean net prospective resource on an unrisksed basis, 95 MMboe on a net risksed basis.



**Mike Buck**  
Chief Operating Officer  
23 March 2011

## Statement of proved and probable reserves (working interest basis)

The Group's proven and probable commercial working interest reserves at 31 December 2010 were as follows:

	Thailand		Indonesia		Total		MMboe <sup>1</sup>
	Oil MMbo	Gas Bcf	Oil MMbo	Gas Bcf	Oil MMbo	Gas Bcf	
At 1 Jan 2010	14.0	93.1	14.5	124.7	28.5	217.8	64.8
Additions	9.0	–	–	–	9.0	–	9.0
Revisions	7.6	12.4	(3.6)	(31.6)	4.0	(19.2)	(0.5)
Production	(3.0)	(0.5)	(1.7)	(11.7)	(4.7)	(12.2)	(7.0)
At 31 Dec 2010	27.6	105.0	9.2	81.4	36.8	186.4	66.3

<sup>1</sup> All gas reserves are converted at 6.0 Bcf/MMbo except Kambuna which is converted at 4.8 Bcf/MMbo.

Proved and probable commercial reserves are based on reports produced by the Group's independent engineer, RPS Energy, and supplemented by the Group where necessary with additional and more recent information.

The Group provides for amortisation on its oil and gas properties on a net entitlements basis, which reflects the share of future production estimated to be attributable to the Group under the terms of the PSCs related to each field. Total proved and probable entitlement reserves were 54.0 MMboe at 31 December 2010 (31 December 2009: 48.4 MMboe).

The 2010 reserves replacement ratio was 121% (2009: 42%).

## Financial highlights

	Units	2010	2009	2008
Realised prices:				
Oil and liquids	\$/bbl	<b>73.16</b>	51.37	60.52
Gas	\$/Mscf	<b>5.12</b>	4.03	4.99
Revenue	\$'million	<b>323.4</b>	157.1	100.8
Operating costs per boe	\$/boe	<b>15.11</b>	13.99	10.64
Pre-tax profit/(Loss)	\$'million	<b>(113.7)</b>	(3.0)	(75.5)
EBITDAX <sup>1</sup>	\$'million	<b>177.2</b>	87.6	54.1
Capital expenditures:				
Acquisitions	\$'million	<b>116.7</b>	7.1	510.5
Exploration and appraisal	\$'million	<b>73.5</b>	34.3	112.7
Development and production	\$'million	<b>24.2</b>	79.0	91.4
Net debt <sup>2</sup>	\$'million	<b>190.2</b>	119.3	45.8
Gearing <sup>3</sup>	%	<b>39</b>	23	21

1 Earnings before interest, tax, depreciation, amortisation, impairment and exploration expenses.

2 See note 21 to the consolidated financial statements for further details.

3 Gearing is defined as debt divided by debt plus book net equity.



2010 was another year of increased production that, in an environment of rising oil and gas prices, drove strong operated cash flow growth for the Group.

The year also saw a significant step up in the level of exploration and appraisal drilling activity. In addition the Group experienced positive and negative reserves revisions on its Bualuang and Kambuna assets respectively. The Group's 2010 financial results reflect both the underlying cash flow growth, the results of the extensive 2010 drilling programme and the impact of the reserves revisions.

Group gearing has risen from 23% at the end of 2009 to 39% at the end of 2010, due firstly to the completion of a convertible bond and an acquisition bridge facility, and secondly to the accounting impact of losses that reduced book net equity. The Directors consider that the Group's growing cash flows from a diversified production base comfortably support this debt package and that this is a prudent gearing level for the Group at this stage.

By 1Q 2011, the capital and credit markets had stabilised and the Group commenced a refinancing of its existing reserves based lending and acquisition bridge debt facilities. This process is well advanced and involves a club of existing and new prospective lenders. The new debt facility will be a seven year reserves based lending facility with senior and subordinated tranches. It is expected that the cost

of debt will be comparable to that which the Group is currently paying and that the new facility will provide greater debt capacity and features to enable a more flexible management of treasury funds. It is planned that this refinancing will close in 2Q 2011.

It should be noted that the Group's current acquisition bridge facility is classified on the Balance Sheet as short term due within one year as its latest maturity date is 31 December 2011.

### Production and revenue

Revenue grew 106% to \$323.4 million driven by 49% production growth to an average daily production level of 20,300 boepd. The Group's realised price for oil was \$73.16/bbl (2009: \$51.37/bbl) and for gas was \$5.12/Mscf (2009: \$4.03/Mscf) reflecting both higher spot oil prices and the continuing trend for increasing domestic gas prices in Indonesia and Thailand.

The rise in average realised gas prices was driven by increased realisations from the Group's Indonesian producing gas fields at \$4.51/Mscf in 2010 (2009: \$3.24/Mscf) and from the Sinphuhorm gas field in Thailand at \$7.07/Mscf in 2010 (2009: \$5.55/Mscf).

During 2010 the Group sold its Thai oil production to PTT at a price of Dubai minus \$3.98 per bbl. In 4Q 2010 the Group signed a twelve month sales contract with PTT for oil sales during 2011 at an improved price of Dubai minus \$1.97 per bbl. It subsequently

agreed with PTT to extend the contract for a further two years from 1 January 2012 to 31 December 2013 at an agreed price of Dubai minus \$1.10 per bbl.

The Group implemented a 2010 oil hedging programme that comprised buying puts for 4,000 bopd at \$60/bbl, buying calls for 2,500 bopd at \$78.15/bbl and buying calls for 1,500 bopd at \$90.50/bbl. The hedging programme covered c. 25% of the Group's 2010 working interest production (see section below on other financial gains and losses and the effect of the Group's hedging through the income statement).

### Cost of sales

Cost of sales totalled \$320.8 million (2009: \$123.7 million), which comprised direct operating costs of \$102.4 million (2009: \$69.4 million), royalties of \$16.8 million (2009: \$9.9 million), amortisation of \$137.8 million (2009: \$62.0 million), net impairment charges of \$48.6 million (2009: nil), and overlift and inventory movements of \$15.1 million (2009: credit of \$17.5 million).

The substantial increase in amortisation compared to the previous year was driven by both the acquisition of a further 40% of the Bualuang oil field in September 2010 and by the reserves write downs on the Kambuna gas field during the year.

The net impairment charge of \$48.6 million results from the combined effects of:

- a \$91.5 million impairment on the Kambuna gas field after the reserves write downs, partially offset by:
- a write back of \$42.9 million on the Bualuang oil field after a reserves upgrade and a favourable revision to oil price assumptions. This write back effectively reversed the impairment charge of \$55.0 million that was recorded in 2008 against the Group's initial 60% acquisition of Bualuang although the accounting rules in this area limit the credit to \$42.9 million to take into consideration additional depreciation that would have been charged if the original impairment had not taken place.

Therefore, whilst in economic terms the 2010 value uplift on the Bualuang asset due to the reserves upgrade significantly exceeded the value reduction on the Kambuna asset, this is not reflected in the net impairment charge or the resulting net asset values.

The unit operating cost was \$15.11/boe (2009: \$13.99/boe), the increase arising from the acquisition of the remaining 40% of Bualuang in September 2010. Bualuang has the highest operating cost per barrel of the Group's producing fields due to the requirement for a Floating Production, Storage and Offtake (FPSO) vessel. Production from this asset is expected to increase in 2011 which should lead to a reduction in unit operating costs as higher volumes are produced through the FPSO.

### Exploration expenses

Exploration expenses of \$95.9 million (2009: \$11.4 million) resulted from the Group's 2010 drilling activities in Thailand, Indonesia, Lao PDR and Vietnam, along with pre-acquisition expenditures and other exploration expenses incurred during the period. The Group's unsuccessful drilling activity in 2010 that has been written off comprises two sub-commercial gas discoveries on the Kutai PSC, Indonesia; a sub-commercial gas discovery in the Savannakhet PSC, Laos; a sub-commercial gas appraisal on Block L13/48 in Thailand; and dry holes in Block L27/43 in Thailand, Block DBSCL-01 in Vietnam and Block 31 in Vietnam. In addition the Group elected to exit Block SC41 in the Philippines and to write off remaining costs on that acreage.

The Group's Angklung-1 well on the Bontang PSC, Indonesia, was successful and costs associated with this programme remain capitalised as intangibles pending further appraisal and exploration drilling later in 2011.

### Finance charges

Finance costs of \$15.5 million (2009: \$4.4 million) arose from the existing reserves based lending facility, and the new convertible bond and acquisition bridge facility raised during 2010, as set out below.

	2010 \$'millions	2009 \$'millions
Junior/senior reserves based lending facility:	<b>6.1</b>	5.6
Acquisition bridge	<b>1.5</b>	–
Convertible bond	<b>3.8</b>	–
Interest rate swap realisation	<b>1.7</b>	1.0
Unwinding of imputed discounts	<b>2.5</b>	0.8
Less: Interest capitalised	<b>(0.2)</b>	(3.0)
<b>Total</b>	<b>15.5</b>	4.4

**Other financial gains and losses**

	2010 \$'millions	2009 \$'millions
Reversal of 2009 mark to market oil price hedges	–	(2.3)
Reversal of 2010 oil price hedges (zero cost collars of 2,500 bbls with put of \$60.00/bbl and call of \$78.15/bbl with put of \$60.00/bbl and call of \$78.15/ bbl & 1,500 bbls with put of \$60.00/bbl and call of \$90.00/bbl)	<b>9.2</b>	(9.2)
2011 oil price hedges (4,000 bbls with put of \$60.00/ bbl)	<b>(1.0)</b>	–
Reversal of 31 December 2009 interest rate swap loss	<b>1.1</b>	(1.1)
Libor interest rate swap at 2.17% for approximately 50% of interest rate exposure	<b>(1.4)</b>	–
Gain on investments	<b>0.1</b>	–
Currency exchange gain	<b>(0.6)</b>	0.3
<b>Total</b>	<b>7.4</b>	(12.3)

Other financial gains of \$7.4 million (2009: \$12.3 million loss) were predominantly attributed to non-cash mark to market credits relating to the Group's 2010 commodity price hedging programme, to interest rate hedging programmes for 2009-2011 and to currency exchange gains. The credits were as above.

**Taxation**

The taxation charge of \$55.9 million (2009: \$10.6 million) comprised a current tax charge of \$71.6 million (2009: \$23.9 million), and a net deferred tax credit of \$15.7 million (2009: \$13.3 million). 2010 included, for the first time, special remuneratory benefit charges in respect of the Group's Bualuang production of \$21.0 million for current tax and \$15.3 million for deferred tax.

**Operating cash flow**

Increased production and rising oil and gas prices drove a 98% increase in operating cash flow to \$106.5 million. Prior to working capital adjustments the Group generated \$174.4 million of operating cash flow (2009: \$83.7 million), which equated to operating cash flow per entitlement bbl of \$29.45 (2009: \$20.77). Operating cash flow comprised \$76.8 million (2009: \$86.6 million) from the Group's Thailand operations and \$46.5 million (2009: \$18.2 million) from the Indonesia operations; this was then partially offset by operating and administrative payments of \$16.7 million (2009: \$21.1 million).

**Investing cash flow**

Cash flow used in investing activities was \$159.0 million (2009: \$119.1 million) as the Group increased its exploration and appraisal operations while continuing its development activity across the asset base. Exploration and appraisal expenditure during the year of \$48.2 million (2009: \$32.1 million) included investment in Thailand of \$6.3 million (2009: \$14.8 million), in Indonesia of \$45.2 million (2009: \$9.4 million) and in Vietnam with a credit of \$3.3 million from farm out proceeds (2009: \$8.7 million). Production and development expenditures included investment in Thailand of \$97.1 million (2009: \$24.4 million); and Indonesia, \$20.0 million (2009: \$63.6 million).

## Financing cash flow

Cash flow from financing activities of \$95.1 million (2009: \$9.9 million) resulted predominantly from the Group's issue of a \$100 million convertible bond in March 2010 (\$97.3 million received net of costs) and from the Group's completion of, and partial draw down against, a \$90.0 million acquisition bridge facility to fund the acquisition of the additional 40% of the Bualuang asset in September 2010 (\$71.9 million received net of costs). These financings were offset by a net partial repayment of \$62.3 million against the Group's reserves based lending facility. During 2010, the interest payment against the Group's various facilities totalled \$9.4 million (2009: \$5.9 million).

## Cash and net debt

The Group recorded a net cash inflow of \$42.7 million (2009: net cash outflow of \$55.6 million). With the issue of the convertible bond, acquisition bridge facility and partial repayment of the reserves based lending facility, the Group's closing net debt increased to \$190.2 million (2009: \$119.3 million).

At year end 2010, the Group's cash and cash equivalents were \$89.9 million (2009: \$47.8 million). In addition, the Group held funds of \$9.4 million (2009: \$11.4 million) in deposit accounts that were pledged as security against bank guarantees issued on behalf of the Group.





The identification, and mitigation, of risks are of critical importance to the Group as it continues to expand and operate the majority of its activities.

Effective risk management is essential if the Group is to deliver its strategic and operational objectives whilst maintaining its excellent HSE record. The Group's Executive Directors monitor the Group's key risks on an ongoing basis and receive regular reports on financial, operational and HSE performance. The Group's Executive Directors then report to the Audit Committee on a six monthly basis, and provide more frequent updates on any particular risks as required. The Audit Committee provides oversight whilst ultimate authority remains with the Board of Directors.

A summary of the Group's key ongoing risks, as currently identified, together with the measures taken to mitigate against these risks, is provided below.

Description	Specific areas of risk	Mitigants
<p><b>Strategic risks</b></p> <p>An inappropriate or poorly executed strategy may lead to a failure to create shareholder value or meet shareholders' expectations of value accretion</p>	<ul style="list-style-type: none"> <li>• Incorrect portfolio mix</li> <li>• Capital allocation</li> <li>• Organic and acquisition led growth</li> <li>• Economic conditions</li> </ul>	<ul style="list-style-type: none"> <li>• SE Asia is forecast by the IMF to remain a high growth region in 2011. The Board monitors regional economic, political and energy market trends and forecasts and takes account of these when reviewing/planning the Group's forward strategy.</li> <li>• The Group operates a balanced approach to capital allocation that sees the majority of historic capital deployed against discovered reserves and resources. This should (at a constant oil price) see the Group's NAV grow over time without reliance on exploration success.</li> <li>• The Group invests across an asset base that, while regionally focused, is diversified in terms of: <ul style="list-style-type: none"> <li>– Oil and gas production/exploration</li> <li>– Fiscal regime</li> <li>– Country</li> <li>– Play type</li> </ul> </li> <li>• All M&amp;A activity is subject to Board approval and measured against consistent investment and strategic criteria. Assets are only acquired which are expected to materially add value and/or improve the quality of the asset base.</li> </ul>
<p><b>Operational risks</b></p> <p>An issue that has an impact on Group operations in that it affects operational delivery, corporate reputation and/or revenue</p>	<ul style="list-style-type: none"> <li>• Drilling operations</li> <li>• Oil/liquids spill</li> <li>• Local community issue</li> <li>• Rig availability</li> <li>• Asset performance</li> <li>• Sustained exploration failure</li> <li>• Insurable risk</li> </ul>	<ul style="list-style-type: none"> <li>• The Group has definitive operating procedures that should be followed at all times. Regular training and monitoring are conducted to ensure these procedures are both followed and understood.</li> <li>• Full community engagement occurs through all phases of a project life cycle.</li> <li>• The Group has a diversified portfolio of both production and development and exploration that reduces exposure to failure of any asset/well.</li> <li>• To ensure that all exploration and appraisal wells are consistently analysed, ranked and risked a robust technical peer review process is in place before projects are recommended for Board approval.</li> <li>• The Group is insured against physical risk to assets in line with industry practice. In addition certain operational interruption insurances are put in place.</li> </ul>

Description	Specific areas of risk	Mitigants
<b>HSE risks</b>	<ul style="list-style-type: none"> <li>• Injured personnel</li> <li>• Accident in the workplace</li> <li>• Leaks/spillage causing environmental incident</li> </ul>	<ul style="list-style-type: none"> <li>• A comprehensive HSE management system is in place across the Group and monitored at Board level through performance reporting. Procedures are compliant with the Equator Principles and are regularly monitored by the IFC/World Bank HSE specialists. All policies and procedures are available through the Group Intranet site and regularly reinforced by senior management.</li> <li>• Full community engagement occurs through all phases of a project life cycle.</li> <li>• Spill recovery and crisis management protocols are in place and drills carried out to test procedures and reinforce them.</li> <li>• Full monitoring of the local ecosystem (e.g. reefs, water quality etc) to ensure there is no impact as a result of Group operations.</li> </ul>
<b>Financial risks</b> The Group is unable to meet its financial commitments through either asset under-performance and/or financial constraints	<ul style="list-style-type: none"> <li>• Liquidity risk</li> <li>• Oil price</li> <li>• Capital and operating costs</li> <li>• FX exposure</li> <li>• Credit and counterparty risk</li> <li>• Interest rate risk</li> <li>• Debt levels and capital structure</li> </ul>	<ul style="list-style-type: none"> <li>• The Group actively manages its balance sheet. Budgets are set annually and the Group's financial performance is reported to and monitored by senior management and the Board on a monthly basis with variance from budget highlighted. All key financial and operating metrics are measured and monitored in this manner.</li> <li>• The Group believes it prudent to maintain a conservative approach to leverage and actively manages its balance sheet to ensure an efficient capital structure.</li> <li>• The diverse nature of the Group's asset base, including fixed price gas and oil production under a PSC regime, partially hedge oil price volatility. The Group also hedges against oil price falls on occasion to minimise downside risk to cash flow and the current programme is detailed in the Financial Review.</li> <li>• In 2010 the Group established an internal audit function to help monitor the practical application and continued re-assessment of Group procedures and policies.</li> </ul>
<b>External risks</b> Market, industry or political risks that may impact on Group operations and/or cash flows	<ul style="list-style-type: none"> <li>• Fiscal regime</li> <li>• Investor sentiment</li> <li>• Corporate governance</li> <li>• Legal, regulatory and litigation</li> </ul>	<ul style="list-style-type: none"> <li>• The Group seeks to foster and maintain strong links with all external stakeholders. Regular interaction occurs with host country governments, regulators, industry partners, shareholders and local community representatives.</li> <li>• The Group sets out the principles by which it operates in the Group Code of Conduct that can be found on the website (<a href="http://www.salamander-energy.com">www.salamander-energy.com</a>). In summary the Group is committed to complying with various laws and regulations it is subject to around the world as well as the Combined Code.</li> <li>• The Group's policies and procedures have been re-assessed in light of the imminent UK Bribery Act.</li> <li>• Appropriately trained and experienced staff are employed who can appropriately identify, assess and respond to external risks.</li> </ul>

Additional detail on certain financial risks are set out in note 25 to the consolidated financial statements.



## Introduction

The Group is committed to conducting its operations in a manner that protects the health and safety of all employees and local stakeholders, minimises our impact on the environment, provides sustainable benefits to local communities and is in full compliance with the law.

Following events in the Gulf of Mexico during 2010 the onus has been placed firmly on all oil and gas companies to demonstrate that they not only recognise their corporate responsibilities as part of a robust approach to doing business, but also reinforce them throughout the organisation. Salamander has embraced this and we continually review and enhance our procedures to maintain and improve on our existing high standards.

### Performance highlights:

- The Total Recordable Injury Rate (TRIR) fell during 2010 to 1.99 injuries per million man hours worked, an improvement on the 2009 level and broadly in line with the OGP average.
- Fewer Total Recordable Injuries (TRIs) when compared to 2009 performance.
- CO<sub>2</sub> emissions were 74 tonnes per thousand tonnes of production (2009: 97) compared to the OGP average of 139 worldwide and 190 in Asia.
- GHG emissions were 78 tonnes per thousand tonnes of production (2009: 105) as against a global OGP average of 163 and an Asian average of 246.

## Our approach

The standards of corporate behaviour that all employees and contractors are expected to uphold are set out in the Group Code of Business Conduct, which is reinforced by separate HSE and Corporate Responsibility policies that are available for viewing on the Group website ([www.salamander-energy.com](http://www.salamander-energy.com)). Senior management regularly reinforces the need to comply with these levels of behaviour.

The Group Corporate Social Responsibility Steering Committee is chaired by the Group Chief Executive and meets twice a year to monitor and review CSR performance of the operating units. Each country of operation has a local CR committee that meets regularly and is responsible for overseeing the implementation of Group policies at local level.

The International Finance Corporation (IFC) is an investor, partner and lender to the Group and as a result the Group's HSE processes and procedures are regularly audited by the IFC. The Group is also committed to meeting the Equator Principles.

During 2010 the Group reinforced its internal processes and procedures with the establishment of an internal audit function that has taken responsibility for overseeing operational compliance with Group policies.

## Health and safety

The standards and guidelines in respect of health and safety are complemented at operational level by an HSE management system that details the Group's procedures that are implemented in all Group operations. Training sessions and Board level health and safety review trips are conducted at least annually. The Group also has a crisis management plan in place that is subject to regular practice drills and covers operational issues such as spill response procedures through to corporate crises.

Despite the fact that during 2010 the Group unfortunately recorded its first Lost Time Injury (LTI), its overall performance against its CR KPIs improved on the excellent performance achieved during 2009. The LTI was relatively minor and the Group recorded no fatalities during the year. We took the appropriate remedial action to minimise the chance of an incident like this reoccurring in the future.

## Group health and safety KPIs

Group-wide	2010	2009	Comment
Lost Time Injury (LTI)	1	0	The Group incurred its first LTI when a contractor had a relatively minor incident on a vessel in Vietnam.
Lost Time Injury Frequency (LTIF)	0.4	0	LTI frequency rate remains below OGP average despite first LTI being recorded.
Total Recordable Injury (TRI)	5	6	Improved already excellent performance
Total Recordable Injury Rate (TRIR)	1.99	2.22	Improved performance, in line with OGP average. Goal is to be 20% below OGP average.
Hours worked (millions)	2.51	2.70	

The Group's health and safety KPIs are set out in the table above.

### Targets for 2011:

- TRIR 20% below the OGP average year on year.
- Zero fatalities, zero LTIs.

## Environment

During 2010, the Group improved its performance in terms of both CO<sub>2</sub> and greenhouse gas ('GHG') emissions on a unit basis. The trend of production growth is expected to continue and the Group recognises the importance of finding ways to continue to improve upon its emissions performance. In 2010 it undertook a bi-fuel project at the Bualuang field, converting the diesel generators to allow use of produced gas as a fuel. This enables all produced gas to be used in the FPSO power generators reducing the use of fuel oil and eliminating the cold venting of gas. This has resulted in a 10% reduction in fuel usage and led to a consequent reduction in environmental emissions.

Before any operations commence the Group ensures all environmental permits are in place, a process that will normally involve an open public consultation process.

In all locations the Group monitors the impact of its operations and takes appropriate action where necessary to mitigate these. Examples include monitoring coral reefs in East Kalimantan, sea water quality in the Gulf of Thailand and soil quality and mineral levels in onshore drilling locations across the organisation.

The Group's environmental KPIs are set out in the table below.

### Targets for 2011:

- Continue to ensure that CO<sub>2</sub> and GHG emissions compare favourably against the global OGP and Asian average figures.
- Continue to explore projects that enable the Group to reduce fuel usage, thereby reducing emissions.

## Group environmental KPIs

Group-wide	2010	2009	Comment
CO <sub>2</sub> emissions (tonnes)	54,996	34,020	Increased on an absolute basis as a result of increased production from Bualuang and Kambuna fields, and an increase in fuel to power drilling operations
CO <sub>2</sub> emissions (tonnes per thousand tonnes production)	74	97	Reduced on a unit basis as a result of a shift in fuel balance
GHG emissions (tonnes per thousand tonnes production)	78	105	Reduced on a unit basis as a result of a shift in fuel balance
Flaring and Venting (MMscf)	151.3	72.8	Increased as a result of growing production
Oil and chemical spills (number)	5	5	
Oil and chemical spills – total spilt (litres)	352	3,041	
Oil and chemical spills – released to the environment (litres)	327	9.5	
Produced water discharged (tonnes)	2,951	383	Increase as a result of increased production at the Kambuna field
Oil in produced water discharged (tonnes)	0.15	0.02	Increase as a result of increased production at the Kambuna field

## Business conduct

The Group Code of Business Conduct is available to read at [www.salamander-energy.com](http://www.salamander-energy.com) and provides a detailed overview of our approach to business. In summary, the Group conducts its business affairs with integrity and in compliance with the laws and regulations of the countries in which it operates. All Group employees and consultants are expected to conduct their business dealings openly, fairly and safely and we expect the same standards from those with whom we do business. We will not tolerate or condone bribery and will ensure our operations comply with the forthcoming UK Bribery Act. The Group General Counsel has conducted initial training sessions and awareness workshops regarding the Act in all Group offices.

### Target for 2011:

- Review the provisions of the UK Bribery Act and the associated guidance (when it is published) and integrate into our Code of Business Conduct accordingly.

## Employees

The Group is an equal opportunity employer and is committed to achieving and maintaining a workforce that represents the population as a whole and is compliant with applicable local laws and contractual obligations. The Company seeks to employ individuals who are qualified on the basis of merit and ability to fill its work positions regardless of gender, ethnic origin, colour, disability, marital status, race, religion, nationality, age, responsibility for dependants or sexual orientation. Each employee, consultant and contractor is expected to abide by the Company's Equal Opportunities Policy at all stages of employment.

All employees and consultants are recruited and promoted fairly on the basis of their ability for the job. We will prevent discrimination based on race, religion, gender, sexual orientation and age and do not tolerate sexual, physical or mental harassment.

We are committed to providing a safe and healthy working environment in which all personal injury and industry related diseases are regarded as preventable. The Group recognises the right of all employees to exercise membership of a trade union. It does not use child or forced labour and respects internationally recognised human rights. It makes every effort to ensure that companies in the supply chain also comply with these standards.

A grievance mechanism is set out in the Employee Handbook and provides a means for dealing promptly, fairly and confidentially with any grievance which an employee may have in the course of, and connected with, their employment.

## Local communities

On a local level the Group engages with a number of stakeholders, including regional governments, National Oil Companies and local communities in dialogue ahead of, and during, operational activity. The Group employs a number of specialist government and community liaison officers who are usually locals with an understanding of regional political and socio-economic sensitivities.

Our approach to our relationships with local communities seeks to engage with them to implement projects that will bring sustainable benefits. At the behest of the Group CSR Steering Committee the local teams were asked to expand their focus from projects with a purely social benefit to include some with environmental benefits.

Some examples of our projects include:

In Indonesia, our activities are divided between the area around our Bontang and Southeast Sangatta licences in East Kalimantan and onshore north Sumatra where the processing facilities for our Kambuna field are located. In East Kalimantan during 2010 the Group contributed glass display cases in order that a series of historical/cultural artefacts discovered locally could be kept in the region, leading to a marked increase in foreign and domestic tourism. The Group has also been involved in other projects such as sponsoring meals at local festivals and community events, working with the Agency of the Environment on a forest conservation programme and helping local fishing groups with seaweed breeding programmes.

In Sumatra, the Group has been actively helping refurbish run down local houses built near the gas pipeline with the aim of improving the levels of fireproofing and basic hygiene. The Group sponsored the programme and provided the materials with the villagers providing the labour and craftsmen, overseen by local government officials. In the village of Teluk Meku the Group identified a lack of fresh water supply with available water being insufficient to support all the activities in the village. The Group worked with local authorities to build seven artesian wells on land released for public use by the local authorities. The materials were purchased locally and labour was provided by the villagers.

The Department of Minerals and Fuels (DMF) in Thailand runs a number of programmes that the Group is happy to support. One of these is to provide school scholarships to five of the poorest schools in the Phuwieng District of Khonkaen province, which is located adjacent to the L15/50 licence where the Dao Ruang-2 well is being drilled in 1Q 2011. The Group handed out a total of 50 scholarships. As part of its L15/50 environmental programme the Group also built a set of drinking water storage tanks and filtering equipment at Nongkhonthai School and constructed a cement floor at the Ban Nong Ben Temple to prevent issues of flooding associated with the pre-existing earth floor.

The Group also completed a series of activities in support of its operations in Block B8/38, offshore Gulf of Thailand. It met with the Provincial Fisheries Office in Chumphon and reached agreement to support two projects: a fish sanctuary in the local temple and to provide training for sea bass fish farming.

In Vietnam the Group continued with its successful school renovation and donations programme for a third year. It also started to support a new project, the Bac Lieu bird sanctuary in the Mekong delta. The sanctuary had been neglected and seen a fall of 90% in bird numbers over the past 10 years. The primary reason was a reduction in water flow creating unhealthy, stagnant water. After consultation with local authorities Salamander commissioned a project to lay a 56 metre sluice and a total of 2,600 metres of canal were dredged. There was an immediate improvement in water quality, aquatic life and the number of birds that has resulted in an increase in visitor numbers leading to a more sustainable future.

It is our aim to continue with meaningful projects that mean that the areas in which we operate are enhanced by our presence there.



- 1 Keeping a close eye on operations at the Kambunga field, Indonesia.
- 2 Salamander provided seven artesian water wells for villagers, in Teluk Meku, Sumatra, Indonesia.
- 3 The Salamander funded sluice at the Bac Lieu Bird Sanctuary in the Mekong Delta, Vietnam.
- 4 A public participation/consultation meeting to raise awareness of activity in Block B8/38, Gulf of Thailand.



## Board of directors and advisers



## **Charles Jamieson**

### **Chairman<sup>(N)</sup>**

Charles Jamieson is Salamander's Chairman and a founder of Salamander. He holds an MBA from INSEAD and is a chartered accountant. Prior to joining Salamander, he spent over 25 years with Premier Oil plc where he held a number of posts, including finance director and chief executive officer. He is currently also chairman of Vostok Energy Ltd.

## **James Menzies**

### **Chief Executive Officer**

James Menzies is a founder of Salamander and its Chief Executive Officer. He holds a BSc (Hons) in Geology and an MSc in Geophysics and Planetary Physics. After a period as a geophysicist at Schlumberger and ERC, he spent eleven years at LASMO plc holding a variety of posts including senior geophysicist in Vietnam, chief geophysicist in Indonesia, head of corporate development and head of strategy and corporate affairs. He spent four years as a senior partner at Lambert Energy Advisory prior to the founding of Salamander. He is currently a non-executive director of Transunion Petroleum Limited.

## **Mike Buck**

### **Chief Operating Officer**

Mike Buck is Salamander's Chief Operating Officer. He holds a BSc (Hons) in Geology with Geophysics and an MSc in Petroleum Geology (dist.). He spent twenty years with LASMO plc as a geophysicist in Indonesia and the UK Continental Shelf, chief geophysicist in Colombia, exploration manager in Vietnam and exploration and general manager in Libya. He then spent four years with ENI as managing director in Tehran and managing director in Pakistan. Overall he has 30 years of international exploration and production experience.

## **Nick Cooper**

### **Chief Financial Officer**

Nick Cooper is a founder of Salamander and its Chief Financial Officer. He holds a BSc (Hons) in Geophysical Sciences, a PhD in Exploration Geophysics and an MBA from INSEAD. He spent five years as a geophysicist at BG and Amoco and then was an upstream consultant for two years at Booz-Allen & Hamilton. Prior to the founding of Salamander, he spent five years at Goldman Sachs, of which two years were spent in Singapore as a vice-president in corporate finance (oil and gas). He is currently a non-executive director of Transunion Petroleum Limited.

## **Struan Robertson**

### **Senior Independent**

### **Non-executive Director<sup>(#N)(R)(A)</sup>**

Struan Robertson is Salamander's Senior Independent Non-executive Director and was educated at the University of Natal and the University of Cape Town, followed by Wharton Business School. He spent over 23 years at BP plc where he held a number of posts, including CEO of oil trading international, executive chairman of BP Asia Pacific based in Singapore and downstream senior vice president for technology and marketing, based in London. Between 2000 and 2004 he was group chief executive of Wates Group Ltd. He is currently non-executive chairman of Eredene Capital PLC and holds non-executive directorships with Henderson TR Pacific Investment Trust plc and Forth Ports plc and stood down from International Power plc and Tomkins plc during the course of 2010.

## **Robert Cathery**

### **Non-executive Director<sup>(#R)(N)</sup>**

Robert Cathery is an Independent Non-executive Director of the Company and a founder of Salamander. He was a director of Vickers da Costa and Schroders Securities as well as head of corporate sales at SG Securities (London) Ltd. He also spent four years as head of oil & gas at Canaccord Europe. He is currently a non-executive director of Vostok Energy Ltd, SOCO International plc and Central Asia Metals Ltd.

## **James Coleman**

### **Non-executive Director**

James Coleman is an Independent Non-executive Director of the Company. He is a Canadian citizen and a senior partner and former chairman of the international law firm of Macleod Dixon based in Calgary and was a board member of GFI Oil & Gas Corporation until that company was acquired by Salamander on 17 March 2008. He is currently a non-executive director of Anterra Energy Inc and a non-executive chairman of Sulliden Exploration, Inc, Energold Drilling, Inc and Gold Reserve, Inc – all publicly quoted companies in Canada.

## **John Crowle**

### **Non-executive Director<sup>(R)(A)</sup>**

John Crowle is an Independent Non-executive Director of the Company with over 35 years experience in the oil industry and was educated at Durham University and Stanford University Business School. He spent more than 18 years at Enterprise Oil where he held a number of posts, including group exploration manager. Between 2002 and 2004 he was at Royal Dutch Shell as general manager of New Ventures Organisation Cluster, based in The Hague. He is currently a non-executive director of Rockhopper Exploration plc and a member of the Durham University Earth Sciences Advisory Board.

## **Michael Pavia**

### **Non-executive Director<sup>(#A)</sup>**

Michael Pavia is an Independent Non-executive Director of the Company and was appointed to the Board in July 2007. A chartered accountant and chairman of the ICAEW's Audit Committee, he has had a distinguished career in the energy sector, being finance director of UK independent LASMO plc and then SEEBOARD plc (now a subsidiary of EDF Energy plc). He is currently a non-executive director of Thames Water Utilities Ltd, Telecom Plus plc and Elizabeth Finn Care, and non-executive chairman of PetroGranada.

### **Memberships of board committees**

- # Committee chairman
- (N) Nomination Committee member
- (R) Remuneration Committee member
- (A) Audit Committee member

### **Corporate advisers**

#### **Joint corporate brokers**

Goldman Sachs and Oriel Securities Ltd

#### **Registered auditor**

Deloitte LLP

#### **Bankers**

HSBC Bank plc

#### **Legal advisers**

Clifford Chance LLP

#### **Financial PR**

Brunswick Group LLP

# Senior management

## Steve Adams

### Business Development Manager

Steve Adams is Salamander's Business Development Manager. He has extensive worldwide experience in the oil and gas industry and joined Salamander from Murphy where he was deepwater exploration manager with responsibility for exploration activity and Southeast Asian new ventures. Steve has also worked for BP, Lasmo, ENI, CNR and PEXCO.

Steve is a geologist by background with a BSc in Geology from the University of Durham, an MSc in Petroleum Geology from Imperial College and an MBA from RGU Aberdeen.

## Doug Barrie

### Group General Counsel and Company Secretary

Douglas Barrie has more than 25 years of experience providing legal counsel on all aspects of the business of E&P majors and independents in a variety of jurisdictions, including SE Asia. Mr Barrie has worked as a consultant to the Energy Practice of Cameron McKenna LLP and was latterly group general counsel of Afren PLC.

## John Bell

### General Manager, Thailand

John is General Manager of our Thailand operations. He has over 25 years experience in the oil and gas industry, a number of which were spent in Southeast Asia. John worked for LASMO for 17 years and subsequently spent four years with ENI, before most recently working for Hess. John holds a PhD in Geological Sciences from Durham University and an MA in Natural Sciences from Cambridge University.

## Nick Comrie-Smith

### Exploration Manager

Nick joined Salamander in 2006 and is currently Exploration Manager based

in Bangkok. He has over 23 years industry experience, predominantly with ConocoPhillips, and has been involved with exploration and appraisal projects in Turkey, the North Sea, Gulf of Mexico, and for the last 14 years, Southeast Asia. He brings an in depth knowledge of hydrocarbon plays across the region, and significant experience in new ventures exploration.

Nick has a BSc in Geology from University of Leeds and an MSc in Petroleum Geology from Imperial College, London.

## Don DiBenedetto

### Senior Manager Exploitation

Don is the Subsurface Engineering Manager, based in Jakarta. He has over 25 years of reservoir and petroleum engineering experience in the oil and gas industry. Starting his career with Exxon in Canada, Don has also lived and worked in North Africa, East Africa and the Middle East. He has worked privately as a consultant and with state oil companies. Most recently, he was engineering manager with Talisman Energy Indonesia.

Don is a Professional Engineer in Canada and holds a B. Eng. in chemical engineering plus an MBA.

## Guus Harting

### Regional Operations Director

Guus is Salamander's Regional Operations Director. He has over 30 years of industry experience managing production and development operations in both onshore and offshore environments. He started his career with Shell and has also worked for, or as a consultant to, Qatar General Petroleum Company, Mobil Oil, Chevron and SBM.

Guus has a BSc in Ship-Marine Engineering from the University of Rotterdam, an MBA from Henley Business School and a M.S. in Executive Interim Management from University of Antwerp Business School.

## John Henriksen

### General Manager, Indonesia

John is the General Manager of our Indonesian operations. He has 30 years of experience in the energy business, of which 23 have been gained in Southeast Asia. Prior to joining Salamander, John worked as a finance specialist with VICO where he was seconded by ENI. John has also worked with LASMO, Hudbay Malacca Strait Ltd and Hudson's Bay Oil & Gas.

John is qualified as a Certified Management Accountant and holds a Bachelor of Commerce degree.

## Ken Jones

### Regional Drilling Manager

Ken Jones is Salamander's Regional Drilling Manager. He has over 30 years of global industry experience and prior to joining Salamander Ken was working for Shell as a drilling consultant on its operations in Cameroon. Ken has also worked as a consultant on drilling matters to OMV (Venezuela), Gaz de France (Algeria). Prior to this Ken worked for Lasmo for over 12 years, with assignments in Indonesia, Pakistan and the UK, as well as spells with Amoco and Union Oil.

Ken has a BSc in Mathematics & Physics and a MSc in Geophysics & Planetary Physics both from the University of Newcastle upon Tyne.

## Shaun Richardson

### Regional Geoscience Director

Shaun Richardson is Salamander's Regional Geoscience Director. He has over 30 years of industry experience and was most recently exploration director for Harvest Natural Resources with responsibility for Southeast Asia. Prior to that Shaun spent nearly 18 years with BG Group, including a spell as chief geologist in Jakarta. He also worked earlier in his career for Gearhart, Britoil plc and BP Exploration.

Shaun has a BSc in Geological Sciences from Leeds University, a MSc in Petroleum Geology from Imperial College, London and an MBA from Liverpool University. Shaun is both a Chartered Geologist in the UK and a Certified Petroleum Geologist in the USA.

## Tony Rouse

### Group Financial Controller

Tony joined Salamander at its inception in 2005 as Group Financial Controller. He brings with him 20 years of financial experience which he gained working with such companies as Premier Oil plc (for three years), LASMO plc (seven years) and BP (eleven years). Some of Tony's assignments abroad have taken him to such countries as Myanmar, Colombia, Libya and Egypt. Prior to joining Salamander, Tony was running his own consultancy franchise providing advice to small and medium-sized companies.

Tony is both a member and a Fellow of the Chartered Association of Certified Accountants.

## Hugh Sykes

### General Manager, Vietnam

Hugh joined Salamander in 2007, opening our Vietnam office in Ho Chi Minh City. He brings 17 years of experience from BP across Vietnam, Indonesia, Australia, Abu Dhabi and the North Sea. His recent experience includes relationship-building, approvals, negotiations, and team-building across gas, LNG, pipelines and power. Prior to Salamander, Hugh held management positions in BP across commercial operations, business development and projects. His work in Vietnam started in 1995 with PetroVietnam's Gas Master Plan, whilst his early career included research for Rolls Royce Aero Engines and work in UK power generation.

Hugh holds a PhD and a BEng in mechanical engineering. He is a chartered engineer, and a member of the IMechE, SPE and AIPN.

# Directors' report

The Directors submit their report together with the audited Consolidated and Parent Company Financial Statements of Salamander Energy PLC for the year ended 31 December 2010.

Salamander Energy PLC is the holding company of the Group and its issued ordinary shares were admitted to listing on the main market of the London Stock Exchange on 5 December 2006, under the designation SMDR.

## Principal activities

The principal activities of the Group which are intended to continue into the future are as an independent oil and gas exploration, development and production company focused on building a portfolio of assets in Asia. The Group operates through a number of subsidiary and other undertakings, including Jointly Controlled Entities, which are set out in note 16 to the consolidated Financial Statements.

The Group's head office is in London with regional offices in Singapore, Thailand, Indonesia, Lao PDR and Vietnam.

## Business review

The Company is required by Section 417 of the Companies Act 2006 to include a review of its business in this report. The information that fulfils this requirement is contained in the following sections of the annual report which are incorporated by reference and are deemed to form part of this Directors' Report:

- Chairman's and Chief Executive's Review;
- Operational Review;
- Financial Review;
- Risk Management;
- Corporate Responsibility; and
- Corporate Governance Statement.

## Directors

The Directors who served in office during the financial year were as follows:

- Charles Jamieson (Chairman)
- James Menzies (Chief Executive)
- Mike Buck
- Nick Cooper
- Struan Robertson (Senior Independent Non-executive Director)
- Michael Pavia
- John Crowle
- Robert Cathery
- James Coleman

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act and related legislation. The Company's Articles of Association give power to the Board to appoint Directors but require the Directors to submit themselves for election at the first Annual General Meeting (AGM) following their election and thereafter retire by rotation and offer themselves for re-election by shareholders at least every three years. However, the Company is supportive of the recommendation from the UK Corporate Governance Code that all directors annually stand for re-election. Accordingly, and as at the 2010 AGM, all Board members will offer themselves for re-election at the 2011 AGM.

The powers of Directors are described in the Board Terms of Reference, copies of which are included on the Company's website, [www.salamander-energy.com](http://www.salamander-energy.com) and summarised in the Corporate Governance section of this report.

## Results and dividends

The consolidated financial statements for the year ended 31 December 2010 are as set out in the Financial Statements section of this report. The Group's loss after tax for the year was \$169.5 million (2009: post-tax loss of \$13.5 million).

The Company has declared no dividend for the year ended 31 December 2010 (2009: nil). It is not the Directors' current intention that the Company will pay a dividend for the foreseeable future.

## Directors' interests

The Directors' interests in the ordinary shares of the Company and Directors' remuneration are as set out in the Remuneration Report.

## Capital structure and ordinary shares

Details of the issued share capital together with details of movements in share capital during the year are included in note 27 to the consolidated financial statements. The Company has one class of ordinary shares.

Details of employee share schemes are disclosed in the Remuneration Report and in note 28 to the consolidated financial statements.

On a show of hands at a general meeting (including any AGM) of the Company every holder of ordinary shares present in person and entitled to vote shall have one vote and, on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or in person in relation to resolutions to be passed at the general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the general meeting and in accordance with the current requirements of the Combined Code, will be published on the Company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- pursuant to the Listing Rules of the Financial Services Authority whereby employees of the Company require the approval of the Company to deal in the Company's securities;
- pursuant to the Company's various share scheme arrangements;
- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws and market requirements relating to close periods); and
- pursuant to Article 31 of the Company's Articles of Association.

Article 31 of the Company's Articles restricts the percentage of Salamander shares that may be held by Canadian residents to below 10% so as to permit the Company to rely on exemptions from certain obligations which the Company may be subject to under Canadian Securities Law. Article 31 of the Company's Articles confers upon the Board the power to require Canadian citizens beneficially owning Salamander shares to transfer their Salamander shares when the threshold of 10% Canadian Salamander shareholders is approached. In the event that such Canadian Salamander shareholders are required to transfer their Salamander shares under Article 31, the relevant Salamander shares will be sold in the market at the best price reasonably obtainable in the market and the net proceeds (if any) will be remitted to the relevant Canadian Salamander Shareholder. This compulsory transfer power is generally available to the Board to exercise from time to time, and the Board is free to exercise this power in its absolute discretion. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

## Capital structure and ordinary shares continued

The Company's Articles of Association may only be amended by a special resolution at a general meeting of the shareholders. Powers relating to the issuing and buy back of shares are also included in the Articles and the authority to issue shares is renewed by shareholders each year at the AGM.

### Convertible bonds

Convertible bonds were issued during March 2010 and are described in note 22 of the consolidated financial statements. Pending conversion, the Convertible bonds carry no votes at meetings of the Company. Ordinary shares in the Company issued on conversion will rank *pari passu* with the Company's existing issued share capital. On a change of control of the Company, bondholders have an entitlement to exercise their conversion rights.

### Change of control

In relation to agreements that take effect, alter or terminate upon a change of control of the Company, details of the BNP Paribas led loan facility are set out in note 21 to the consolidated Financial Statements. There are, in addition, a number of other agreements so affected, such as commercial contracts, property lease arrangements and employee share plans, none of which are considered to be significant in terms of their likely impact on the business of the Group as a whole.

### Significant shareholders

At 23 March 2011, being the latest practicable date prior to the publication of this Annual Report, the significant interests in the voting rights of the Company's issued ordinary shares as notified in accordance with Chapter 5 of the Disclosure and Transparency Rules were as follows:

	Voting rights attaching to issued ordinary shares	Percentage of total voting rights	Nature of holding
FinVentures UK	19,994,897	12.98	Direct
Phineus Partners LP	15,278,126	9.92	Direct/Indirect
RS Investments	11,342,050	7.36	Direct/Indirect
Artemis Investment Management Ltd	9,071,968	5.89	Direct
Floriline SA	6,830,544	4.43	Direct/Indirect
Legal & General Investment Management	5,804,805	3.77	Direct/Indirect
Black Rock	5,418,714	3.52	Direct/Indirect

### Employees

The Company has a policy of providing employees with information about the Company and actively encourages employee involvement and consultation. Emphasis is placed on keeping employees informed of activity and financial performance by way of briefings and publication to staff of all relevant information and corporate announcements.

2010 saw an increase in employee levels in line with the growth in operated activity. At year end Salamander employed 163 people compared with 126 employees at the end of 2009.

The Group has a diverse workforce comprising a mixture of local employees and expatriates. It is an equal opportunities employer and gives every consideration to applications for employment by disabled persons where the requirements of the job may be adequately filled by a disabled person. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

## Business conduct

Our Code of Business Conduct sets out the way we work at Salamander and comprises our vision and values. The Code of Business Conduct is supported by the Group's policies, standards, procedures and processes. Our values, set out in our Code of Business Conduct, can be viewed in full on the Group's website at [www.salamander-energy.com](http://www.salamander-energy.com). These values are supported by policies which define how we will carry out our responsibilities and the rules under which the Group operates. The Group's policies are approved by the Board and the assurance of Group performance is provided by a combination of effective management processes and embedded risk and compliance activities. Independent assurance is provided both by internal audit and our independent external auditors. The Group also requires its suppliers, contractors and agents to adhere to its Code of Business Conduct and to adopt similar ethical standards.

During the year, as part of our regular review of Group policies in consultation with representatives from our main businesses, proposals were made for the further amendment of group policies and procedures. The revised group policies and procedures were implemented in March 2011 as an enhanced, integrated ethics, compliance and anti-fraud programme to maintain the Group's high ethical standards. These included a detailed programme to combat fraud and corruption and clear policy statements emphasising our zero tolerance of any form of fraud, bribery or corruption.

During 2010, employees received briefings and training on the Code of Business Conduct and expected standards of behaviour. All employees will also take part in a bespoke online training programme to deal with fraud and corruption risks and will receive face-to-face briefings as needed in each office. The training programme on combating corruption will also recognise the requirements of the new UK Bribery Act, which is expected to come into force later this year. The training and briefings will be repeated annually as part of an ongoing Group compliance programme.

As part of the relaunch of the Company's compliance programme, a new confidential reporting system was introduced for reporting any concerns about the conduct of our business. The system will also include an external reporting line. All reports that are registered will be investigated and appropriate action taken. Any concerns raised, and opportunities for improvement, will be discussed by the Audit Committee as part of its regular review of business risks.

## Annual General Meeting

The Company's fifth Annual General Meeting as a listed public company will be held at 3 pm at the Andaz Liverpool Street, 40 Liverpool Street, London EC2M 7QN, UK on Tuesday 28 June 2011. The notice of meeting and an explanatory circular to shareholders setting out the AGM business accompanies this Annual Report.

## Principal risks and uncertainties

The Board has established a process for identifying, evaluating and managing the significant risks the Group faces which are set out in the Risk Management section of this report.

## Payment policy

The Group's policy in respect of its vendors is to agree and establish terms of payment when contracting for the goods or services and to abide by those payment terms. The Company is the holding Company of the Group and has no trade creditors. Further details can be found in note 24 to the consolidated financial statements.

## Charitable and political donations

During the year the Group made no political donations (2009: nil). Charitable (and CSR-related) donations made by the Group amounted to \$48,700 (2009: \$39,800).

## Auditors

As far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware. In addition, each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP were first appointed as Auditors to the Company in September 2005 and have expressed their willingness to continue as Auditors. A resolution to reappoint Deloitte LLP as the Group's Auditors will be proposed at the forthcoming AGM.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman and Chief Executive's Review and the Operational Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review and note 21 to the consolidated financial statements. In addition, note 25 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Group's forecasts and projections demonstrate that the Group is adequately financed and is able to operate within the level of its current facility.

As highlighted in note 21 to the consolidated financial statements, the Group meets its investments required to realise its development projects and committed exploration and appraisal programme through a senior/junior reserves based lending facility which is due for renewal in 2015, and an acquisition bridge facility which is due for repayment at the end of 2011. In addition, to provide increased flexibility to the Group to advance a number of strategic options in addition to its current planned programmes, the Group announced on 18 March 2010 the issue of a \$100 million convertible bond, the terms of which are described in note 22 to the consolidated financial statements.

The current economic conditions create uncertainty, particularly over the oil price, which affects revenue from the Group's production and the availability under the reserves based lending facility. The Group undertook a 2010 hedging programme and has undertaken a 2011 hedging programme partly to manage this risk.

The Directors believe that the Group's forecasts and projections, taking account of reasonably possible changes in economic assumptions such as the oil price, show that the Group will be able to operate within the level of its current reserves based lending facility for the foreseeable future, being twelve months from the date of this report. To provide further flexibility in the longer term, the Group is currently close to finalising the terms of an amended reserves based lending facility which, if finalised as expected, will both increase the available borrowing base and provide greater day to day liquidity.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

Approved by the Board on 23 March 2011



**Douglas Barrie**  
Company Secretary

23 March 2010

# Corporate governance statement

Salamander strives to apply best industry practice in all of its activities. The Board, Management and Staff of Salamander are committed to applying the highest standards of business ethics, corporate governance and health, safety and environmental control. To this end, the Group has put in place policies and procedures within which it conducts its activities along with working practices and a business culture to ensure openness and full accountability.

## Compliance with the Financial Reporting Council's Combined Code on Corporate Governance

This report and the Remuneration Report describe how the Company has applied the principles set out in Section 1 of the 2008 Combined Code on Corporate Governance ('the Combined Code') published by the Financial Reporting Council. It also discloses the extent to which the Company has complied with the provisions of the Combined Code.

The Board has noted the publication of the UK Corporate Governance Code and will formally apply its principles in the 2011 reporting period and continues to monitor developments to ensure its corporate governance practices remain compliant and high standards are maintained.

The Board considers it has complied with the Combined Code in all aspects throughout the financial year and has applied additional provisions of the UK Corporate Governance Code.

## Board of Directors

During 2010, the Board comprised the Non-executive Chairman, the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer and five independent Non-executive Directors.

All of the Executive Directors have extensive upstream oil and gas experience. The majority of the Non-executive Directors have held senior appointments in oil and gas companies and, together, the Non-executive Directors bring a broad range of business and commercial experience to the Board. The membership and brief biographies of the Board members are set out in the Board of Directors and Advisers section. These demonstrate a wealth of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which are fundamental to the continuing success of the Group.

The role of the Board is clearly defined. The Board is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. To achieve this, the Board directs and monitors the Group's affairs within a framework of controls which enable risk to be assessed and managed effectively. It sets the Group's strategic aims, ensuring that the necessary resources are in place to achieve those aims, and reviews management and financial performance. The Board also has responsibility for setting the Group's core values and standards of business conduct and for ensuring that these, together with the Group's obligations to its stakeholders, are widely understood throughout the Group.

There is a clear separation between the roles of the Chairman and Chief Executive Officer. The Chairman's key responsibilities are the effective running of the Board, ensuring that the Board plays a full and constructive part in the development and determination of the Group's strategy, and acting as guardian of the Board's decision-making process. The Chairman's other significant commitment is as chairman of Vostok Energy Limited. The Board believes that the Chairman's obligations are unaffected by this directorship. The key responsibilities of the Chief Executive Officer are managing the Group's business, proposing and developing the Group's strategy and overall commercial objectives in consultation with the Board and, as leader of the executive team, implementing the decisions of the Board and its Committees. In addition, the Chief Executive Officer is responsible for maintaining regular dialogue with major shareholders as part of the Company's overall investor relations programme.

## Board of Directors continued

The Board has established a process for identifying, evaluating and managing the significant risks the Group faces. Additionally, the Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In accordance with the revised Turnbull guidance on internal control published in October 2005, 'Internal Control: Guidance for Directors on the Combined Code', the Board regularly reviews the effectiveness of the Group's system of internal control which has been in place throughout 2010. As part of its review of internal controls during the year, the Group established an internal audit function and has conducted a review of its policies and procedures. The Board's monitoring covers control matters, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Audit Committee assists the Board in discharging its review responsibilities. A summary of the key risks facing the Group and mitigating actions are described in the Risk Management section of this report.

Following its review of the system of internal control, including the review of the Group's policies and procedures noted above, the Board confirms that necessary actions have been taken or are being taken to remedy any significant failings or weaknesses identified from that review.

Non-executive Directors are appointed for an initial term of three years. Thereafter, they may serve one or more three year terms subject to satisfactory performance. The letters of appointment of each Non-executive Director are available for inspection. The Senior Independent Non-executive Director is Struan Robertson. In this role he is available to shareholders who have concerns that cannot be resolved through discussion with the Chief Executive or Chairman.

All Directors appointed by the Board are required by the Company's Articles of Association to be subject to re-election by shareholders at the next AGM after their appointment. Subsequently, the Articles of Association of the Company provide that Directors are subject to re-election by shareholders at least every three years. However, the Company is supportive of the recommendation from the UK Corporate Governance Code that all Directors annually stand for re-election. Accordingly, and as at the 2010 AGM, all Board members will offer themselves for re-election at the 2011 AGM.

Prior to such re-elections, the Chairman and the Nominations Committee will review each Director's performance to ensure they continue to be effective and demonstrate commitment to the role.

The Board meets at least quarterly during the year and on an ad hoc basis as required. The attendance record of each Director is shown below.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Charles Jamieson	6	N/A	N/A	2
James Menzies	6	N/A	N/A	N/A
Mike Buck	6	N/A	N/A	N/A
Nick Cooper	6	N/A	N/A	N/A
Struan Robertson	6	3	2	2
Michael Pavia	6	3	N/A	N/A
John Crowle	6	3	2	N/A
Robert Cathery	6	N/A	2	2
James Coleman	6	N/A	N/A	N/A
Number of Meetings	6	3	2	2

## Board of Directors continued

In addition to the formal meetings of the Board, the Chairman and Executive Directors maintain frequent contact with the other Directors to discuss any issues of concern they may have relating to the Group or as regards their area of responsibility and to keep them fully briefed on ongoing matters relating to the Group's operations.

Directors have access to a regular supply of financial, operational and strategic information, as well as the Company Secretary, to assist them in the discharge of their duties. Such information is provided as part of the normal management reporting cycle undertaken by senior management. Board papers are generally circulated seven days in advance of Board meetings. In addition, each formal Board meeting includes a review of the history, performance and future potential of an individual asset or business unit designed to ensure that all material assets are considered on a cyclical basis and to enable Board members to familiarise themselves with the key assets and operations of the Group. The Board formally reviews the Group's risk register twice a year with the constant monitoring of events by the Executive Directors.

All Directors and Board Committees have access to independent professional advice, at the Company's expense, as and when required.

The Company Secretary, in consultation with the Chairman and Chief Executive, provides an induction process for each new Director tailored to their individual knowledge and experience.

The Company provides training to Directors where required. Training can include attendance at seminars, briefings by advisers and internal briefings.

The Group maintains Directors' and officers' liability insurance cover, the level of which is reviewed annually.

A formal schedule of matters reserved for Board approval is in place. In addition to those formal matters required by the Companies Act to be set before a board of directors, the matters reserved include: the Group's overall strategy and policy, approval of annual and interim results, business plans, material acquisitions and disposals, material contracts and major capital expenditure projects and budgets. Subject to those reserved matters, the Board delegates authority for the management of the business primarily to the Chief Executive and a senior executive committee. Certain other matters are delegated to the Audit, Remuneration and Nominations Committees, each of which is described in more detail below.

Where the Articles of Association of a company contain a provision to that effect, the Companies Act 2006 allows directors of public companies to consider, and if thought fit, authorise situations where a director has an interest that conflicts, or may potentially conflict, with the interests of the Company. The Articles of Association of the Company contain a provision to this effect. Directors of the Company who have an interest in matters under discussion at a Board meeting must declare that interest and abstain from voting. Only Directors who have no interest in the matter being considered are able to approve a conflict of interest and, in taking the decision the Directors must act in a way they consider, in good faith, would be most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate. During the year procedures, based upon the GC100 guidance, were in place to review any conflicts of interest.

Following its introduction, the system for the declaration and authorisation of conflicts has been followed by the Company. During 2010, a conflict was authorised by the Board in respect of the Company's acquisition of SOCO Thailand, LLC from SOCO International plc, of which Mr Robert Cathery is also a non-executive director. It was agreed that Mr Robert Cathery would not be entitled to cast a vote or be counted in the quorum at any Board meeting in respect of the resolutions of the Board and would absent himself from all discussions and consideration relating to the acquisition of SOCO Thailand, LLC from SOCO International plc whilst the conflict persisted. The system has been tested and the Board considers that these procedures are operating effectively.

## **Board performance**

Annual performance appraisal of the Board, its Committees, individual Directors and the Chairman is carried out, with the evaluation process involving Directors' input to a detailed questionnaire followed by individual interviews and feedback with the Chairman. The results of the survey, together with any recommendations for improving effectiveness, are presented by the Chairman to the whole Board for discussion. The Non-executive Directors, led by the Senior Independent Director, meet without the Chairman to evaluate his performance in leading the Board and chairing meetings to conduct the Board's business.

In addition to their attendance at Board and, as appropriate, Committee meetings, the Chairman and the Non-executive Directors will also meet formally (without executive management present) to examine and review the Board performance of the executive management, both individually and as a team; this review process is in part dealt with by the Board Committees referred to below. Separately, the Chairman and Chief Executive hold informal meetings with the Non-executive Directors to discuss issues affecting the Group such as target objectives and remuneration matters. An external review of the Board was carried out in March 2011. The review has been the subject of Board discussion and actions have been agreed to implement the recommendations from the review.

## **Audit Committee**

The members of the Audit Committee are Michael Pavia (Chairman), Struan Robertson and John Crowle. Other Board members may also be invited to attend Committee meetings. Michael Pavia is considered to have recent and relevant financial experience.

Meetings are held at least three times a year. The Chief Financial Officer is invited to attend meetings where appropriate and the Group's Auditors are regularly invited to attend meetings, including once at the planning stage before the audit and once during the year-end audit and half-year review at the reporting stage. At least once a year the Audit Committee will also meet the Group's external Auditors without Management being present.

The work of the Audit Committee in respect of the financial year has included:

- consideration of matters relating to the appointment of the Group's Auditors;
- reviewing the independence, objectivity and effectiveness of the Group's Auditors;
- reviewing the integrity of the Group's annual and half-year reports, preliminary results announcements and any other formal announcement relating to its financial performance;
- reviewing the effectiveness of the Group's system of internal control and compliance procedures; and
- reviewing the Group's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters.

In fulfilling its responsibility of monitoring the integrity of financial reports to shareholders, the Audit Committee has reviewed accounting principles, policies and practices adopted in the preparation of public financial information and has examined documentation relating to the Annual Report and preliminary announcement. The clarity of disclosures included in the financial statements was reviewed by the Audit Committee, as was the basis for significant estimates and judgements. In assessing the accounting treatment of major transactions open to different approaches, the Committee considered written reports by management and the external auditors. The Committee's recommendations are submitted to the Board for approval.

The Committee decided in March 2010 to establish an internal audit function as the size and complexity of the Group has increased. Head of Internal Audit was appointed in October 2010 and commenced a review of audit related governance policies and procedures, as a result of which the Group is introducing revised policies.

### **Audit Committee** continued

The Committee also reviewed the independence and effectiveness of the external Auditors, particularly in view of the relatively high level of their non-audit fees, accepting that their independence had been maintained throughout the audit process for the financial year. The Committee considers that at this stage it is more efficient to use a single audit firm to provide certain non-audit services for transactions and tax matters. However, to regulate the position, the Committee has established a policy on the provision of non-audit services by the external Auditor. In compiling that policy, which sets out the external Auditor's permitted and prohibited non-audit services and a fee threshold requiring prior approval by the Audit Committee for any new engagement, reference was made to Ethical Standard 5 of the Auditing Practices Board.

The terms of reference of the Audit Committee are included on the Company's website, [www.salamander-energy.com](http://www.salamander-energy.com).

### **Remuneration Committee**

The members of the Remuneration Committee are currently Robert Cathery (Chairman), John Crowle and Struan Robertson.

The primary duty of the Remuneration Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Group's Chief Executive, Chairman, the Executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider. The remuneration of Non-executive Directors is a matter for the Chairman and the executive members of the Board. No Director may be involved in any decisions as to their own remuneration. Further details of the work of the Remuneration Committee are set out in the Remuneration Report.

The terms of reference of the Remuneration Committee are included on the Company's website, [www.salamander-energy.com](http://www.salamander-energy.com).

### **Nominations Committee**

The members of the Nominations Committee are Struan Robertson (Chairman), Charles Jamieson and Robert Cathery.

The Nominations Committee's terms of reference, which are included on the Company's website, [www.salamander-energy.com](http://www.salamander-energy.com), are to review regularly the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes. The Nominations Committee also considers future considerations of the composition of the Board, taking into account the challenges and opportunities facing the Group, and what skills and expertise are needed on the Board. Following a decision of the Board that the appointment of a new Director is appropriate, the duty of the Committee is to present for consideration suitably qualified candidates. In making such recommendations, the Committee evaluates the balance of skills, knowledge and experience on the Board and develops a description of the role and required capabilities. Candidates are then identified for interview. The Committee also makes recommendations to the Board regarding the re-election and/or re-appointment of any Director. Similar selection processes would apply for the appointment of a Chairman. Succession plans for key management roles, including the Executive Directors, are reviewed on an ongoing basis.

## Shareholder relations

Communication with shareholders is given high priority and there is regular dialogue with institutional investors, as well as general presentations to analysts at the time of the release of the annual and half-year results. Management completed nearly 200 meetings with institutions during 2010. The Board receives regular investor relations reports covering key investor meetings and activities, as well as shareholder and investor feedback. The Group publishes its periodic results and other stock market announcements on the Investor Relations section of the Company's website [www.salamander-energy.com](http://www.salamander-energy.com) and regular news updates in relation to the Group, including the status of exploration and development programmes, are also included on the website. Shareholders and other interested parties can subscribe to receive these news updates by e-mail by registering online on the website.

The Board also uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Board aims to ensure that the entire Board is available at the AGM to answer questions and explain details of the resolutions proposed at the AGM. Notice of the AGM and related papers are sent to shareholders at least 20 clear business days before the meeting in accordance with the Combined Code and Companies Act.

Approved by the Board of Directors on 23 March 2011



**Douglas Barrie**  
Company Secretary

23 March 2011

# Remuneration report

## Remuneration Committee

The members of the Remuneration Committee are currently Robert Cathery (Chairman), Struan Robertson and John Crowle. The Committee's primary duty is to determine and agree with the Board the framework or broad policy for the remuneration of the Group's Chief Executive, the Chairman, the Executive Directors, the Company Secretary and such other members of the senior management as it is designated to consider. The remuneration of the Non-executive Directors is a matter for the Chairman and the executive members of the Board.

The main responsibilities of the Committee are to:

- set and monitor performance criteria for any bonus arrangements operated by the Company and its Group ensuring that they represent achievable and motivating rewards for appropriate levels of performance and, where appropriate, are justifiable taking into account the Company's and Group's overall performance and the corresponding return on shareholders' investment in the same period;
- recommend to the Board the policy for, and scope of, pension arrangements for the Executive Directors and other senior management taking into account the future liabilities of any recommendation and to detail precisely which elements of the remuneration packages are pensionable;
- review and approve the Company's share option and share award schemes (including any long-term co-investment plans), approve proposed option grants or share awards to Directors or senior management, and to set or recommend performance criteria for share awards; and
- within the terms of the agreed policy, determine the total individual remuneration package for the Company's Chairman, Executive Directors, Company Secretary and other senior management including, where appropriate, bonuses, incentive payments and share options or other share awards.

The Committee members have no personal or financial interest other than as shareholders in matters to be decided and no day-to-day involvement in running the business.

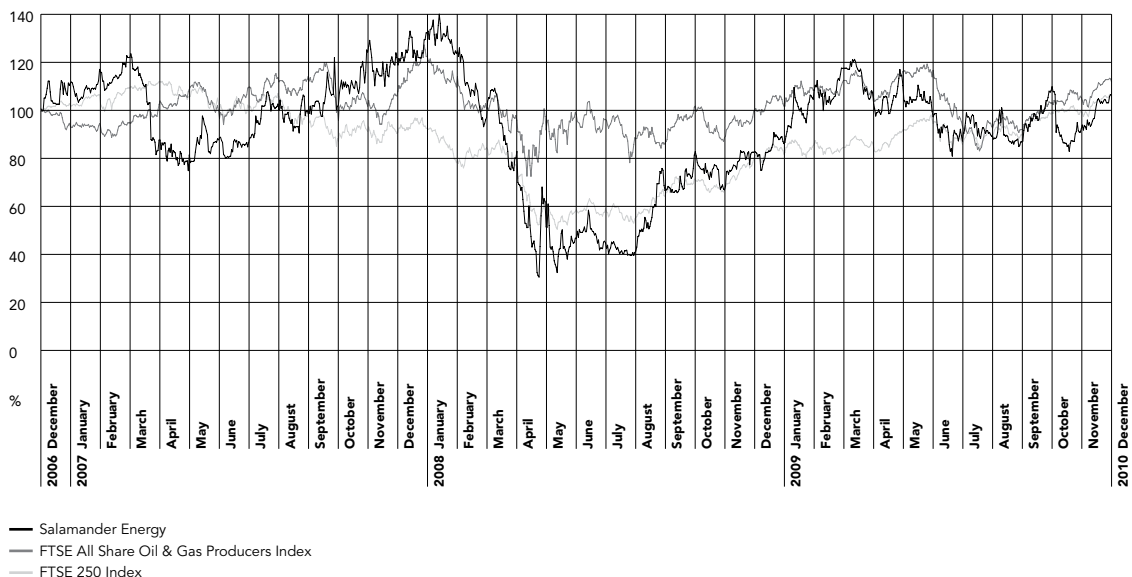
The Chief Executive is invited to attend meetings of the Committee but does not take part in the decision making of the Committee.

The Committee has access to external consultancy services on remuneration and sector issues. Hewitt New Bridge Street Consultants were employed to assist, as required, only with matters relating to the Company's Performance Share Plan. Hewitt New Bridge Street Consultants have no connection with the Company.

The Committee is formally constituted with written terms of reference and its main responsibilities are detailed above. The terms of reference of the Remuneration Committee are available on the Company's website, [www.salamander-energy.com](http://www.salamander-energy.com).

## Historical comparator performance chart

The Company's IPO and listing on the London Stock Exchange took place on 5 December 2006. The chart below shows the Company's share price performance since listing compared with the performance in the same period of the FTSE All Share Oil & Gas Producers Index and the FTSE 250 Index, which the Committee considers are the closest comparable indices.



This chart looks at the value of the Company from listing of £100 invested in the Company's issued ordinary share capital compared with the values of £100 invested in the FTSE All Share Oil & Gas Producers Index and the FTSE 250. It is assumed that any dividends are re-invested.

## Executive Directors' remuneration

The Group's remuneration policy is to provide remuneration packages which ensure that Directors and senior managers are fairly and responsibly rewarded for their contributions. The aim is to provide remuneration packages which are sufficiently competitive to attract, retain and motivate individuals of the quality required to achieve the Group's objectives and thereby enhance shareholder value. The Committee takes account of the level of remuneration paid to Executive Directors and senior managers of comparable public companies and best practice standards. It is the intention that this policy will continue to apply for 2011 and subsequent years subject to ongoing review as appropriate.

The main details of the Executive Directors' Service Agreements relating to base salary, annual bonus, share plan awards, pensions and other benefits for 2010 are as set out below.

## Service Agreements

The Service Agreements for the Executive Directors are for no fixed term and may in normal circumstances be terminated by either party on giving six months' notice. The Company reserves the right and discretion to pay the Executive Directors in lieu of notice. If the Company terminates the employment of an Executive Director by exercising its right to pay in lieu of notice, the Company is required to make a payment equal to the aggregate of basic salary and the cost to the Company of providing other contractual benefits (which excludes bonus) for the unexpired portion of the duration of any entitlement to notice.

**Service Agreements** continued

If, within 12 months of a change of control, the Company terminates the employment of an Executive Director in breach of the terms of his Service Agreement in circumstances where the Company is not entitled to terminate the Executive Director's employment, the Executive Director will be entitled to payment of a fixed sum equal to six months' base salary (not including accrued bonus). In return for the payment of such a fixed sum, the Executive Director agrees to waive, release and discharge any entitlement to further or additional compensation of any kind whatsoever.

	Date of contract	Notice period
James Menzies	29/11/06	Six months
Mike Buck	29/11/06	Six months
Nick Cooper	29/11/06	Six months

**Salary**

The annual base salaries of the Executive Directors for the year to 31 December 2010 were as follows:

	Salary £'s
James Menzies	380,000
Mike Buck	280,000
Nick Cooper	280,000

The salary of each Executive Director is subject to regular review by the Remuneration Committee and such a review took place in December 2010. During the review, a 4% salary increase for each Executive Director was agreed by the Remuneration Committee for the year to 31 December 2011.

When determining the salary of the Executive Directors the Committee takes into consideration:

- the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity, in particular the levels of base salary at those comparable companies within the FTSE Oil and Gas Producers sector and the Comparator Group;
- the performance of the individual Executive Director;
- the individual Executive Director's experience and responsibilities; and
- pay and conditions throughout the Company.

**Bonus**

Each of the Executive Directors is eligible for a discretionary annual bonus up to a maximum of 100% of their base salary. The bonus may only be payable to the extent that individual and corporate performance targets set by the Remuneration Committee are achieved in the relevant year.

Executive bonus levels are assessed on the level of the Company's performance against financial, operational and strategic targets. These may include, but are not limited to:

- share price performance;
- reserves replacement;
- execution of planned exploration drilling programme;
- HSE performance;
- financial performance; and
- production growth.

Considering the above, the Remuneration Committee assessed that an award of 33% of the maximum bonus potential was appropriate when judging by the achievements of the executive team against the above priorities and when looking at a broader picture of the Company's performance over the period.

## **Bonus** continued

The general targets for the annual bonus plan are reviewed and agreed by the Remuneration Committee each year to ensure that they are appropriate to the current position of the Company. The Committee is in no doubt that, in the current economic environment, achieving substantial progress in these priority areas will continue to be extremely challenging. Non-executive Directors do not participate in any bonus arrangements.

## **Pay and conditions across the Group**

Consideration has also been given to general pay and employment conditions across the Group. The Group operates in a number of different countries and has many employees who perform a diverse range of jobs. Therefore, although it is difficult to take into account pay and employment conditions across the Group specifically when setting the remuneration of the Executive Directors:

- all employees, including the Directors, are paid by reference to the market rate;
- consistently high performance is rewarded through a number of performance related bonus schemes across the Group;
- the Group offers internal promotion opportunities;
- the Group offers employment conditions which are commensurate with a UK listed company including high standards of health and safety and equal opportunity policies;
- the Group offers a range of benefits depending on employee location including pension, flexible benefits, paid annual leave and healthcare insurance; and
- the Company believes that share plans are important to align the interests of employees and shareholders. Therefore, the Company offers the following employee share plans:
  - the Performance Share Plan, open to Executive Directors and senior management; and
  - the Deferred Share Plan (as approved by the shareholders at the 2009 Annual General Meeting), open to all other employees.

The Remuneration Committee will continue to assess these and other matters, such as the prevailing market conditions, when determining levels of remuneration for Executive Directors.

## **Performance Share Plan**

In accordance with the Company's Performance Share Plan ('PSP') and at the discretion of the Remuneration Committee, all eligible employees including Executive Directors may be awarded Share Options in the Company, the vesting of which are subject to conditions as set out in this report ('Awards'). The Committee supervises the operation of the PSP including the levels of Awards made to employees and Executive Directors. As approved by the shareholders at the 2009 Annual General Meeting, a new deferred bonus scheme replaced the PSP for certain employees but not Directors, recognising that the PSP continuing to apply to all employees was not appropriate. The PSP remains the sole long-term incentive arrangement for all Executive Directors. During the year, as approved by the shareholders at the 2010 Annual General Meeting, the individual limit in the PSP was increased.

The PSP was adopted when the Company listed on the London Stock Exchange in 2006. When it was adopted, the PSP was structured so as to provide a competitive long-term incentive compared to other companies of a similar size (Salamander initially listed within the FTSE Small Cap), and with the features conforming to prevailing market practice and best practice at that time.

## Performance Share Plan continued

Until 2010, the PSP was operated in line with the policy set out on listing, namely:

- Awards were made annually to Executive Directors worth up to 100% of salary (which is the maximum grant limit except where the Remuneration Committee deems it necessary to grant a higher award in specific circumstances). Other senior management were also granted awards at a lower percentage of salary. In 2009, the Remuneration Committee decided to amend its policy of granting Awards to the whole workforce, and limited participation in the PSP to senior executives;
- the vesting of Awards is subject to a relative total shareholder return ('TSR') performance condition, comparing Salamander's TSR performance to that of a selected group of other listed Oil & Gas Exploration & Production companies, measured over three years; and
- 30% of Awards vest for median performance, and Awards vest in full for upper quartile performance (with a sliding scale between the two points).

In 2010, the Remuneration Committee reviewed the operation of the PSP in the context of Salamander as a FTSE 250 constituent and concluded that, in order to remain competitive relative to the market, changes to its operation for 2010 and future years were required, namely, an increase in the individual limit in the PSP to 200% of salary p.a.

The increase in the PSP limit was for the following reasons:

- Whilst it may elect not to grant up to the maximum limit each year, the Remuneration Committee wishes to have the flexibility to do so in order to remain competitive relative to the market. The Company is now significantly larger in relative market positioning than it was when it first listed. Thus, it is now a member of the FTSE 250 (whereas it listed as a member of the FTSE Small Cap), and needs to be able to attract executives competitively against companies of a similar size, as well as being able to reward and retain existing executives who have contributed towards this growth; and
- The Company's general reward policy is not excessive, with the Executive Directors' salaries being set at around the lower quartile for FTSE 250 companies, and with the maximum bonus potential being 100% of salary. Additionally, the Company does not have a history of paying maximum bonuses, and in respect of 2009 and 2010, despite very strong years, the average bonuses paid to the Executive Directors were 55% and 33%, respectively, of salary. Therefore, in absolute terms, a 200% of salary Award level would not lead to excessive total remuneration relative to other FTSE 250 companies.

The basic requirement of measuring performance relative to a group of selected Oil & Gas Exploration & Production companies remains unchanged (see below).

The PSP is intended to facilitate the retention and incentivisation of employees of the Group and to align their interests with those of shareholders by enabling employees, including Executive Directors, to receive shares in Salamander, subject to the satisfaction of performance conditions and continued employment. Accordingly, the Remuneration Committee believes that the PSP provides an appropriate degree of flexibility in the way in which a share based incentive arrangement can be operated by the Group, while giving due consideration to best and market practice.

Awards vest on or following the third anniversary of the date of grant once the Committee has determined the extent to which the applicable performance condition (see below) has been satisfied and provided the participant remains an employee with the Group. Awards, once vested, will normally remain capable of exercise for a period of twelve months.

## Performance Share Plan continued

Awards granted to all employees, including the Executive Directors, will vest based on Salamander's performance against an industry-specific peer group of companies drawn from the constituents of the FTSE 250, FTSE Small Cap and AIM listed companies in the Oil and Gas Producers sector with market capitalisations in excess of £100 million at or around the date of grant. The comparator groups for the 2010 and 2009 awards were:

2010 Awards		2009 Awards	
<b>Afren</b>	<b>Ithaca Energy</b>	Afren	JKX Oil & Gas
<b>Bankers Petroleum</b>	<b>JKX Oil &amp; Gas plc</b>	Cairn Energy	Melrose Resources
<b>Bowleven</b>	<b>Melrose Resources plc</b>	Circle Oil	Premier Oil
<b>Cairn Energy</b>	<b>Petroceltic</b>	Coastal Energy	Providence Resources
<b>Coastal Energy</b>	<b>Premier Oil</b>	Dana Petroleum	ROC Oil Company
<b>Dana Petroleum plc</b>	<b>Regal Petroleum</b>	Dragon Oil	SOCO International
<b>Dragon Oil</b>	<b>Serica Energy</b>	Emerald Energy	Valiant Petroleum
<b>Enquest</b>	<b>SOCO International</b>	Faroe Petroleum	Venture Production
<b>Geopark Holdings</b>	<b>Sterling Energy</b>	Geopark Holdings	
<b>Gulf Keystone</b>	<b>Tullow Oil</b>	Gulfsands Petroleum	
<b>Gulfsands Petroleum</b>	<b>Valiant Petroleum</b>	Hardy Oil & Gas	
<b>Heritage Petroleum</b>		Heritage Oil	

Awards vest as follows in relation to Salamander's relative TSR performance over the performance period:

- if Salamander is ranked below median, none of the Award will vest;
- for a ranking position of median, 30% of the Award will vest;
- for a ranking position of upper quartile or better, full vesting (100% of the Award) will occur; and
- for a ranking between median and upper quartile, there will be straight line vesting between 30% and 100%.

Hewitt New Bridge Street carried out a performance monitoring exercise in respect of the Awards made on 5 October 2007 under the terms of the Salamander Performance Share Plan. Their calculations were carried out to 4 October 2010, the end of the performance period for these awards and therefore represented final results. As noted above, these Awards were subject to a TSR performance condition relative to the 2010 comparator group over a performance period. Based on Salamander's TSR and ranking being between median and upper quartile, the Awards vested at 91.79% of the number of Awards granted on 5 October 2007. The market price on vesting of the Awards was £2.5289. Details of the Directors' interests further to the vesting of this Award are set out later in this Remuneration Report.

At 31 December 2010, a total of 4,305,854 Awards of options over ordinary shares (representing 2.8% of the Company's issued share capital of 154,015,588 ordinary shares at the year-end) were outstanding and granted to eligible employees including the Executive Directors.

Further information regarding Share Based Payments is included in note 28 to the consolidated financial statements.

## Benefits

Executive Directors receive a defined pension contribution (or salary supplement in lieu of pension contributions) equal to 15% of their salary, private medical cover and life assurance of up to four times salary.

### Non-executive Directors' remuneration

The Company's policy on Non-executive Directors' remuneration is to set compensation at a level which is sufficiently competitive to attract, retain and motivate high quality Non-executives and to be consistent with best practice standards. Non-executive Directors may not participate in the Company's PSP or pension arrangements. Each of the Non-executive Directors is entitled to reimbursement of reasonable expenses incurred in the course of their duties and to Directors' and officers' liability insurance cover.

The Board reviews Non-executive Directors' (including the Chairman's) remuneration periodically to ensure it remains competitive. Additional fees are paid to the Chairmen of the Audit, Remuneration and Nominations Committees. Save in relation to Charles Jamieson, the fees of each Non-executive Director set out below comprise a £45,000 annual base fee and an additional annual fee of £5,000 for chairing a Board Committee. Struan Robertson also receives an additional annual fee of £10,000 for his role as Senior Independent Non-executive Director. John Crowle receives an additional annual fee of £5,000 in recognition of his responsibility for advising, as required, on technical issues.

All Non-executive Directors have letters of appointment with the Company. Charles Jamieson, Struan Robertson, John Crowle and Robert Cathery were appointed on 27 June 2007. Michael Pavia and James Coleman were appointed 30 June 2008. All appointments are subject to satisfactory performance and the requirements of the Company's Articles of Association for one-third of the Directors to retire by rotation and offer themselves for re-appointment at each AGM.

	Annual salary £'s	Date of contract	Notice period
Charles Jamieson	70,000	29/11/06	Three months
Struan Robertson	60,000	29/11/06	One month
Michael Pavia	50,000	09/07/07	One month
John Crowle	50,000	29/11/06	One month
Robert Cathery	50,000	29/11/06	One month
James Coleman	45,000	08/05/08	One month

### Aggregate remuneration of Directors (audited)

The total amount of Directors' remuneration was as follows:

	2010 £'s	2009 £'s
Emoluments	<b>1,810,257</b>	1,686,664
Total aggregate remuneration	<b>1,810,257</b>	1,686,664

## Remuneration of Directors (audited)

The remuneration of Directors during 2010 was as follows:

	2010				2009
	Base salary £'s	Bonus £'s	Benefits £'s	Total £'s	Total £'s
<b>Executive Directors</b>					
James Menzies	380,000	125,400	62,119	567,519	540,225
Mike Buck <sup>1</sup>	280,000	92,400	126,619	499,019	464,478
Nick Cooper	280,000	92,400	46,319	418,719	450,197
<b>Non-executive Directors</b>					
Charles Jamieson	70,000	–	–	70,000	55,000
Struan Robertson	60,000	–	–	60,000	45,000
Michael Pavia	50,000	–	–	50,000	35,000
John Crowle	50,000	–	–	50,000	35,000
Robert Cathery	50,000	–	–	50,000	35,000
James Coleman	45,000	–	–	45,000	26,764
<b>Total remuneration of Directors</b>	<b>1,265,000</b>	<b>310,200</b>	<b>235,057</b>	<b>1,810,257</b>	<b>1,686,664</b>

1 In line with the Group's Policy, expatriate employees are paid a net salary by the Group in their host country based on their base salary and other factors associated with living abroad. The salary and benefits reported above for Mike Buck include his net expatriate salary grossed up for income tax payable in his host country, and other expatriate benefits.

At 31 December 2010, the following Awards had been made to Executive Directors under the PSP:

Award date	Award grant price £'s	Awards granted Number	Awards exercised Number	Awards lapsed Number	Earliest exercise Date	Latest exercise Date	At 1 January 10 Number	At 31 December 10 Number
<b>James Menzies</b>								
13/12/06	2.67	112,360	–	112,360	13/12/09	13/12/10		
05/10/07	2.395	125,261	115,274 <sup>5</sup>	9,987	05/10/10	05/10/11		
28/03/08	2.795	113,605	–	–	28/03/11	28/03/12		
27/03/09	1.29	244,186	–	–	27/03/12	27/03/13		
11/05/10	2.357	322,444	–	–	11/05/13	11/05/14	483,052	680,235
<b>Mike Buck</b>								
13/12/06	2.67	82,397	–	82,397	13/12/09	13/12/10		
05/10/07	2.395	91,858	84,534 <sup>5</sup>	7,324	05/10/10	05/10/11		
18/12/07	2.50	44,000	–	–	18/12/10	18/12/11		
28/03/08	2.795	166,285	–	–	28/03/11	28/03/12		
27/03/09	1.29	184,442	–	–	27/03/12	27/03/13		
11/05/10	2.357	237,590	–	–	11/05/13	11/05/14	486,585	632,317
<b>Nick Cooper</b>								
13/12/06	2.67	93,633	–	93,633	13/12/09	13/12/10		
05/10/07	2.395	104,384	96,061 <sup>5</sup>	8,323	05/10/10	05/10/11		
28/03/08	2.795	94,671	–	–	28/03/11	28/03/12		
27/03/09	1.29	203,488	–	–	27/03/12	27/03/13		
11/05/10	2.357	237,590	–	–	11/05/13	11/05/14	402,543	535,749

1 Awards are in the form of a nominal cost option and no payment is required for the grant of an Award. However, participants who are granted nominal cost options under the PSP are required to pay the Company the nominal value of £0.10 for each share issued upon the exercise of the option.

2 The Committee considers the interests of shareholders when deciding on how the PSP is operated and ensures that no individual is granted excessive levels of Awards, taking into consideration the overall quantum and structure of that individual's compensation package. In circumstances where the Committee considers it appropriate to do so, including the recruitment or retention of an employee or Executive Director, the Committee may exceed the normal 200% limit at its discretion.

3 The aggregate value of Awards granted in 2008 by the Committee to Mike Buck (Chief Operating Officer) was equivalent to 200% of his base annual salary, reflecting his increased operational responsibilities and contribution to the Group's performance.

4 The highest and lowest closing prices of the Company's shares during the year were £3.07 and £2.04 respectively. The mid-market price of the Company's shares at 31 December 2010 was £2.69.

5 During 2010 Hewitt New Bridge Street carried out a performance monitoring exercise in respect of the Awards made on 5 October 2007 under the terms of the Salamander Energy Performance Share Plan. These Awards were subject to a total shareholder return performance condition relative to a comparator group over a performance period and accordingly vested at 91.79% of the number of Awards granted on 5 October 2007. The market price on vesting of the Awards was £2.5289. The Executive Directors exercised the full Award vested, receiving ordinary shares after selling shares sufficient to cover the cost of the option price and tax resulting from the exercise of the vested Awards. No other options lapsed or were exercised during the year.

## Directors' interests in shares

The following sets out the interests of the past and serving Directors and their immediate families in the ordinary shares of the Company during the financial year:

	Beneficial shares	
	At 1 January 2010 Number	At 31 December 2010 Number
Charles Jamieson	659,869	659,869
James Menzies	1,961,158	2,050,194
Mike Buck	130,774	222,632
Nick Cooper	1,755,236	1,800,266
Struan Robertson	9,300	9,300
Michael Pavia	20,000	20,000
John Crowle	13,040	13,040
Robert Cathery <sup>1</sup>	659,869	350,000
James Coleman	55,055	55,055

<sup>1</sup> As at 23 March 2011, Charles Jamieson held 734,869 ordinary shares, Michael Pavia held 30,000 ordinary shares and Robert Cathery held 450,000 ordinary shares. The other Directors' holdings in ordinary shares as at 23 March 2011 were the same as reported at 31 December 2010.

## Approval

The Directors' Remuneration Report has been approved by the Board of Directors of the Company.

Signed on behalf of the Board

### Robert Cathery

Chairman of the Remuneration Committee

23 March 2011

# Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the business review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

**James Menzies**  
Chief Executive Officer

23 March 2011

**Nick Cooper**  
Chief Financial Officer

23 March 2011

# Independent Auditor's Report to the members of Salamander Energy Plc

We have audited the financial statements of Salamander Energy plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Statement of Accounting Policies and the related notes 1 to 29 and 1 to 12. 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 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.

## 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 2010 and of the Group's loss 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 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**

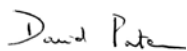
We have nothing to report in respect of the following:

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 Director's Report in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.



**David Paterson (Senior Statutory Auditor)**

For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, UK

23 March 2011

# Statement of accounting policies and general information

## General information on the Company and the Group

Salamander Energy PLC ('the Company') is a company incorporated in England and Wales on 13 September 2006 under the Companies Act, which serves as a holding company for the Group. The address of the registered office is 5th Floor, 21 Palmer Street, London SW1H 0AD. The nature of the Group's operations and its principal activities are as an independent oil and gas exploration, development and production company focused on building a portfolio of assets in Southeast Asia.

## Financial information

The financial information is presented in US Dollars. Foreign operations are included in accordance with policies set out later in this section.

At the date of authorisation of this financial information, the following Standards and Interpretations which have not been applied in this financial information were in issue but are not yet effective:

IFRS 9	Financial Instruments
IAS 24 (revised 2009)	Related Party Disclosures
IAS 32 (amended)	Classification of Rights Issues
IFRIC 14 (amended)	Prepayment of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Improvements to IFRSs (May 2010)

The adoption of IFRS 9 which the Group plans to adopt for the year beginning on 1 January 2013 will impact both the measurement and disclosures of financial instruments.

The Directors anticipate the adoption of the other Standards and Interpretations listed above in future periods will not have a material impact on the financial position of the Group.

## Accounting policies and presentation of financial information

### Basis of preparation

The financial statements have been prepared in accordance with IFRS and IFRIC interpretations adopted for use in the European Union and therefore comply with Article 4 of the EU, IAS Regulation.

The financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments.

The financial statements have been prepared on a going concern basis as set out in the Directors' Report.

The separate financial statements of the Parent Company are presented as required by the Companies Act 2006. As permitted by the Act, the separate financial statements have been prepared in accordance with IFRS. The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in the Accounting Policies in this section. As a consolidated Income Statement is included, a separate Income Statement for the Parent Company has not been included in accordance with section 408 of the Companies Act 2006. The profit for the year for the Parent Company is disclosed in the Statement of Changes in Equity to the Company financial statements.

### Adoption of new and revised accounting standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

## Accounting policies and presentation of financial information continued

### Standards affecting the financial statements

IFRS 3 (2008)	Business Combinations
IAS 27 (2008)	Consolidated and Separate Financial Statements
IAS 28 (2008)	Investments in Associates

These standards have introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate. IFRS 3 (2008) has also introduced additional disclosure requirements for acquisitions.

A number of other Standards have been revised and were applicable for the first time this year. However, none of these revisions had any impact on the Group.

### Basis of consolidation

The consolidated financial statements consist of the financial statements of the Company and all its subsidiary undertakings. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenues and the results of subsidiary undertakings are consolidated in the Consolidated Income Statement from the dates on which control over the operating and financial decisions is obtained.

Where necessary, adjustments are made to the results of Subsidiary and Joint Venture Entities to bring the Accounting Policies into line with those used by the Group.

### Commercial reserves

Commercial reserves are proved and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50% statistical probability that it will be less.

### Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Where a Group Company undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other ventures are recognised in the financial statements of the relevant company and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accruals basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interest in jointly controlled entities using proportionate consolidation, that is, the Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in consolidated financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

### **Acquisitions**

On an acquisition that qualifies as a business combination in accordance with IFRS 3 – Business Combinations, the assets and liabilities of a subsidiary are measured at their fair value as at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill which is treated as an intangible asset. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the Income Statement in the period of acquisition.

If the Group acquires a group of assets or equity in a company that does not constitute a business combination in accordance with IFRS 3 – Business Combinations, the cost of the acquired group of assets or equity is allocated to the individual identifiable assets acquired based on their relative fair value.

### **Revenue**

Revenue represents the sales value, net of VAT and equivalent taxes of the Group's share of liftings in the period together with tariff income.

Revenue received under take-or-pay sales contracts in respect of undelivered volumes is accounted for as deferred income. Revenue is recognised when goods are delivered and title has passed.

### **Interest revenue**

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### **Derivative financial instruments and hedge accounting**

The Group uses derivative financial instruments to manage its exposure to movements in oil and gas prices, interest rates and foreign exchange. The Group does not use derivatives for speculative purposes.

#### **Derivative financial instruments are stated at fair value**

The purpose for which a derivative is used is established at inception. To qualify for hedge accounting, the derivative must be highly effective in achieving its objective and this effectiveness must be documented at inception and throughout the period of the instrument (designation).

Gains or losses on derivatives that do not qualify for hedge accounting treatment (either from inception or during the life of the instrument) are taken directly to the Income Statement in the period. These include economic hedges that might qualify as accounting hedges, but were not designated as such at inception.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The estimated fair value of these derivatives is included in other creditors or other debtors in the Balance Sheet and the related changes in the fair value are included in other financial gains and losses in the Income Statement. Upfront contract fees and realised gains and losses upon settlement are included within revenue in the Income Statement over the hedged period.

During 2010 and 2009 there were no derivatives that were designated as hedges for accounting purposes.

## **Cost of sales**

### **Underlift and overlift**

Lifting or offtake arrangements for oil and gas produced in certain of the Group's jointly owned operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within debtors and creditors respectively. Movements during an accounting period are adjusted through Cost of Sales such that Gross Profit is recognised on an entitlements basis.

### **Share based payment**

The Company has applied the requirements of IFRS 2 – Share Based Payment.

The Group makes equity settled Share Based Payment to certain employees. Equity settled share based schemes are measured at fair value at the date of grant.

The fair value determined at the grant of the equity settled Share Based Payment is expensed on a straight line basis over the vesting period, based on an estimate of shares that will eventually vest. The expenses so recognised are simultaneously added back as an adjustment through equity.

### **Operating leases**

Rentals under operating leases are charged to the Income Statement on a straight line basis over the term of the lease.

### **Foreign currencies**

The US Dollar is the presentation currency of the Group. On consolidation, financial statements of foreign currency denominated subsidiaries are translated into US Dollars whereby the results of the overseas operations are translated at the average rate of exchange for the period and their Balance Sheets at rates of exchange ruling at the Balance Sheet date. Currency translation adjustments arising on the restatement of opening net assets of foreign subsidiaries, together with differences between the subsidiaries' results translated at average rates versus closing rates, are taken directly to reserves. All resulting exchange differences are classified as equity until disposal of the subsidiary. On disposal the cumulative amounts of the exchange differences are recognised as income or expense.

Transactions in foreign currencies in individual subsidiaries are recorded at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated into US Dollars at the exchange rates ruling at the Balance Sheet date, with a corresponding charge or credit to the Income Statement.

### **Finance costs and debt**

Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Debt is shown on the Balance Sheet net of arrangement fees and issue costs, and amortised through to the income statement as finance costs over the term of the debt.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

### **Taxation**

Current and deferred tax, including UK corporation tax and overseas corporation tax, are provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

### **Taxation** continued

Deferred corporation tax is recognised on all temporary differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more, or right to pay less tax in the future, have occurred at the Balance Sheet date. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying temporary differences can be deducted.

Deferred tax is provided on temporary differences arising on acquisitions that are categorised as business combinations. Deferred tax is recognised at acquisition as part of the assessment of the fair value of assets and liabilities acquired. Any deferred tax is charged or credited in the Income Statement as the underlying temporary difference is reversed.

Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the Balance Sheet date.

### **Exploration and evaluation assets**

The Group adopts the 'successful efforts' method of accounting for exploration and evaluation costs. All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by well, field or exploration area, as appropriate. Directly attributable administration costs are capitalised insofar as they relate to specific exploration and development activities. Pre-licence costs are expensed in the period they are incurred.

If prospects are deemed to be impaired ('unsuccessful') on completion of an evaluation, the associated capitalised costs are charged to the Income Statement. If the field is determined to be commercially viable, the attributable costs are transferred to property, plant and equipment in a single field cost centre.

### **Property, plant and equipment**

Property, plant and equipment is stated in the Balance Sheet at cost less accumulated amortisation and depreciation.

### **Oil and gas properties**

Oil and gas properties expenditures carried within each field are amortised from the commencement of production, on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. The production and reserve estimates used in the calculation are on an entitlements basis. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions (including commodity assumptions and cost of capital) that indicate a possible impairment of a field previously determined to be commercially viable, the recoverability of the net book amount relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Any impairment identified is charged to the Income Statement as additional depreciation, depletion and amortisation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

### **Oil and gas properties** continued

Provision for decommissioning is recognised in full when the related facilities are installed, where the Group has a legal or constructive obligation to decommission. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as finance costs.

### **Other fixed assets**

Property, plant and equipment, other than oil and gas properties, is depreciated at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its expected useful economic life of between three and five years.

### **Investments**

Investments in subsidiaries and joint venture entities held by the Company as non-current assets are stated at cost less any provision for impairment.

### **Share issue expenses and share premium account**

Costs of share issues are written off against the premium arising on the issue of share capital.

### **Inventories**

Inventories of oil are stated at their net realisable values. Inventories of materials are stated at the lower of cost or net realisable value.

### **Financial instruments**

Financial assets and financial liabilities are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

#### **Financial assets**

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value.

#### **Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for all debt instruments.

## Financial instruments continued

### Financial assets at fair value through profit and loss ('FVTPL')

Financial assets are classified as financial assets at fair value through profit or loss where the Group acquires the financial asset principally for the purpose of selling in the near term, the financial asset is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking as well as all derivatives that are not designated as effective hedging instruments. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at each Balance Sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. All impairment losses are taken to the Income Statement.

Trade receivables are assessed for impairment based on the number of days outstanding on individual invoices. Any trade receivable that is deemed uncollectible is immediately written off to the Income Statement, any subsequent recoveries are also taken directly to the Income Statement upon receipt of cash collected.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

### Financial liabilities at fair value through profit and loss ('FVTPL')

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### **Critical judgements and accounting estimates**

In the process of applying the Group's accounting policies described above, management has made judgements and estimates that may have a significant effect on the amounts recognised in the financial statements.

Management is required to assess the level of the Group's commercial reserves together with the future expenditures to access those reserves, which are utilised in determining the amortisation and depreciation charge for the period and assessing whether any impairment charge is required. The Group employs independent reserves specialists who periodically report on the Group's level of commercial reserves by evaluating the estimates of the Group's in house reserves specialists and where necessary referencing geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Group's assets. In addition the Group undertakes its own assessment of commercial reserves and related future capital expenditure by reference to the same datasets using its own internal expertise. The estimates adopted by the Group may differ from the independent reserves specialists' estimates where management considers that adjustments are appropriate in the circumstances.

Management is required to assess intangible fixed assets for impairment with reference to the indicators provided in IFRS 6 – Exploration for Evaluation of Mineral Resources. Note 12 to the consolidated financial statements discloses the carrying value of such assets.

Management is required to determine the fair value of the assets and liabilities acquired under a business combination including the cost of the acquisition and allocate a fair value cost to the underlying assets acquired. There were no transactions in the current year that qualified as a business combination.

Management is required to review and potentially test property plant and equipment for impairment, usually by estimating a pre-tax value in use for each asset held and comparing that value to the net book amount of the asset being carried in the Balance Sheet. Details of certain impairments that arose in the current year are provided in note 13 to the consolidated financial statements.

Management, in regard to the BNPP led reserves based lending facility, is required to estimate the amount of borrowings that are classified as a due within one year and the amount that is classified as due after one year, as the calculations are based on uncertain future assumptions such as oil price and other economic factors.

Management has determined that for certain assets the Group does not need to make provisions for decommissioning because: (i) the contracts covering the Group's operations do not provide for the Group to decommission its oil and gas properties; and (ii) the fields in question are expected to continue producing for substantial periods after the contracts expire and therefore the costs will be incurred by other parties unless the Group agrees to extend these contracts.

Management is required to make assumptions in respect of the inputs used to calculate the fair values of Share Based Payment arrangements. Details of these assumptions and the resultant charge to the Income Statement are provided in note 28 to the consolidated financial statements.

Management is required to determine the fair value at the Balance Sheet of derivative contracts entered into.

Management is required to assess the carrying value of investments in subsidiaries in the Parent Company Balance Sheet for impairment by reference to the recoverable amount. This requires an estimate of amounts recoverable from oil and gas assets within the underlying subsidiaries, which is inherently uncertain.

# Consolidated income statement

For the year ended 31 December 2010

	Note	2010 \$'000s	2009 \$'000s
<b>Continuing operations</b>			
Revenue	2	<b>323,374</b>	157,148
Cost of sales			
Impairment	3,13	<b>(48,575)</b>	–
Other cost of sales	3	<b>(272,184)</b>	(123,749)
Total cost of sales	3	<b>(320,759)</b>	(123,749)
<b>Gross profit</b>		<b>2,615</b>	33,399
Exploration expenses:			
Exploration costs written off	12	<b>(91,336)</b>	(5,860)
Pre-licence exploration expenses		<b>(4,532)</b>	(5,510)
Total exploration expenses		<b>(95,868)</b>	(11,370)
Administration expenses		<b>(12,707)</b>	(8,850)
<b>Operating (loss)/profit</b>	6	<b>(105,960)</b>	13,179
Interest revenue	7	<b>399</b>	531
Finance costs	8	<b>(15,523)</b>	(4,411)
Other financial gains/(losses)	9	<b>7,431</b>	(12,258)
<b>Loss before tax</b>		<b>(113,653)</b>	(2,959)
Taxation:			
Current tax	10	<b>(71,564)</b>	(23,895)
Deferred tax	10	<b>15,699</b>	13,323
Total taxation		<b>(55,865)</b>	(10,572)
<b>Loss for the year (and total comprehensive loss)</b>		<b>(169,518)</b>	(13,531)
	Note	\$s	\$s
<b>Loss per ordinary share</b>			
Basic and diluted	11	<b>(1.10)</b>	(0.09)

# Consolidated statement of changes in equity

For the year ended 31 December 2010

	Share capital \$'000s	Share premium \$'000s	Other reserves \$'000s	Profit and loss \$'000s	Total \$'000s
<b>At 1 January 2009</b>	29,844	378,685	244,519	(70,945)	582,103
Share Based Payments	–	–	3,434	–	3,434
Loss for the year	–	–	–	(13,531)	(13,531)
<b>At 31 December 2009</b>	29,844	378,685	247,953	(84,476)	572,006
Ordinary shares issued	190	2,880	–	–	3,070
Share Based Payments	–	–	2,562	–	2,562
Convertible bond	–	–	11,271	–	11,271
Loss for the year	–	–	–	(169,518)	(169,518)
<b>At 31 December 2010</b>	30,034	381,565	261,786	(253,994)	419,391

## Other reserves

Other reserves comprise:

	2010 \$'000s	2009 \$'000s
Share Based Payment reserve	<b>8,784</b>	6,222
Convertible bond (see note 22)	<b>11,271</b>	–
Merger reserve	<b>241,731</b>	241,731
<b>Total other reserves</b>	<b>261,786</b>	247,953

# Consolidated balance sheet

31 December 2010

	Note	2010 \$'000s	2009 \$'000s
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible exploration and evaluation assets	12	<b>239,278</b>	243,579
Property, plant and equipment	13	<b>517,005</b>	575,945
Other receivables:			
Restricted bank deposits	14	<b>4,339</b>	11,398
Other		<b>6,516</b>	5,727
Deferred tax assets	17	<b>3,075</b>	2,271
<b>Total non-current assets</b>		<b>770,213</b>	838,920
<b>Current assets</b>			
Inventories	18	<b>20,375</b>	24,326
Trade and other receivables	19	<b>115,032</b>	50,978
Cash and cash equivalents	20	<b>89,860</b>	47,753
Total current assets		<b>225,267</b>	123,057
<b>Total assets</b>		<b>995,480</b>	961,977
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	21	<b>80,010</b>	136,306
Convertible bonds	22	<b>88,084</b>	–
Provisions	23	<b>9,490</b>	7,400
Deferred tax liability	17	<b>121,583</b>	136,450
<b>Total non-current liabilities</b>		<b>299,167</b>	280,156
<b>Current liabilities</b>			
Trade and other payables	24	<b>108,676</b>	59,949
Borrowings due within one year	21	<b>103,796</b>	38,287
Current tax payable		<b>64,450</b>	11,579
Total current liabilities		<b>276,922</b>	109,815
<b>Total liabilities</b>		<b>576,089</b>	389,971
<b>Net assets</b>		<b>419,391</b>	572,006
<b>Equity</b>			
Share capital	27	<b>30,034</b>	29,844
Share premium		<b>381,565</b>	378,685
Other reserves		<b>261,786</b>	247,953
Retained loss		<b>(253,994)</b>	(84,476)
<b>Total equity</b>		<b>419,391</b>	572,006

Approved by and authorised for issue, and signed on behalf of, the Board of Directors

**Nick Cooper**

Chief Financial Officer

23 March 2011

Company Number 5934263

# Consolidated cash flow statement

For the year ended 31 December 2010

	2010 \$'000s	2009 \$'000s
<b>Cash flow from operating activities</b>		
Loss before tax	(113,653)	(2,959)
Adjustments for:		
Exploration write offs	91,336	5,860
Amortisation and depreciation and impairment	186,884	62,406
Interest revenue	(399)	(531)
Finance costs	15,523	4,411
Other financial (gains)/losses	(7,431)	12,258
Share Based Payment	2,092	2,233
<b>Operating cash flow prior to working capital</b>	<b>174,352</b>	83,678
Decrease/(increase) in inventories	3,951	(16,432)
Increase in trade and other receivables	(51,623)	(2,972)
(Decrease)/increase in trade and other payables	(1,479)	7,839
<b>Cash generated from operations</b>	<b>125,201</b>	72,113
Payment of tax	(18,693)	(18,555)
<b>Net cash from operating activities</b>	<b>106,508</b>	53,558
<b>Cash flow from investing activities</b>		
Expenditures on intangible assets	(48,228)	(32,105)
Purchase of property, plant and equipment	(117,389)	(88,194)
Repayment of other receivables	6,271	686
Interest received	382	531
<b>Net cash used in investing activities</b>	<b>(158,964)</b>	(119,082)
<b>Cash flow from financing activities</b>		
Interest paid	(9,426)	(5,851)
Other financial payments	(2,222)	(1,063)
Cash flows in respect of long term borrowings:		
Drawdown of senior/junior reserves based lending facility	26,175	16,853
Repayment of senior/junior reserves based lending facility	(88,546)	–
Issue of convertible bond	97,273	–
Drawdown of acquisition bridge facility	71,878	–
<b>Net cash from financing activities</b>	<b>95,132</b>	9,939
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>42,676</b>	(55,585)
Cash and cash equivalents at the beginning of the year	47,753	103,012
Effect of foreign exchange rate change	(569)	326
<b>Cash and cash equivalents at the end of the year</b>	<b>89,860</b>	47,753

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 1 Segmental analysis

The Group's reportable and geographical segments are Thailand, Indonesia, the Philippines, Lao PDR, Vietnam and Other. Other activities include its corporate centre in the UK.

Information regarding the Group's operating segments is reported below.

### Segment revenues and results

The following is an analysis of the Group's revenue and assets by reportable segment:

	2010						Total \$'000s
	Thailand £'000s	Indonesia \$'000s	Philippines \$'000s	Lao PDR \$'000s	Vietnam \$'000s	Other \$'000s	
<b>Revenue (external)</b>	203,931	122,368	–	–	–	(2,925)	323,374
<b>Operating profit/(loss)</b>	121,167	(167,968)	(6,909)	(7,915)	(25,058)	(19,277)	(105,960)
Interest revenue						399	399
Finance cost						(15,523)	(15,523)
Other financial gains						7,431	7,431
<b>Loss before tax</b>							(113,653)
Tax						(55,865)	(55,865)
<b>Loss for the year</b>							(169,518)
Non-current assets	443,775	316,609	–	13	798	9,018	770,213
Total assets	527,772	383,963	–	1,284	3,577	78,884	995,480
Depreciation and amortisation	35,578	102,359	–	5	–	367	138,309
Additions to non-current assets	112,383	104,185	–	(134)	(3,122)	1,667	214,979
(Reversal of impairment)/ impairment	(42,930)	91,505	–	–	–	–	48,575
	2009						Total \$'000s
	Thailand £'000s	Indonesia \$'000s	Philippines \$'000s	Lao PDR \$'000s	Vietnam \$'000s	Other \$'000s	
<b>Revenue (external)</b>	109,476	58,385	–	–	–	(10,713)	157,148
<b>Operating profit/(loss)</b>	44,615	(7,919)	(22)	136	(17)	(23,614)	13,179
Interest revenue						531	531
Finance cost						(4,411)	(4,411)
Other financial losses						(12,258)	(12,258)
<b>Loss before tax</b>							(2,959)
Tax						(10,572)	(10,572)
<b>Loss for the year</b>							(13,531)
Non-current assets	331,263	443,209	6,239	8,262	28,961	20,986	838,920
Total assets	375,295	466,371	6,820	8,816	29,331	75,344	961,977
Depreciation and amortisation	36,076	26,104	–	8	–	218	62,406
Additions to non-current assets	43,895	69,229	1,193	(2,095)	6,821	1,795	120,838

The accounting policies used for the reportable segments are the same as the Group's accounting policies.

## 1 Segmental analysis continued

For the purposes of monitoring segment performance and allocating resources between segments, the Group's Chief Operating Officer monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of the segments, financial assets (except for trade and other receivables) (see note 19) and tax assets.

### Information about major customers

Included in revenues arising from Thailand are revenues of approximately \$203,391,000 (2009: \$92,511,000), and in Indonesia revenues of \$46,544,000 (2009: \$37,462,000) which arose from sales to the Group's largest customers.

## 2 Revenue

Revenue, excluding interest revenue (see note 7), comprises:

	2010 \$'000s	2009 \$'000s
Sales of oil	261,405	134,795
Sales of gas	64,894	33,066
Oil and gas derivatives:		
Hedging fees	–	(3,401)
Realised settlement losses	(2,925)	(7,312)
<b>Total revenue (excluding interest revenue)</b>	<b>323,374</b>	<b>157,148</b>

Total revenue in accordance with IAS 18 includes interest revenue and amounted to \$323,773,000 (2009: \$157,679,000).

## 3 Cost of sales

Cost of sales comprises:

	2010 \$'000s	2009 \$'000s
Operating costs	102,490	69,448
Royalty payable	16,801	9,889
Amortisation of oil and gas properties	137,830	61,957
Impairment	48,575	–
Overlift	2,341	4,582
Movement in inventories of oil	12,722	(22,127)
<b>Total cost of sales</b>	<b>320,759</b>	<b>123,749</b>

Of total royalties payable of \$16,801,000, \$14,028,000 (2009: \$7,768,000) was payable in respect of Thailand assets where the royalty was deductible as an advance payment of income tax to the extent income tax was payable (see note 10).

## 4 Employee numbers and costs

The monthly average number of employees (including Executive Directors and consultants) employed and charged to operations was as follows:

	2010 Number	2009 Number
Professional	94	65
Administration	39	27
<b>Total employee numbers</b>	<b>133</b>	<b>92</b>

**4 Employee numbers and costs** continued

The aggregate remuneration was as follows:

	2010 \$'000s	2009 \$'000s
Wages and salaries	<b>19,134</b>	15,086
Share Based Payment	<b>2,562</b>	3,434
Pension	<b>559</b>	611
Social security	<b>888</b>	869
<b>Total employee costs</b>	<b>23,143</b>	20,000

A proportion of total employee costs were directly attributable to capital and other projects and were capitalised or expensed consistent with the project expenditures as follows:

	2010 \$'000s	2009 \$'000s
Non-current assets	<b>9,235</b>	7,267
Operating costs	<b>9,220</b>	7,600
Administrative expenses	<b>4,688</b>	5,133
<b>Total employee costs</b>	<b>23,143</b>	20,000

**5 Operating lease arrangements**

	2010 \$'000s	2009 \$'000s
FPSO lease	<b>13,778</b>	10,950
Office leases	<b>2,089</b>	2,152
Minimum lease payments under operating leases recognised in income statement for the year	<b>15,867</b>	13,102

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:

	2010		2009	
	FPSO \$'000s	Offices \$'000s	FPSO \$'000s	Offices \$'000s
Within one year	19,901	1,771	10,950	1,553
Within two to five years	34,364	2,075	10,950	852
Greater than five years	–	394	18,090	273
<b>Total outstanding operating lease commitments</b>	54,265	4,240	39,990	2,679

**6 Operating profit/(loss)**

Operating profit/(loss) is stated after charging:

	2010 \$'000s	2009 \$'000s
Employee costs expensed	<b>13,908</b>	12,733
Amortisation and depreciation of property, plant and equipment	<b>137,830</b>	61,957
Auditors' remuneration (see below)		
Audit services	<b>540</b>	486
Non-audit services	<b>1,694</b>	997
Net foreign exchange (losses)/gains	<b>(569)</b>	318
Movement in inventories of oil	<b>12,722</b>	(22,127)
Operating lease arrangements (see note 5)		
FPSO lease	<b>13,778</b>	10,950
Office lease	<b>2,089</b>	2,152

## Auditors' remuneration

The following is an analysis of gross fees paid to the Company's Auditors, Deloitte LLP:

	2010 \$'000s	2009 \$'000s
<b>Audit services</b>		
Fees payable to the Company's Auditors for the audit of the Company's annual accounts	360	323
The audit of the Company's subsidiaries pursuant to legislation	180	163
<b>Total audit fees</b>	<b>540</b>	486
<b>Non-audit services</b>		
Other services provided pursuant to legislation	108	98
Corporate finance services (reporting accountant services)	1,250	–
Tax services	336	899
<b>Total non-audit services</b>	<b>1,694</b>	997
<b>Total</b>	<b>2,234</b>	1,483

Other services provided pursuant to legislation represent the fees for the Group's half year review. Corporate finance services represents the fee for reporting accountant services relating to the Group's acquisition of an additional 40% interest in the Bualuang field in Thailand.

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

## 7 Interest revenue

	2010 \$'000s	2009 \$'000s
Loan interest revenue	17	269
Bank interest revenue	382	262
<b>Total interest revenue</b>	<b>399</b>	531

## 8 Finance costs

	2010 \$'000s	2009 \$'000s
<b>Long term borrowings:</b>		
Amortisation of capitalised arrangement fees	1,785	724
Interest expense	11,358	5,851
Unwinding of discount		
Convertible bonds	1,738	–
Provision for decommissioning	824	806
Less interest capitalised	(182)	(2,970)
<b>Total finance costs</b>	<b>15,523</b>	4,411

**9 Other financial gains and losses**

	2010 \$'000s	2009 \$'000s
Profit/(loss) relating to oil price hedges	<b>8,251</b>	(11,513)
Loss relating to interest rate hedges	<b>(319)</b>	(1,108)
Profit on investments	<b>68</b>	45
Currency exchange (loss)/gain	<b>(569)</b>	318
<b>Total other financial gains/(losses)</b>	<b>7,431</b>	(12,258)

**10 Taxation**

	2010 \$'000s	2009 \$'000s
<b>Current taxation</b>		
Income tax	<b>50,556</b>	23,895
Special Remuneratory Benefit	<b>21,008</b>	–
<b>Total current tax</b>	<b>71,564</b>	23,895
<b>Deferred taxation</b>		
Income tax	<b>(31,029)</b>	(13,323)
Special Remuneratory Benefit	<b>15,330</b>	–
<b>Total deferred tax</b>	<b>(15,699)</b>	(13,323)
<b>Total tax charge</b>	<b>55,865</b>	10,572

Special Remuneratory Benefit is a tax that arises on certain fields in Thailand and which is payable at variable rate dependent on a number of financial and operational metrics.

**Reconciliation of tax charge to loss before tax**

The tax charge for the year can be reconciled to the loss before tax per the Income Statement as follows:

	2010 \$'000s	2009 \$'000s
<b>Loss before taxation</b>	<b>(113,653)</b>	(2,959)
Applicable rate	<b>44%</b>	44%
<b>Tax at the applicable rate of tax</b>	<b>(50,007)</b>	(1,302)
Tax effect of:		
Items which are not deductible for tax:		
Exploration expenses	<b>42,181</b>	5,267
Other	<b>12,649</b>	(3,406)
UK losses not recognised	<b>7,161</b>	7,368
Foreign losses not recognised	<b>323</b>	–
Thailand Special Remuneratory Benefit	<b>36,338</b>	–
Different foreign tax rates	<b>7,220</b>	2,645
<b>Total tax charge</b>	<b>55,865</b>	10,572

The Group's operations are conducted primarily outside the United Kingdom. Accordingly the applicable tax rate used above is the average statutory rate of tax, weighted in proportion to accounting profits, applicable across the Group. The prior year comparatives, which previously used 28%, being the UK corporation tax rate, have been restated on this basis.

## 11 Loss per ordinary share

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

	Units	2010 \$'000s	2009 \$'000s
Loss for the purpose of basic and diluted earnings per share being the net loss attributable to equity holders of the parent	\$'000s	<b>(169,518)</b>	(13,531)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share <sup>1</sup>	\$'000s	<b>153,466</b>	152,781

### Loss per ordinary share

Basic and diluted	\$'s	<b>(1.10)</b>	(0.09)
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<sup>1</sup> As there is a loss for the year ended 31 December 2010 and 2009, there is no difference between the basic and diluted earnings per share. Potentially dilutive ordinary shares for the year ended 31 December 2010 were 4,305,854 (2009: 4,490,963) in respect of share options and 18,362,337 (2009: nil) in respect of convertible bonds.

## 12 Intangible exploration and evaluation assets

	2010 \$'000s	2009 \$'000s
Exploration and evaluation		
At 1 January	<b>243,579</b>	214,814
Additions	<b>87,035</b>	34,625
Costs written off	<b>(91,336)</b>	(5,860)
<b>At 31 December</b>	<b>239,278</b>	243,579

The amounts shown above for intangible exploration and evaluation assets represent the Group's current exploration projects. Included within the total amount are assets held in Indonesia of \$172,576,000 (2009: \$130,585,000) and Thailand of \$66,021,000 (2009: \$68,661,000).

## 13 Property, plant and equipment

	Oil and gas properties			Other fixed assets			Total net book value \$'000s
	Cost \$'000s	Amortisation \$'000s	Total \$'000s	Cost \$'000s	Depreciation \$'000s	Total \$'000s	
<b>1 January 2009</b>	656,969	(105,723)	551,246	1,863	(971)	892	552,138
Additions for the period	85,793	–	85,793	420	–	420	86,213
Amortisation and depreciation	–	(61,957)	(61,957)	–	(449)	(449)	(62,406)
Impairment	–	–	–	–	–	–	–
<b>31 December 2009</b>	742,762	(167,680)	575,082	2,283	(1,420)	863	575,945
Additions for the period	127,256	–	127,256	688	–	688	127,944
Amortisation and depreciation	–	(137,699)	(137,699)	–	(610)	(610)	(138,309)
Impairment	–	(48,575)	(48,575)	–	–	–	(48,575)
<b>31 December 2010</b>	870,018	(353,954)	516,064	2,971	(2,030)	941	517,005

Additions to oil and gas properties includes capitalised interest of \$182,000 (2009: \$2,970,000) charged at an average rate of 4.6% (2009: 5.4%) as well as \$109,269,000 (2009: nil) resulting from the Group's acquisition of an additional 40% interest in the Bualuang field in Thailand. Included in the net book amount at 31 December 2010 in oil and gas properties are assets amounting to \$402,315,000 (2009: \$567,580,000) pledged against the Group's existing seven years reserve-based lending facility.

**13 Property, plant and equipment** continued

The impairment charge shown above comprises a \$91,500,000 write-down in respect of the Kambuna asset in Indonesia and a \$42,900,000 write-back in respect of the Bualuang asset in Thailand. These impairment adjustments were calculated based on the assets' value in use, using management's best estimate of future oil prices, the latest estimate of commercial reserves and a pre-tax discount rate of 12.5%. The impairment charge on Kambuna was due to a reserves downgrade during the year caused by faster than anticipated pressure decline being observed in production data, whilst the impairment reversal on Bualuang was primarily due to a significant reserves upgrade as a result of recent drilling activities. The Bualuang adjustment represents a full reversal of the \$55,000,000 impairment charge in 2008, although the resulting credit was limited to \$42,900,000 to take into consideration additional depreciation that would have been charged if the original impairment had not taken place.

**14 Other receivables – restricted bank deposits**

Restricted bank deposits of \$4,339,000 (2009: \$11,398,000) represent deposits held as security against bank guarantees issued by the bank on behalf of the Group in support of certain of its operations.

**15 Commitments and guarantees****Bank guarantees**

At 31 December 2010, there were outstanding bank guarantees issued by banks on behalf of the Group, amounting to \$16,500,000 (2009: \$21,341,000).

**Capital commitments**

The Group's outstanding financial capital commitments represent the minimum agreed amounts the Group will expend completing its obligated work programmes of carrying out geophysical and geological studies, and to drill exploration and appraisal wells. At 31 December 2010, the Group anticipates it will discharge its minimum financial capital commitments as follows:

	2011 \$'000s	2012 \$'000s	2013 \$'000s
<b>Future capital commitments</b>	57,000	15,000	10,000

## 16 Group companies

The Subsidiaries and Jointly Controlled Entities of the Group, the activity of which relates to oil and gas exploration, development and production, at the Balance Sheet date were as follows:

### Subsidiaries

Company	Country of operation	Country of incorporation	Percentage holding
Salamander Energy Group Limited <sup>1</sup>	United Kingdom, Thailand and Vietnam	United Kingdom	100.00%
Salamander Energy (E&P) Limited	United Kingdom and Thailand	United Kingdom	100.00%
PHT Partners LP	United States of America	United States of America	100.00%
Salamander Energy (Holdco) Limited	United Kingdom	United Kingdom	100.00%
Salamander Energy Singapore Pte Ltd	Singapore	Singapore	100.00%
Salamander Energy (SE Asia) Limited	United Kingdom	United Kingdom	100.00%
Salamander Energy (Bontang) Company Pte Ltd	Indonesia	Singapore	100.00%
Salamander Energy (Java & Sumatra) B.V.	The Netherlands	The Netherlands	100.00%
Salamander Energy (Java) B.V.	Indonesia	The Netherlands	100.00%
Salamander Energy (Sumatra) B.V.	Indonesia	The Netherlands	100.00%
Salamander Energy (Philippines) Limited	The Philippines	United Kingdom	100.00%
Salamander Energy (Indonesia) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (Vietnam) Limited	Vietnam	United Kingdom	100.00%
Salamander Energy (Simenggaris) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (Bengara) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (Lao) Company Limited	Lao PDR	Lao PDR	100.00%
Salamander Energy (Canada) Limited	Canada	Canada	100.00%
Salamander Energy Oil & Gas Inc	Canada	Canada	100.00%
Salamander Energy Oil & Gas USA Inc	United States of America	United States of America	100.00%
Salamander Energy Oil & Gas Crystal Inc	United States of America	United States of America	100.00%
Salamander International Holdings Limited	British Virgin Islands	British Virgin Islands	100.00%
Salamander Energy (Asahan) Limited	Indonesia	British Virgin Islands	100.00%
Salamander Energy (Seruway) Limited	Indonesia	British Virgin Islands	100.00%
Salamander Bualuang & Kambuna Holdings Limited	British Virgin Islands	British Virgin Islands	100.00%
Salamander Energy (Bualuang) Limited	British Virgin Islands	British Virgin Islands	100.00%
Salamander Energy (Glagah Kambuna) Limited	Indonesia	British Virgin Islands	100.00%
Salamander Energy (Kutai) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (S.E. Sangatta) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (North Sumatra) Limited	Indonesia	British Virgin Islands	100.00%
Salamander Energy (Bualuang Holdings) Limited	United Kingdom	United Kingdom	100.00%
Salamander Energy (Glagah Kambuna Holdings) Limited	United Kingdom	United Kingdom	100.00%
Bontang Energy Limited <sup>1</sup>	Indonesia	United Kingdom	100.00%
Salamander Energy Thailand LLC	Thailand	United States of America	100.00%
Salamander Energy (Thailand) Co., Ltd	Thailand	Thailand	100.00%
Salamander Energy (South Sokang) Limited	Indonesia	United Kingdom	100.00%
Salamander Energy (Bangkanai) Limited	Indonesia	British Virgin Islands	100.00%

1 Salamander Energy Group Limited and Bontang Energy Limited are the only direct subsidiaries of the Company.

**16 Group companies** continued**Jointly controlled entities**

Company	Country of operations	Country of incorporation	Percentage holding
APICO LLC	Thailand	United States of America	27.18%
APICO (Khorat) Holdings LLC	Thailand	United States of America	27.18%
APICO (Khorat) Limited	Thailand	Thailand	27.18%

The following amounts are included in the financial statements relating to proportionately consolidated Jointly Controlled Entities of the Group:

	2010 \$'000s	2009 \$'000s
Total revenue	<b>22,208</b>	16,965
Total expenses	<b>19,836</b>	11,347
Non-current assets	<b>49,535</b>	57,506
Current assets	<b>6,440</b>	6,511
Non-current liabilities	<b>2,221</b>	1,861
Current liabilities	<b>7,914</b>	6,489

**17 Deferred tax assets and liabilities**

Net deferred tax liabilities were:

	Accelerated tax amortisation	
	2010 \$'000s	2009 \$'000s
At 1 January	<b>134,179</b>	147,502
Acquisition of subsidiaries	<b>28</b>	–
Credited to Income Statement	<b>(15,699)</b>	(13,323)
At 31 December	<b>118,508</b>	134,179

Deferred tax assets and liabilities included in the Balance Sheet were as follows:

	2010 \$'000s	2009 \$'000s
Deferred tax assets	<b>3,075</b>	2,271
Deferred tax liabilities	<b>(121,583)</b>	(136,450)
Net deferred tax liabilities	<b>(118,508)</b>	(134,179)

At 31 December 2010, the Group had not recognised a potential deferred tax asset of \$10,456,000 (2009: \$7,972,000) relating to tax losses as there was insufficient evidence of future taxable profits in the relevant jurisdictions. These losses can be carried forward indefinitely.

There are no significant unrecognised temporary differences associated with undistributed profits of subsidiaries and joint ventures.

**18 Inventories**

	2010 \$'000s	2009 \$'000s
Oil	<b>4,010</b>	16,732
Materials	<b>16,365</b>	7,594
<b>Total inventories</b>	<b>20,375</b>	24,326

## 19 Trade and other receivables

	2010 \$'000s	2009 \$'000s
Prepayments	<b>8,045</b>	3,582
Trade debtors	<b>61,215</b>	10,619
Restricted bank deposits	<b>5,041</b>	–
Underlift	<b>170</b>	–
Other debtors	<b>40,561</b>	36,777
<b>Total trade and other receivables</b>	<b>115,032</b>	50,978

The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty. The average age of these receivables is 68.5 days (2009: 23.1 days).

The Group does not have any receivables that are past their due date. No provision for doubtful debts has been raised as it is believed that all trade debtor balances are recoverable. The Directors consider the carrying amount of trade and other receivables approximates to their fair value.

## 20 Cash and cash equivalents

	2010 \$'000s	2009 \$'000s
Amounts held directly by the Group	<b>72,405</b>	43,448
Amounts held in joint ventures	<b>17,455</b>	4,305
<b>Total cash and cash equivalents</b>	<b>89,860</b>	47,753

Of the amounts held directly by the Group, \$24,491,000 (2009: \$18,278,000) was held in debt service accounts and subject to restrictions in accordance with the Group's debt facility, the key terms of which are described in note 21 to the consolidated financial statements.

Financial institutions and their credit ratings which held greater than 5% of the Group's cash and cash equivalents at the Balance Sheet date were as follows:

	S&P credit rating	2010 \$'000s	2009 \$'000s
HSBC Bank plc	AA	<b>18,401</b>	16,228
The Hong Kong and Shanghai Banking Corporation Ltd	AA–	<b>7,646</b>	3,616
BNPP	AA	<b>45,330</b>	18,192
Sumitomo Mitsui Banking Corporation Europe Limited	A+	<b>5,002</b>	5,004

## 21 Borrowings

	2010 \$'000s	2009 \$'000s
<b>Principal repayable on maturity</b>	<b>189,468</b>	178,464
Less deferred fees	<b>(5,662)</b>	(3,871)
<b>Total unamortised borrowings</b>	<b>183,806</b>	174,593
Less amounts due within one year	<b>(103,796)</b>	(38,287)
<b>Total long term borrowings</b>	<b>80,010</b>	136,306

**21 Borrowings** continued**Net debt**

	2010 \$'000s	2009 \$'000s
Amounts due on maturity:		
Borrowings	<b>189,468</b>	178,464
Convertible bonds (see note 22)	<b>100,000</b>	–
Total gross debt	<b>289,468</b>	178,464
Less restricted bank deposits	<b>(9,380)</b>	(11,398)
Less cash and cash equivalents	<b>(89,860)</b>	(47,753)
<b>Total net debt</b>	<b>190,228</b>	119,313

At the Balance Sheet date, the principal repayable on maturity (excluding the convertible bond, see note 22) is calculated to be repayable as follows:

	2010 \$'000s	2009 \$'000s
On demand or due within one year	<b>103,796</b>	38,287
In the second year	<b>30,671</b>	29,338
In the third to fifth year inclusive	<b>35,999</b>	110,839
After five years	<b>19,003</b>	–
<b>Total principal payable on maturity</b>	<b>189,468</b>	178,464

Borrowings at the Balance Sheet date include a seven year reserves based lending facility entered into in June 2009, an acquisition bridge facility entered into in September 2010 and a convertible bond issued in March 2010 (see note 22).

The reserves based lending facility is secured against certain of the Group's Thailand and Indonesia development and producing assets and includes certain covenants relating to the ratio of the loan balance outstanding to the net present value of cash flows of the secured assets. There has been no breach of terms on the borrowing facility. The key terms of the facility are:

- An initial facility amount of \$200 million, increased to \$230 million by the addition of a junior facility.
- The Group may draw an amount up to the lower of the facility amount or the borrowing base amount as determined by the forecast cash flows arising from the borrowing base assets.
- Interest accrues at a rate of between 2.20% and 2.95% plus LIBOR depending on the maturity of the assets. The borrowing base amount is re-determined on an annual basis, with the Group further having the option to undertake two mid-period redeterminations in each year should it elect to do so.
- Annual redeterminations of debt capacity.
- No early repayment penalties.
- Change of control provisions.

At 31 December 2010, the Group had drawn fully against the facility the amount that was available (2009: fully drawn against the facility available).

The acquisition bridge facility is secured against the additional 40% of the Bualuang asset acquired in September 2010 and includes certain covenants in respect to the Group's total debt, and Balance Sheet metrics. There has been no breach of terms on the borrowing facility. The key terms of the facility are:

- An initial facility amount of \$90 million, subject to satisfaction of certain conditions.
- Interest accrues at a rate of between 1.9% and 3.5% plus LIBOR.
- A final maturity date of the earlier of 18 months from the date of the facility and 31 December 2011.
- No early repayment penalties.
- Change of control provisions.

At 31 December 2010 the Group had drawn \$75 million against the facility.

## 22 Convertible bonds

The convertible bonds were issued on 30 March 2010 at an issue price of \$100 million. The bonds are convertible into ordinary shares of the Company at any time between the date of issue of the bonds and their settlement date. On issue, each bond was convertible at a price of £3.637 per share. The conversion price is set at a 37.5% premium to the volume weighted average share price of the ordinary shares at the date the convertible bonds were issued.

If the bonds have not been converted, they will be redeemed on 30 March 2015 at par. Interest of 5% will be paid annually up until that settlement date.

The net proceeds received from the issue of the convertible bonds have been split between the financial liability element (estimated at the time of issue using the prevailing market interest rate for similar non-convertible debt) and an equity component, representing the fair value of the embedded option to convert the financial liability into equity of the Company, as follows:

	\$'000s
Proceeds of issue of convertible bonds	100,000
Equity component before allocation of fees <sup>1</sup>	(11,586)
Liability component at date of issue	88,414
Coupon interest charged	3,795
Unwinding of discount	1,738
Interest paid	(2,500)
Less deferred fees relating to debt component	(2,068)
<b>Total liability component at 31 December 2010</b>	<b>89,379</b>
Reported in:	
Non-current liabilities	88,084
Interest payable in current liabilities	1,295
<b>Total liability component at 31 December 2010</b>	<b>89,379</b>

<sup>1</sup> The net amount credited to equity of \$11,271,000 comprises a fair value equity component of \$11,586,000 after the allocation of \$315,000 of fees relating to the equity component.

The total convertible bond interest expensed for the period is calculated by applying an effective interest rate of 8% to the liability component for the nine month period since the bonds were issued. The liability component is measured at amortised cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported in the Balance Sheet at 31 December 2010 represents the effective interest rate less interest paid to that date.

## 23 Provisions

Provisions for decommissioning and restoration of oil and gas assets are:

	2010 \$'000s	2009 \$'000s
<b>At 1 January</b>	<b>7,400</b>	4,713
Additions	1,266	1,881
Unwinding of discount	824	806
<b>At 31 December</b>	<b>9,490</b>	7,400

Of the total above, it is expected that the first decommissioning is to take place from 2015 (\$4,200,000, for the Kambuna field) with the remainder expected to fall due from 2025.

**24 Trade and other payables**

	2010 \$'000s	2009 \$'000s
Trade creditors	<b>768</b>	656
Overlift	<b>2,511</b>	4,489
Other creditors	<b>45,637</b>	22,145
Accrued expenses	<b>59,760</b>	32,659
<b>Total trade and other payables</b>	<b>108,676</b>	59,949

The average credit period taken for trade purchases is 80.2 days (2009: 43.8 days). The Directors consider the carrying value of trade and other payables approximates to their fair value.

**25 Financial instruments****Capital risk management**

The Group manages its capital to ensure that entities in the Group are 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, which includes the borrowings disclosed in notes 21 and 22, cash and cash equivalents as disclosed in note 20, and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in note 27 and the statement of changes in equity. This is further discussed in the Directors' Report.

**Gearing ratio**

Management reviews the capital structure on a continuing basis. The gearing ratio is defined as borrowings divided by net book equity plus borrowings at the year end was as follows:

	2010 \$'000s	2009 \$'000s
Borrowings	<b>271,890</b>	174,593
Equity plus borrowings	<b>691,281</b>	746,599
<b>Gearing ratio</b>	<b>39%</b>	23%

**Significant accounting policies**

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which the income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the Statement of Accounting Policies.

**Categories of financial instruments**

	2010 \$'000s	2009 \$'000s
<b>Financial assets:</b>		
Restricted bank deposits	<b>9,380</b>	11,398
Cash and bank balances	<b>89,860</b>	47,753
Loans and receivables	<b>68,072</b>	18,430
Mark to market value of oil derivatives	<b>494</b>	–
<b>Financial liabilities:</b>		
Mark to market value of interest swap derivatives	<b>1,427</b>	1,108
Mark to market value of oil derivatives	–	9,206
Amortised cost	<b>402,489</b>	221,558

Financial assets and liabilities exclude tax receivables and payables as they do not constitute a contractual right or obligation to receive or pay cash or another financial asset.

## 25 Financial instruments continued

### Financial risk management

The Group's Board of Directors monitors and manages the financial risks relating to the operations of the Group through an internal risk register. These include commodity, foreign exchange, credit, liquidity and interest rate risks.

### Commodity price risk

The Group's policy is to consider oil and gas price hedging when and where it is economically attractive to lock in prices at levels that protect the cash flow of the Salamander Group, its business plan and debt related coverage ratios. All hedging transactions to date have been related directly to expected cash flows and no speculative transactions have been undertaken.

For 2010, the Group's oil production was all sold at prices relative to the spot market. 2010 production was hedged with zero cost collars of 2,500 bopd with a put and call price of \$60.00 and \$78.00 and additional zero cost collars of 1,500 bopd with a put and call price of \$60.00 and \$90.00, purchased respectively in May and July 2009 and which all expired during 2010. During November 2010 the Group purchased puts for calendar year 2011 for 4,000 bopd with a price of \$60.00.

During 2010, 76% of the Group's gas production (its Indonesian gas production) was sold at fixed prices under long term contracts with the balance (its Thai gas production) sold at prices based on a formula related to spot medium sulphur fuel oil prices. The Group held no hedges with respect to its gas production during 2010.

The key variable which affects the fair value of the Group's hedging instruments is market expectations about future commodity prices. The following illustrates the sensitivity on hedging mark to markets values to net income and equity to a twenty per cent increase and a twenty per cent decrease in this variable:

### Increase/(decrease) to mark to market value

	2010 Oil \$'000s	2009 Oil \$'000s
Twenty per cent increase	<b>(256)</b>	(24,144)
Twenty per cent decrease	<b>1,165</b>	1,131

### Foreign exchange risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed through maintaining the majority of the Group's cash and cash equivalent balances in US Dollars, the Group's presentational currency and the functional currency of all its subsidiaries. The Group also holds, from time to time, cash balances in UK Pounds Sterling and other currencies to meet short-term commitments in those currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
UK Pounds Sterling	<b>2,316</b>	935	<b>2,469</b>	1,149
Singapore Dollar	<b>5,888</b>	318	<b>114</b>	52
Indonesian Rupiah	<b>26,434</b>	15,174	<b>3,597</b>	1,131
Thailand Baht	<b>33,332</b>	13,148	<b>70,790</b>	5,783
Vietnamese Dong	<b>1,094</b>	874	<b>458</b>	611
Other	<b>26</b>	31	<b>13</b>	2

**25 Financial instruments** continued

The following table details the Group's sensitivity to a 20% increase or decrease in the US Dollar against the relevant foreign currency. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year end for a 20% change in the foreign currency rate. A positive number below indicates an increase in profit after tax where the US Dollar strengthens by 20% against the relevant currency. For a 20% weakening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the profit after tax and the balances below would be negative.

	2010 \$'000s	2009 \$'000s
Change in profit or loss		
UK Pounds Sterling	<b>30</b>	43
Singapore Dollar	<b>1,155</b>	53
Indonesian Rupiah	<b>4,567</b>	2,808
Thailand Baht	<b>7,492</b>	1,473
Vietnamese Dong	<b>127</b>	52

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its obligations resulting in a financial loss to the Group. The Group is exposed to the following credit and counterparty risks.

In respect of cash and cash equivalents, the Group's principal financial asset, the credit risk is deemed limited because the majority of the cash and cash equivalents are deposited with banks with AA or A+ credit ratings assigned by international credit-rating agencies.

In respect of the Group's trade sales, the Group manages credit risk through dealing with, whenever possible, either international energy companies or state owned companies based in Thailand and Indonesia and obtaining sufficient collateral where appropriate. The Group consistently monitors counterparty credit risk.

The carrying value of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk at the year end without taking account of any collateral obtained. In addition, the Group's operations are typically structured via contractual joint venture arrangements. As such the Group is reliant on joint venture partners to fund their capital or other funding obligations in relation to assets and operations which are not yet cash generative. The Group closely monitors the risks and maintains a close dialogue with those counterparties considered to be highest risk in this regard.

## 25 Financial instruments continued

### Liquidity risk

The Group manages its liquidity risk by maintaining adequate cash and cash equivalents, and borrowing facilities to meet its forecast short, medium and long-term commitments. The Group continually monitors its actual and forecast cash flows to ensure that there are adequate reserves and banking facilities to meet the maturing profiles of its financial assets and liabilities.

The following tables detail the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date the Group was required to pay at the Balance Sheet date. The table includes both interest and principal cash flows.

	2010						
	Weighted average effective interest rate %	Less than 1 month \$'000s	2-3 months \$'000s	3 months to 1 year \$'000s	1-5 years \$'000s	5+ years \$'000s	Total \$'000s
Non-interest bearing	n/a	73,675	59,760	–	–	–	133,435
Variable interest rate instruments	4.6%	687	1,374	109,511	74,946	19,003	205,521
Fixed interest rate instruments	5%	402	803	3,750	117,500	–	122,455
<b>Total</b>		74,764	61,937	113,261	192,446	19,003	461,411
	2009						
	Weighted average effective interest rate %	Less than 1 month \$'000s	2-3 months \$'000s	3 months to 1 year \$'000s	1-5 years \$'000s	5+ years \$'000s	Total \$'000s
Non-interest bearing	n/a	22,801	32,659	–	–	–	55,460
Variable interest rate instruments	5.4%	735	1,470	44,507	157,552	–	204,264
<b>Total</b>		23,536	34,129	44,507	157,552	–	259,724

Additionally, note 15 to the financial statements sets out the Group's outstanding financial commitments at the Balance Sheet date.

The following table details the Group's remaining contractual maturities for its derivative financial (assets)/ liabilities:

	2010				
	Less than 1 month \$'000s	1-3 months \$'000s	3 months to 1 year \$'000s	Total \$'000s	
Oil collar		(41)	(82)	(371)	(494)
Interest rate swap		119	238	1,070	1,427
<b>Total</b>		78	156	699	933

### Interest rate risk

The Group is exposed to interest rate movements through its lendings, bank borrowings and cash and cash equivalent deposits, which are at rates fixed to LIBOR.

The sensitivity analyses below have been determined based on the Group's exposure to an interest rate movement and is prepared assuming the amount of the net debt and interest rate swaps outstanding at the Balance Sheet date were outstanding for the whole year.

## 25 Financial instruments continued

### Interest rate risk continued

For net debt, if interest rates had been 1% higher or lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2010 would have increased or decreased by \$0.9 million (2009: \$1.3 million). This is principally attributable to the Group maintaining a higher cash and cash equivalents position as described in note 20.

For interest rate swaps, if interest rates had been 1% higher or lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2010 would have decreased or increased by \$0.8 million and \$0.3 million respectively (2009: decreased or increased by \$1.3 million and \$1.8 million respectively).

### Fair value of financial instruments

Fair value of financial instruments carries at amortised cost

The Directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statements approximate their fair values.

### Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

### Fair value of financial assets and financial liabilities

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the Groups' fair value financial assets and liabilities are deemed to be Level 2. There were no transfers between Levels 1 and 2 during the year (2009: Nil).

## 26 Related party transactions

### Transactions with key management personnel

Details of the remuneration of key management personnel are provided below:

	2010 \$'000s	2009 \$'000s
Short term employee benefits	<b>6,725</b>	6,710
Share Based Payment	<b>2,163</b>	1,036
<b>Total key management employee costs</b>	<b>8,888</b>	7,746

## 27 Share capital

Share capital as at 31 December 2010 amounted to \$30,034,000 (2009: \$29,844,000).

### Allotted equity share capital

	2010 Ordinary shares 10p Number	2009 Ordinary shares 10p Number
<b>At 1 January</b>	152,781,255	152,781,255
8 March 2010: Allotment of Shares	792,942	–
19 October to 14 December 2010: Allotment of Shares	441,391	–
<b>At 31 December</b>	154,015,588	152,781,255

## 28 Share option schemes and Share Based Payment

The Company has implemented an equity-settled share option scheme (PSP) for employees called the Salamander Energy Performance Share Plan ('PSP'). Further details of the PSP are set out in the Remuneration Report. Awards under the PSP may be satisfied by the issue of new shares, or the transfer of shares from the Company's treasury or shares purchased in the market. In any ten year period, the Company may not issue (or have the possibility to issue) more than 10% of the issued capital of the Company pursuant to awards granted under the PSP and any other rights granted under any other employee share plan adopted by the Company. Shares held in treasury will count as new issue shares for the purposes of the above limits unless institutional bodies decide that they need not count. Shares purchased in the market will not, however, count towards the limit described above.

Movement in PSP shares during the year was as follows:

	2010		2009	
	Shares under option Number	Weighted average price £'s	Shares under option Number	Weighted average price £'s
<b>Outstanding at 1 January</b>	<b>3,860,196</b>	<b>0.10</b>	2,489,785	0.10
Granted during the year	<b>1,329,621</b>	<b>0.10</b>	1,994,754	0.10
Exercised during the year	<b>(441,391)</b>	<b>0.10</b>	–	–
Lapsed during the year	–	–	(541,946)	–
Forfeited during the year	–	–	(82,397)	–
<b>Outstanding at 31 December</b>	<b>4,748,426</b>	<b>0.10</b>	3,860,196	0.10
<b>Exercisable at 31 December</b>	<b>269,678</b>		–	

**28 Share option schemes and Share Based Payment** continued

The expense recognised for unvested employee share options of \$2,565,447 (2009: \$3,433,649) relates wholly to equity-settled Share Based Payment arising from grants made under the PSP. At 31 December 2010, the total future expense relating to unvested awards not yet recognised was \$1,384,955, which is expected to be recognised over the following 3 years. The weighted average exercise price for options that were forfeited during the year was £0.10. The weighted average market price of shares at the date of exercise was £2.53. Outstanding share options at 31 December 2010 will vest between 2011 and 2013 subject to the vesting criteria.

The weighted average fair value of share options granted during the year, as estimated at the date of grant, was £1.67 per share (2009: £0.89). This was calculated using a Monte-Carlo simulation model based on the following assumptions:

	2010	2009
Weighted average share price at date of grant	<b>£2.36</b>	£1.29
Exercise price	<b>£0.10</b>	£0.10
Expected volatility	<b>68%</b>	63%
Expected life	<b>3 years</b>	3 years
Expected dividend	<b>0%</b>	0%
Risk-free interest rate	<b>1.83%</b>	1.93%

Expected volatility was determined by calculating the historical volatility of the comparator group's share price, over a period equal to the expected life of the options. The median of the constituents of the comparator group which had a three year history was used to determine the estimate for the Company volatility. The mean average of all the constituents of the comparator group (including those with only a short listing history) was 67% (2009: 54%). The average comparator group correlation was 21% (2009: 22%).

There is a 12 month window for exercise. However, as the exercise price is nominal it is assumed that recipients exercise at the end of the performance period. Therefore an expected life of three years after the date of grant has been assumed.

During 2010, following approval at the 2009 AGM, the Company implemented a new equity settled share option scheme for employees called the Salamander Energy Deferred Equity Plan ('DEP'). The DEP follows a similar principle to the PSP scheme, but removes the requirement of a comparator group with shares settled after a period of two years by the issue of new shares, or the transfer of shares from the Company's treasury or shares purchased in the market. The weighted average share price at date of grant was £2.62 with an exercise price of £0.10 and an expected life of two years. The charge for the DEP during the year was \$213,775.

**29 Dividends**

The Company has declared no dividend for the year (2009: nil).

# Parent company balance sheet

31 December 2010

	Note	2010 \$'000s	2009 \$'000s
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	3	<b>852,288</b>	133,975
Loans to group companies	10	<b>72,323</b>	512,196
<b>Total non-current assets</b>		<b>924,611</b>	646,171
<b>Current assets</b>			
Other receivables	4	<b>24</b>	114
Cash and cash equivalents		<b>43,140</b>	20,958
<b>Total current assets</b>		<b>43,164</b>	21,072
<b>Total assets</b>		<b>967,775</b>	667,243
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Convertible bonds	6	<b>88,084</b>	–
<b>Total non-current liabilities</b>		<b>88,084</b>	–
<b>Current liabilities</b>			
Other payables	7	<b>2,216</b>	39
Borrowings due within one year	5	<b>73,945</b>	–
<b>Total current liabilities</b>		<b>76,161</b>	39
<b>Total liabilities</b>		<b>164,245</b>	39
<b>Net assets</b>		<b>803,530</b>	667,204
<b>Equity</b>			
Share capital	11	<b>30,034</b>	29,844
Share premium		<b>381,565</b>	378,685
Other reserves		<b>394,116</b>	380,283
Retained loss		<b>(2,185)</b>	(121,608)
<b>Total equity</b>		<b>803,530</b>	667,204

Approved by and authorised for issue, and signed on behalf of, the Board of Directors.

**Nick Cooper**

Chief Financial Officer

23 March 2011

Company Number 5934263

# Parent company statement of changes in equity

For the year ended 31 December 2010

	Share capital \$'000s	Share premium \$'000s	Other reserves \$'000s	Profit and loss \$'000s	Total \$'000s
<b>At 1 January 2009</b>	29,844	378,685	376,849	(143,065)	642,313
Share Based Payment	–	–	3,434	–	3,434
Profit for the year	–	–	–	21,457	21,457
<b>At 31 December 2009</b>	29,844	378,685	380,283	(121,608)	667,204
Issue of shares	190	2,880	–	–	3,070
Share Based Payment	–	–	2,562	–	2,562
Convertible bond	–	–	11,271	–	11,271
Profit for the year	–	–	–	119,423	119,423
<b>At 31 December 2010</b>	30,034	381,565	394,116	(2,185)	803,530

## Other reserves

Other reserves comprise:

	2010 \$'000s	2009 \$'000s
Share Based Payment reserve	<b>8,784</b>	6,222
Convertible bond	<b>11,271</b>	–
Merger reserve	<b>374,061</b>	374,061
<b>Total other reserves</b>	<b>394,116</b>	380,283

# Parent company cash flow statement

For the year ended 31 December 2010

	2010 \$'000s	2009 \$'000s
<b>Cash flow from operating activities</b>		
Profit before tax	119,423	21,457
Adjustment for:		
Reversal of provision against investment	(128,313)	(21,687)
Interest revenue	(4,527)	(4,458)
Finance costs	6,762	–
Other financial (gains)/losses	58	(31)
Share Based Payment	2,205	1,177
<b>Operating cash flow prior to working capital</b>	<b>(4,392)</b>	<b>(3,542)</b>
Decrease in other receivables	87	336
Increase/(decrease) in other payables	885	(70)
<b>Net cash used in operating activities</b>	<b>(3,420)</b>	<b>(3,276)</b>
<b>Cash flow from investing activities</b>		
Repayment of loans to/(loans to) Group companies	(141,256)	103,296
Repayment of long-term other receivables	–	1,650
Interest received	4,527	4,458
<b>Net cash provided by/(used in) investing activities</b>	<b>(136,729)</b>	<b>109,404</b>
<b>Cash flow from financing activities</b>		
Interest paid	(6,762)	–
Repayments of loans from Group companies	–	(134,960)
Cash flows from long-term borrowings:		
Issue of convertible bond	97,273	–
Drawdown of acquisition bridge facility	71,878	–
<b>Net cash provided by/(used in) financing activities</b>	<b>162,389</b>	<b>(134,960)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>22,240</b>	<b>(28,832)</b>
Cash and cash equivalents at the beginning of the year	20,958	49,759
Effect of foreign exchange rate change	(58)	31
<b>Cash and cash equivalents at the end of the year</b>	<b>43,140</b>	<b>20,958</b>

During 2010, the Company capitalised \$590,000,000 (2009: nil) loans to Group companies to equity which resulted in a large non-cash flow movement and as a result is not included in the above.

# Notes to the parent company financial statements

For the year ended 31 December 2010

## 1 Segmental analysis

The Company currently operates only in the United Kingdom and its activities comprise one class of business, being that of a holding company for the Group.

## 2 Employee numbers and costs

The monthly average number of employees (being the Executive Directors) employed was as follows:

	2010 Number	2009 Number
Professional	3	3
<b>Total employee numbers</b>	<b>3</b>	<b>3</b>

The aggregate remuneration was as follows:

	2010 \$'000s	2009 \$'000s
Wages and salaries	1,867	2,078
Share based payment	817	1,177
Pensions	153	161
Social security	273	317
<b>Total employee costs</b>	<b>3,110</b>	<b>3,733</b>

Details of Directors' remuneration are provided in the Remuneration Report. A proportion of employee costs were charged to other subsidiaries of the Group.

### Share Based Payments

Share Based Payments are disclosed in note 28 to the consolidated financial statements.

## 3 Investments

The Group's principal Subsidiaries and Jointly Controlled Entities are as set out in note 16 to the consolidated financial statements.

Fair value information regarding investments in subsidiaries and jointly controlled entities has not been disclosed as their fair value cannot be measured reliably, as they are investments in unquoted Group companies.

The Company has reversed the remaining \$128,313,000 (2009: reversal of \$21,687,000) of the total \$150,000,000 provision made in 2008 against its investment in Salamander Energy Group Limited reflecting changes in economic conditions.

## 4 Other receivables

	2010 \$'000s	2009 \$'000s
Prepayments	24	114
<b>Total other receivables</b>	<b>24</b>	<b>114</b>

At the reporting date the Group had no past due or impaired receivables. The Directors consider the carrying amount of other receivables approximates their fair value.

## 5 Borrowings due within one year

Borrowings due within one year represents the principal payable on the bridge facility (\$73,945,000, 2009: nil) due on 31 December 2011.

## 6 Convertible bonds

See note 22 in the consolidated financial statements.

## 7 Other payables

	2010 \$'000s	2009 \$'000s
Other creditors	1,288	33
Accrued expenses	928	6
Total other payables	2,216	39

The Directors consider the carrying value of other payables approximates their fair value.

## 8 Commitments and contingencies

### Bank guarantees

At 31 December 2010, there were outstanding bank guarantees issued by banks on behalf of the Company, amounting to \$16,500,000 (2009: \$21,341,000). Guarantees were issued against work programme obligations of subsidiary undertakings of the Company.

Salamander Energy PLC has entered into certain parent guarantee and other undertakings in relation to the BNPP Borrowing Base Facility Agreement.

## 9 Financial instruments

Full details of the Company's risk management and financial instrument policies are shown in note 25 to the consolidated financial statements.

### Significant accounting policies

The Company follows the accounting policies as shown in the Statement of Accounting Policies.

### Categories of financial instruments

	2010 \$'000s	2009 \$'000s
<b>Financial assets:</b>		
Cash and bank balances	43,140	20,958
Preference coupon receivable from Salamander Energy Group Limited	17,913	13,516
Loans and receivables	54,411	498,682
<b>Financial liabilities:</b>		
Amortised cost	164,245	39

**9 Financial instruments** continued**Financial risk management****Foreign exchange risk**

The carrying amounts of the Company's UK Pounds Sterling monetary assets and liabilities at the Balance Sheet date were as follows:

	Assets		Liabilities	
	2010 \$'000s	2009 \$'000s	2010 \$'000s	2009 \$'000s
UK Pounds Sterling	<b>801</b>	–	755	39

The following table details the Company's sensitivity to a 20% change in US Dollars against UK Pounds Sterling.

	UK Pounds Sterling Currency impacts	
	2010 \$'000s	2009 \$'000s
<b>Profit or loss</b>	<b>9</b>	8

This is mainly due to holding UK Sterling Pounds cash and cash equivalent deposits.

**Interest rate risk**

If interest rates had been 1% higher or lower and all other variables were held constant, the Company's loss for the year ended 31 December 2010 would have increased or decreased as applicable by \$0.3 million (2009: increase or decrease of \$0.2 million).

**Liquidity risk**

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	2010					Total \$'000s
		Less than 1 month \$'000s	1–3 months \$'000s	3 Months to 1 year \$'000s	1–5 years \$'000s	5+ years \$'000s	
Non-interest bearing	n/a	1,288	928	–	–	–	2,216
Variable interest rate instruments	2.7%	169	338	76,520	–	–	77,027
Fixed interest rate instruments	5%	402	803	3,750	117,500	–	122,455
<b>Total</b>		1,859	2,069	80,270	117,500	–	201,698
		2009					
	Weighted average effective interest rate %	Less than 1 month \$'000s	1–3 months \$'000s	3 Months to 1 year \$'000s	1–5 years \$'000s	5+ years \$'000s	Total \$'000s
Non-interest bearing	n/a	33	6	–	–	–	39
<b>Total</b>		33	6	–	–	–	39

**Fair value of financial instruments carries at amortised cost**

The Directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statements approximate their fair values.

## 9 Financial instruments continued

### Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

## 10 Related party transactions

### Transactions with Directors

Transactions with Directors are included in the Remuneration Report.

### Related party transactions with subsidiary companies

The Company entered into the following transactions with related parties during the year, affecting the Income Statement as follows:

	2010 \$'000s	2009 \$'000s
Interest receivable from Salamander Energy Group Limited	<b>4,397</b>	4,397

The Company held balances with related parties at the Balance Sheet date as follows:

	2010 \$'000s	2009 \$'000s
Investment in Salamander Energy Group Limited	<b>852,288</b>	133,975
Preference Coupon Receivable from Salamander Energy Group Limited	<b>17,913</b>	13,516
Loans to Salamander Energy Group Limited	<b>54,410</b>	498,680

## 11 Share capital

### Allotted equity share capital

	2010 Ordinary shares 10p Number	2009 Ordinary shares 10p Number
At 1 January	<b>152,781,255</b>	152,781,255
8 March 2010: Allotment of shares	<b>792,942</b>	–
19 October to 14 December 2010: Allotment of shares	<b>441,391</b>	–
At 31 December	<b>154,015,588</b>	152,781,255

## 12 Dividends

The Company has declared no dividend for the year (2009: nil).

# Glossary

2006 ESOP	2006 Employee Share Ownership Plan
\$ or US Dollar	United States Dollar
£	UK Pounds Sterling
€	Euro
bbl	Barrel
Bbtud	Billion british thermal units per day
Bcf	Billion standard cubic feet
boe	Barrels of oil equivalent per day
boepd	Barrels of oil equivalent
bopd	Barrels of oil per day
E&P	Exploration and production
EBITDAX	Earnings before interest (finance costs), tax, DD&A, impairment and exploration expenses
FPSO	Floating Production Storage Offtake
GAAP	Generally Accepted Accounting Principles
HSE	Health, Safety and Environment
IAS	International Accounting Standards
IFRS	Initial Public Offering
IPO	International Financial Reporting Standards
km <sup>2</sup>	sq km
LLP	Limited Liability Partnership
LSE	London Stock Exchange
LTI	Lost Time Injury: a fatality or lost workday case. The number of LTI's is the sum of fatalities and lost workday cases
LTIF	Lost Time Injury Frequency (per million man hours worked)
Mbo	Thousand barrels of oil
Mbopd	Thousand barrels of oil per day
Mboepd	Thousand barrels of oil equivalent per day
MMbo	Million barrels of oil
MMboe	Million barrels of oil equivalent
Mscf	Thousand standard cubic feet of gas
MMscfd	Million standard cubic feet per day of gas
ONWJ	Offshore North West Java PSC
PSC	Production Sharing Contract
PSP	Performance Share Plan
SEGL	Salamander Energy Group Limited, a wholly owned subsidiary of the Company from 5 December 2006
SES	South East Sumatra PSC
TD	Total Depth
TRIR	Total Recordable Injury Rate: the number of recordable injuries (fatalities + lost workday cases + restricted workday cases + medical treatment cases) per 1,000,000 hours worked.

### Directors

**Charles Jamieson**  
Chairman and Non-executive  
Director

**James Menzies**  
Chief Executive Officer

**Mike Buck**  
Chief Operating Officer

**Nick Cooper**  
Chief Financial Officer

**Struan Robertson**  
Senior Independent  
Non-executive Director

**Michael Pavia**  
Independent Non-executive  
Director

**John Crowle**  
Independent Non-executive  
Director

**Robert Cathery**  
Independent Non-executive  
Director

**James Coleman**  
Independent Non-executive  
Director

### Secretary

**Douglas Barrie**

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