SC62845

Annual Report and Financial Statements 2001

Ramco Energy plc

Ramco

Ramco strives to add value through the discovery of commercial oil or gas reserves. Once discovered, commercial reserves can either be developed and produced to create an income stream from the sale of oil or gas, or they can be monetised through the disposal of all, or a part of, the Company's interest in the underlying reserves.

Contents

Operational Highlights

- Record turnover and profits from Ramco Oil Services operations.
- Successful appraisal well on Seven Heads field tested 13.7 mmscf/d of gas. Ramco interest in the project increased from 37.5% to 56.5%.
- Polish exploration acreage farmed out, RWE operating and funding two exploration wells in 2002.
- New acreage acquired onshore Bulgaria.

The Year in Review

February
Ramco announces the new management structure for its Oil and Gas business following the decision to centralise its operations within the Aberdeen head office.

Ramco Oil Services is awarded ISO-9002 certification.

March
Ramco confirms plans to abandon the Muradkhanli well following non-commercial oil flows during testing.

The Group announces record pre-tax profits of £68.7 million following the sale of the 2.0825% fully carried interest in the ACG field.

May
Ramco joins Anschutz in new acreage onshore Bulgaria.

July
Michael Seymour (Exploration) and Daniel Stover (Project Development) are appointed to the Board.

August
Ramco commences appraisal well on the Seven Heads field, offshore Ireland.

September
Ramco commences drilling the Poduri well, onshore Romania.

Ramco concludes agreement for RWE to fund the next US$12 million of an agreed exploration work programme on the Carpathian Blocks, Poland.

AIOC sanction full field development of the ACG field, triggering payment of US$5 million contingent sale proceeds to Ramco.

October
Ramco announces successful test results on the Seven Heads field, offshore Ireland.

November
Ramco commences drilling the Karas well, onshore Georgia.

Chairman's Statement

The highlights of a very active year for Ramco were the successful testing of an appraisal well on our Seven Heads gas field, off the south coast of Ireland, and a record performance from our Oil Services division.

Group turnover for 2001 reached £14.7 million up from £14.5 million in 2000, and was entirely generated by our Oil Services division which had a record year. Operating losses, after exploration write offs, were reduced to £16.5 million from £20.1 million in 2000, whilst administrative expenses remained at £1.7 million. Receipt of an additional £3.4 million of Azeri, Chirag, Gunashli (ACG) proceeds was triggered by the decision to progress the ACG field to full development and this has been recognised as an exceptional item in our 2001 accounts. After providing for taxation of £1.1 million the Group loss was £12.0 million (2000: profit £40.8 million). The Board is not recommending payment of a dividend (2000: nil).

At 31 December 2001 we had cash of £12.2 million and since that date the second instalment of the ACG proceeds of £30.8 million (US$45 million) has been received together with the six monthly interest due on the deferred payments. A final instalment of US$45 million is receivable in February 2003.

At the time of our Interim Statement in September 2001, our first appraisal well 48/24-5A, on the Seven Heads field, had just reached a target depth of 1,303m. The well was subsequently tested and produced 13.7 mmscf/d of gas, a flow rate higher than that reported from any of the earlier wells drilled into the structure. The well location was 3.5km from the nearest of the earlier wells and has significantly enhanced our understanding of the distribution and continuity of the reservoir.

As detailed technical work has progressed since the well results, so our level of confidence in the commerciality of this development has increased. This growing confidence has led us to exercise an option to increase our interest in the project through the conversion of a loan we had made to one of our project partners, Island Petroleum Developments Limited (IPDL). On completion of the transaction Ramco's interest in the Seven Heads Gas Lease Undertaking will increase from 49% to 56.5%.

The well was suspended to allow it to be completed at a later date as a production well. Front end engineering and design work has now been completed confirming that we have two economically feasible options for producing the Seven Heads gas reserves; either through Marathon's nearby Kinsale Head facilities, or through a separate pipeline to shore to connect to the distribution system. We have recently reached outline commercial terms with Marathon and are working to complete legally binding agreements which will allow Seven Heads gas production to be produced through their Kinsale Head facilities. These agreements will require Seven Heads partner approval. Subject to concluding formal agreements with Marathon the Seven Heads partners expect to make a decision on the commerciality of the Seven Heads gas field

Opposite page:
Stephen E Remp
Executive Chairman
Steven R Bertram
Group Financial Director

'The Seven Heads gas development forms a significant part of the strategy to re-invest the majority of the proceeds from the sale of our ACG interest.'

Stephen E Remp
Executive Chairman

Chairman's Statement *continued*

in the near future. An application to the Minister for the Marine and Natural Resources for a Petroleum Lease would follow and, subject to approval, a development plan for the gas field would then be submitted to the Minister for his consideration. It is our current belief that gas from the field could reach the market before the end of 2003.

The Seven Heads gas development forms a significant part of the strategy to re-invest the bulk of the US$150 million proceeds from the sale of our ACG interest in Azerbaijan, into a long-life cash and income generating asset in a politically stable area.

Part of the planned development expenditure will also provide tax deferment for the gain on the ACG disposal (for which we currently make full provision in our accounts). In addition we also intend to allocate a portion of those proceeds to continue our high risk/high reward exploration programme.

The nature of drilling exploration wells is that they carry risk of failure, with an industry success rate of roughly one in eight. Two of our recent exploration wells, in Georgia and Romania respectively, failed to find commercial quantities of oil or gas and our use of the conservative 'successful efforts' accounting policy has required their write off in 2001.

Our success in introducing RWE-DEA Aktiengesellschaft für Mineraloel und Chemie (RWE) as a partner in our Carpathian licences in southern Poland has ensured that we bear no costs, other than our share of project overhead, for the two exploration wells to be drilled during 2002.

Those wells complete our current exploration drilling commitments.

Although our primary focus in Ireland has been the Seven Heads gas development, we have continued work on our other Irish interests at Galley Head and in the Donegal Basin. The deal announced in March 2002, with IPDL, to increase our Seven Heads interest also brought us an additional 10% share of the Galley Head acreage, taking our interest there to 70%.

In Montenegro we have focused on technical studies and seismic interpretation. That work has confirmed the significant potential of the

Right:
Ramco's new head office
in central Aberdeen.

Chairman's Statement *continued*

area. Further progress has been delayed, however, by the planned privatisation of our local partner Jugopetrol Kotor. It is unlikely that a well will be drilled there before 2003, although farm out discussions over the acreage are continuing.

New exploration acreage was added to the portfolio during 2002 as we joined Anschutz of the US in their A-Lovech Block onshore Bulgaria. We have taken a 20% interest and a seismic acquisition programme is well under way.

As recently as last month we were awarded our own onshore exploration block in Bulgaria, B-Golitza, and we are awaiting the finalisation of the award of additional exploration acreage onshore Romania.

The dispute with our partners in the Czech Republic is in the course of arbitration proceedings in Prague and a preliminary judgement is expected later this year.

I am pleased to report that the Tubular Services operation of our Oil Services division produced record turnover and profits in 2001. This business which is a North Sea market leader has recorded over 20 unbroken years of profitability and is a tribute to our outstanding Oil Services team. The Pipeline Services operation experienced a more difficult year but still contributed a pre-tax profit of £188,000 to the Group results.

The planned relocation of our head office and Oil and Gas division to a new larger head office in Aberdeen was completed on schedule towards the end of 2001 and we have already experienced the anticipated operational and financial benefits in improved communication, control and interaction. I am also pleased with the Board and management changes with Dan Stover joining as Project Development Director and Michael Seymour promoted to Exploration Director. We established three Vice President roles during 2001: Chris Moar, who is also Company Secretary, as VP Finance, Terry Jones joining as VP Commercial and Ian Phillips recruited as VP Project Development.

Stephen E Remp
Executive Chairman

'The Tubular Services operation produced record turnover and profits.'

Stephen E Remp
Executive Chairman

Oil and Gas Division

Adding Value, Managing Risk

1 **Daniel Stover**
Project Development Director

2 **Michael Seymour**
Exploration Director

For Directors' biographies see page 29.

3 **HR Terry Jones FCA**
VP Commercial Aged 53
Terry Jones, VP Commercial, joined in January 2002. Terry has extensive international commercial experience gained primarily in the oil and gas industry in addition to 20 years' experience in senior finance positions. Terry is a Chartered Accountant and a member of the Association of International Petroleum Negotiators.

4 **Ian C Phillips CEng MEng MBA**
VP Project Development Aged 45
Ian Phillips, VP Project Development, joined Ramco in July 2001. Ian has been in the industry for 23 years working for Halliburton, Marathon, Burmah Oil and Shell. He has over 16 years' reservoir and well engineering management experience and over seven years' commercial and business development experience. Ian is also a Director of the Society of Petroleum Engineers.

Ramco's Oil and Gas division strives to add value through the discovery of commercial oil or gas reserves. Once discovered, commercial reserves can be developed and produced to create an income stream from the sale of oil or gas, or they can be monetised through the disposal of all, or a part of, the Company's interest in the underlying reserves.

In Ireland, Seven Heads is a project where we are working to develop a future income stream, whilst in contrast, the sale in 2000 of our ACG interest in Azerbaijan, evidenced our ability and willingness to monetise part of our portfolio.

In a business dominated by some of the world's largest companies, what can a small independent oil company like Ramco offer to add value for shareholders? Ramco has demonstrated opportunism by being first into a region, as we were in entering Azerbaijan in the late 1980's. There we were able to create value through establishing a strong position before any of the major oil companies became active in the region. We have also used modern technology to re-appraise acreage containing confirmed hydrocarbon deposits, deemed at the time of their discovery to be marginal or too small for larger companies to develop. Our Seven Heads project is a prime example of this. Ramco is keeping abreast of technical advances in seismic technology, reservoir simulation and sub-sea completions for just this purpose.

Right:
Seismic
Old seismic data has been reprocessed using new technology, generating an enhanced understanding of the Seven Heads structure.

Oil and Gas Division

Adding Value, Managing Risk *continued*

The raw material for the value adding process is the underlying acreage and Ramco's strategy is to develop a balanced portfolio of project interests spread across the exploration, appraisal, development and production phases and across regional geology and politics. A graphical representation of our current portfolio can be found on page 12. Our current primary focus is to advance Seven Heads to the production phase and to identify and acquire further projects at the appraisal or development stage.

The search for oil and gas is not without risks; to create value, success with the drill bit is essential, but it is the nature of the business that some wells will be dry. Through careful management, however, those risks should reduce as projects advance from exploration through to production. Ramco endeavours to manage these risks in a variety of ways. Geographically, Ramco's portfolio currently focuses on two areas, Ireland and central and eastern Europe. These are areas with proven hydrocarbon reserves which help reduce the geological risks and by focusing on core areas we can enable our technical team to develop an in-depth understanding of the regional geology.

In established oil and gas producing regions such as the North Sea, new acreage is usually allocated following a competitive tendering process, pitting the smaller independents directly against the oil majors. In less well-established hydrocarbon producing regions, smaller companies have the opportunity to negotiate with the appropriate government departments or state oil companies for access to acreage. Much of our existing portfolio has been awarded as the result of such direct negotiations.

Strategic partnerships are used to help access particular skills and spread project risks. Much time is devoted to developing such relationships which help ensure that we understand the local political situation, and can fully appreciate the associated risks. Where possible we aim to limit Ramco's financial exposure through the use of carefully structured exploration commitments, farm in deals and carried interest arrangements. This can be demonstrated by our carried interest in the ACG field and more recently through RWE farming into our Polish acreage.

Access to funds whether from its own resources, banking arrangements or partnership arrangements is critical for any independent oil company. The proceeds from the sale of our ACG interest have helped ensure that Ramco has sufficient internal resources to execute its desired strategy.

Our portfolio is kept under constant review as we evaluate opportunities to realise project value and enhance the risk profile.

Right:
Bulgaria signing
In March 2002 Ramco Exploration Director Michael Seymour joined the Bulgarian Minister for Environment and Water in the capital Sofia to sign an agreement giving Ramco 100% interest in the B-Golitza Block, eastern Bulgaria.

Oil and Gas Division

Interests

Country	Licence	Effective interest (%)	Operator
Georgia	Kaheti Block X PSA	100	Ramco
Romania	Block VI (Moinesti) PSA	49	Ramco
Montenegro	Ulcinj contract (offshore/onshore)	51	Ramco
Poland	Carpathian licences (Areas 434, 435, 454, 455)	41.5	RWE
Czech Republic	Karlin licence Brezi-Mikulov and Bulhary licences	48 85	MND MND
Ireland	Seven Heads Gas Lease Undertaking (offshore) Part Blocks 48/22, 48/23, 48/24 48/27, 48/28, 48/29, 48/30	56.5	Ramco
	Galley Head licence area (offshore) Part Blocks 48/18, 48/19, 48/24	70	Ramco
	Donegal licence area (offshore) Block 13/7, part Blocks 13/11(NE), 13/12(N)	70	Ramco
Bulgaria	A-Lovech B-Golitza	20 100	Anschutz Ramco

All onshore unless otherwise stated

Right:
Map showing the countries where Ramco holds interests.

Ireland

Central and eastern Europe

Interest sold/abandoned/disputed

Note:
Size of circle is proportional to the relative potential value of the interest to Ramco.

Above:
The smaller chart plots the progress over time of two of our current projects.

Main diagram:
Our current and recent projects have been plotted in this 'Portfolio at a Glance' chart, reflecting the current stage of their development, along the horizontal axis and our estimate of the risks associated to the project. Risk here includes geological, political, financial and commercial risks. We would expect the risk of a particular project to reduce as it advances from business development through to production.

Our Seven Heads appraisal well off the south coast of Ireland tested at 13.7 mmscf/d of gas

Oil and Gas Division

Review of Operations

The Oil and Gas division has seen significant activity in 2001, with successful appraisal of the Seven Heads gas field off the south coast of Ireland, the farm out of part of our exploration acreage in Poland and exploration drilling in Ireland, Georgia and Romania.

Right:
Michael Seymour
Our Exploration Director's expertise in the geology and cultures of the countries of central and eastern Europe has created early access to opportunities in these countries.

Far right:
Terry Jones, Dan Stover and Ian Phillips
The relocation and expansion of our senior project management team in Aberdeen has improved communications and increased efficiency.

New acreage has also been added to our portfolio in Romania and Bulgaria. All of this activity has taken place alongside the expansion of the technical capabilities of the Company under Dan Stover, Project Development Director and Michael Seymour, Exploration Director.

Ireland

Seven Heads (Ramco 56.5%)

We have made substantial progress during 2001 on our Seven Heads project. Through the use of modern seismic processing technology we and our partners were able to acquire a better understanding of the area's geology than had been possible when the structure was first drilled. Our technical work under the Licensing Option allowed us to present a detailed report on our findings. These encouraging findings supported an application to the Irish authorities to convert our interest to a Gas Lease Undertaking. This was formally approved in August 2001 at which time Ramco's interest in the project increased from 37.5% to 49%, reflecting the expenditure funded by the Company under the Licensing Option phase.

The Gas Lease Undertaking has a firm commitment to drill one appraisal well. Well 48/24-5A was spudded in August and, despite difficult surface drilling conditions and problems with the contracted drilling rig, the appraisal well was a success and tested at 13.7 mmscf/d, a higher flow rate than that recorded by any of the wells drilled into the structure in the 1970's and 1980's. The well was suspended after

Oil and Gas Division

Review of Operations *continued*

Right:
Transporting gas to market
Map shows offshore south east Ireland, highlighting the proximity of Ramco's Seven Heads and Galley Head interests to existing infrastructure.

Inch Terminal*
Kinsale Head gas field*
Ballycotton gas field*
Seven Heads gas lease
Galley Head
Wells
*Marathon operated

testing in October. The fact that the well location was 3.5km from the nearest of the earlier wells has significantly enhanced our understanding of the distribution and continuity of the reservoir. Since the well was suspended, front end engineering and design work has been completed confirming that we have two viable options for producing the gas reserves. One option is to conclude a deal with Marathon, operator of the nearby Kinsale Head facilities. Negotiations with Marathon are well advanced and we have agreed outline commercial terms which will, subject to partner approval, allow Seven Heads gas to be produced through their Kinsale Head facilities. Both parties are working now to conclude the legally binding agreements necessary to allow a detailed development plan for the field to be finalised and submitted to the Irish authorities for their approval. We believe that Seven Heads gas could reach market before the end of 2003 if the existing Kinsale facilities are accessed.

The data gathered since the completion of the appraisal well has strengthened our confidence that Seven Heads is a viable gas field, and this supported our recent decision to increase our interest in the project from 49% to 56.5%. This was achieved by exercising an option we held through a loan made to one of our partners in the project. All of the data acquired throughout the past year has enabled third

Right:
Progressing Seven Heads
Careful consideration is given at every stage of the process, with all options, commercial and technical, being explored before a development plan is approved and implemented.

party engineers, Exploration Consultants Limited, to report, subject to development approval, proven and probable recoverable reserves of 304 bcf for the field, 172 bcf net to Ramco.

Galley Head (Ramco 70%)
Donegal (Ramco 70%)

Our focus in Ireland has firmly been on advancing the Seven Heads project, but work has continued on our other prospect areas in Galley Head, near Seven Heads in the Celtic Sea and in the Donegal Basin off the northwest of Ireland. This technical work has encouraged us to enter into dialogue with the Irish authorities with the aim of extending our interest over these Blocks.

Fastnet (acreage relinquished)

The commitment well on this Block, operated by EDC (Europe) Limited, was completed in July 2001. Commercial hydrocarbons were not encountered, and the Group has since relinquished the licence. Ramco had held 14.5% of which 4.75% was carried through the costs of the drilling.

Georgia

Kaheti Block X (Ramco 100%)

The disappointing results of our exploration well, Karas-1, were announced recently and the well has now been abandoned. The well was drilled to 2,900m, but commercial quantities of hydrocarbon bearing sands were not encountered. A detailed review of the data obtained from the well has done little to enhance the prognosis for the other prospects on the Block, and Ramco is now preparing to exercise its right to terminate its involvement in the PSA. This will end our involvement in the country. We have expensed all of the costs we were carrying with respect to this project at 31 December 2001, a total of £7.4 million.

Romania

Moinesti Block VI (Ramco 49%)

The results of seismic programmes on our Moinesti Block VI identified the Poduri prospect as a significant target for drilling. The Poduri-1 well was spudded in August and although drilling was exceptionally slow due to the complex geology of this

Oil field
Gas field
Gas condensate field
Ramco interests

Right:
Central and eastern Europe
Central and eastern Europe is one of the world's oldest producing oil and gas regions. The map shows proven hydrocarbon reserves close to all of Ramco's licence interests.

We believe there is good potential for deep hydrocarbon deposits beneath the thrust belt of the Carpathian Mountains

Oil and Gas Division

Review of Operations *continued*

mountain thrust belt, the local support services performed well. The target sands were encountered but at greater depth than had been expected. As a result the quality of the sands was much poorer than anticipated. It was the view of Ramco and its partner that the sands could not support commercial quantities of hydrocarbons and the well was abandoned. Ramco has fulfilled the obligations it held under the contract for this acreage and will now be relinquishing its interest. As a result of that decision we have expensed project costs of £7.2 million in the 2001 accounts. We are still of the view that the Carpathian thrust belt through Romania has good potential for commercial hydrocarbons and are awaiting formal confirmation of the award of new exploration acreage in the eastern Carpathians, onshore Romania.

Poland

Carpathian Blocks (Ramco 41.5%)

During the second half of 2001, we successfully concluded agreements that saw RWE, the German utility, farm in to our acreage by taking a 58.5% shareholding in our Polish company. RWE has assumed the role of Operator for the project and has agreed to fund the next US$12 million of exploration which will include further seismic and the drilling of two wells.

New seismic interpretation techniques were applied to the data acquired by Ramco and the encouraging results have enabled optimum well sites to be identified. Work on the site for the first well, Zdynianka-1, will commence shortly. It is currently anticipated that the drilling of the well will commence during the second quarter of the year, followed in quarter three by a second exploration well on a separate structure along the same trend.

Right:
Poland
Map of southern Poland showing Ramco's Carpathian Blocks and the trend of old shallow oil and gas fields which cross the Blocks.

Oil field

Gas field

Ramco interests

Oil pipeline

Gas pipeline

Opposite page:
Carpathians
The geology of the Carpathian and Balkanide Mountains is complex with cutting edge methods providing new opportunities to explore areas with significant exploration potential.

Oil and Gas Division
Review of Operations *continued*

Right:
Montenegro
Map of Ramco's concession showing the numerous leads identified from seismic.

Pleistocene Gas
Pliocene Gas
Triassic/Cretaceous Oil

Montenegro
Ulcinj contract (Ramco 51%)
Our activities in Montenegro during the past year have focused on technical studies and interpretation of the seismic data acquired during 2000. The work has confirmed numerous structures of potential across our 3,100 sq km Block. The target structures identified range from shallow gas through deeper gas to deep oil. Further progress has been delayed, however, by the planned privatisation of our local partner Jugopetrol Kotor. Farm out discussions over the acreage are continuing but the privatisation process will push the start date of our first well into 2003.

Bulgaria
A-Lovech (Ramco 20%)
In April 2001 we concluded arrangements to join US operator, Anschutz Corporation, in their onshore acreage in the west of Bulgaria. Existing seismic data has been acquired and some 6,000km has been reprocessed. A survey of 290km of new seismic will be acquired during 2002.

B-Golitza (Ramco 100%)
We have recently been awarded a licence over a large onshore Block, B-Golitza, in the east of Bulgaria, adjacent to the Black Sea. A substantial amount of technical data on this former British Gas licence already exists. Fieldwork and the reprocessing of existing seismic data will take place during 2002.

Azerbaijan

Muradkhanli PSA (contract terminated)
As planned, we handed the operation of the Muradkhanli contract area back to SOCAR in June 2001. SOCAR had the option to take over our interest, but did not elect to do so. Consequently, as specified under the PSA the contract terminated in November 2001. Ramco has no further liabilities or obligations with regard to this area, having concluded an environmental study prior to the contract termination.

Shallow Water Gunashli (SWG)
(Ramco rights of first refusal)
Ramco retains its right to participate should SOCAR choose to involve third parties in any significant future development of this field.

Czech Republic

The Karlin group of licences (Ramco 48%)
The Brezi-Mikulov and Bulhary licences (Ramco 85%)
Our activities in the Czech Republic were suspended during 2000, when a dispute with our partner Moravské Naftové Doly a.s. (MND) first arose. This dispute is in the course of arbitration proceedings in Prague and a preliminary judgement is expected later this year.

Michael D Seymour
Exploration Director

Daniel F Stover
Project Development Director

Oil field
Gas field
Gas condensate field
Ramco interests
Oil pipeline
Gas pipeline

Right:
Bulgaria
Map showing Ramco's large concessions located in the Fore-Balkans.

Ramco ensures protection of the environment and communities in which it works

Health, Safety and the Environment

As a Group active in many parts of the world, Ramco is conscious of its responsibilities to understand and respect the diversity of the customs and cultures with which it engages.

As we develop our business in these diverse settings, we recognise our continuing responsibilities to provide support to the communities in which we operate and to safeguard the health and safety of our employees and others involved in our activities. It is a primary objective of the Group to ensure the safety, health and welfare of employees and contractors by striving to achieve compliance with the highest standard of environmental and safety practices in the industry.

Our objectives are to:

- Avoid harm to those involved in or affected by our activities;
- Respect the interests and aspirations of neighbours and local communities;
- Minimise adverse impact on the environment;
- Comply with or exceed applicable laws, regulations, standards and recognised codes of practice;
- Continually monitor and improve performance.

We also recognise, and are responding to, the growing concerns and demands on our industry to ensure protection of the environment.

Everyone who works for Ramco understands their responsibility for protecting the environment and the health and safety of staff, customers and the communities in which we work.

A stable and growing business providing cash generation for the Group

Oil Services Division

Review of Operations

Oil Services turnover £m

Tubular Services
Pipeline Services

2001 produced record turnover and profits in the Tubular Services division. The Pipeline Services joint venture experienced a more difficult year but still contributed a profit. On a combined basis the two Oil Services businesses produced an improved performance over the previous year.

Tubular Services
Increased investment in the one stop facility at Badentoy has continued to produce excellent returns. A significant proportion of the turnover at Badentoy is represented by long term contracts with major oil companies for tubular cleaning and coating enhanced by associated logistics and inventory management services. We have also introduced some pipe suppliers and smaller North Sea operators to Badentoy and the resulting increase in volumes has produced improved efficiencies.

The Pipe Care Unit (PCU) at Airdrie showed an improved performance reflecting higher activity levels at the associated steel mill.

Opposite page:
Project linepipe
Internally and externally coated by BSR at our Hartlepool plant.

1 Robert Taylor, Technical Director Aged 44
Robert Taylor joined Ramco in 1980 and was appointed to the position of Technical Director in 1992. Robert's experience within the Tubular Services division dates back to Ramco's original development of tubular cleaning technology and in that time he has gained extensive knowledge of our plant operations and services both here in the UK and overseas.

2 John Barker, Sales Director Aged 66
John Barker has worked in the oil industry for the past 32 years and prior to joining Ramco was employed as Senior Buyer of drilling and production materials with a major North Sea operator. John joined Ramco as Plant Manager, Aberdeen in 1982 and was appointed to the position of Sales Director in 1990

3 Malcolm Edward CA, Commercial Director Aged 43
Malcolm Edward has been with Ramco since 1986 and was appointed as Commercial Director for the Company in 1992. Malcolm qualified as a Chartered Accountant in 1983 and is involved in the financial and commercial evaluation of Oil Services operations.

4 N Stewart Cumming, Managing Director
For biography see page 29.

Providing a tailored approach for our clients to ensure long term relationships

Oil Services Division

Review of Operations *continued*

Above from left to right:
Abrasives
Used in the surface preparation of tubulars prior to the application of internal and external protective coatings.

One stop shop
To the right hand side of the picture a view of our Badentoy tubular processing plant and part of its 40 acre storage facility.

Direct ordering
Yvonne Allen, a Materials Controller at Badentoy, one of a team responsible for the management of some 80,000 tonnes of client owned downhole tubulars and accessories stored and processed at our Badentoy facilities.

Opposite page:
Extensive logistics and transport systems
Treated tubulars, destined for offshore use, leaving our Badentoy storage yards.

The Nippon Steel Mill in Japan ceased production of seamless tubulars during the year, and the PCU located there was transferred to another Japanese mill. The unit is currently undergoing trials for a new contract.

The Norwegian operations at Florø and Stavanger continued their trend of improved turnover and profitability. Some additional work from the discontinued Japanese operation was processed in Florø whilst Stavanger continued to expand its customer base and product range.

Pipeline Services
The British Steel Ramco (BSR) plant, which is a 50/50 joint venture with Corus at Hartlepool, had a disappointing year. The venture successfully completed the 100km Bluestream Pipeline project destined for the Black Sea, but technical and supply problems with the pipe resulted in significantly reduced margins.

BSR did not secure any other substantial contracts during the year, and whilst the operation produced a profit, it was at a considerably lower level than during 2000.

Outlook
We expect expenditure by our major clients to continue at a healthy level during 2002 subject to no significant fall in the oil price.

We believe our facilities at Badentoy are unique in the industry, and the level of activity and quality of service at this location should ensure continued strong support from the oil industry. We have invested in additional land at Badentoy to provide capacity for further growth.

The outlook for our Norwegian operations is also positive given high activity levels in that sector of the North Sea.

The prospects for the Pipeline Services joint venture are dependent on the Corus Mill at Hartlepool winning a reasonable level of steel orders for planned pipelines. On current expectations we should see some improvement for BSR in 2002.

N Stewart Cumming
Managing Director

Executive Directors

1 Stephen E Remp BA MA Hon D Tech
Executive Chairman Aged 54
Appointed August 1977. A native American, Steve came to Scotland in 1971 and in 1977 founded Ramco. Steve was educated in Europe and the US, obtaining a BA in Economics from Claremont College in California and an MA in International Economics from the School of Advanced International Studies, Johns Hopkins University, Washington DC.

2 Steven R Bertram MA (Hons) CA
Group Financial Director Aged 42
Appointed March 1991. Steven has been with Ramco since 1986 and has guided Ramco's financial affairs since its USM listing through its move to AIM. Steven has an MA Honours Degree in Economics with Accountancy from the University of Aberdeen and qualified as a Chartered Accountant with Arthur Young in 1984.

3 N Stewart Cumming
Managing Director of Ramco Oil Services
Aged 53
Appointed January 1988. Stewart joined the Ramco management team as a founder member when the Company was formed in 1977. Since then he has been responsible for the management and highly successful development of the Company's Oil Service operations. Stewart was educated at Selbourne College and the Witwatersrand Technical College in South Africa.

4 Michael D Seymour MA MSc
Exploration Director Aged 60
Appointed July 2001. Michael joined Ramco in 1997 when Ramco acquired his company, Medusa Oil & Gas Limited. Michael's experience in the oil industry spans 34 years, during which time he has also worked for Burmah Oil, Conoco and Kerr McGee. Michael has an MA in Geology from Cambridge University and an MSc in Petroleum Geology from London University.

5 Daniel F Stover BSc
Project Development Director Aged 46
Appointed July 2001. Dan joined Ramco in March 2001 from Blue Circle Industries PLC. Dan's career in petroleum engineering spans 25 years during which time he has worked for Halliburton Energy Development, Marathon Oil Company as Production Manager, UK and Brown and Root AOC Ltd, dealing with projects throughout the world. Dan was educated at Pennsylvania State University where he obtained a BSc in Petroleum and Natural Gas Engineering.

Non-Executive Directors

6 Rt Hon Sir Malcolm Rifkind KCMG QC
Aged 55
Appointed August 1997. Sir Malcolm Rifkind, formerly UK Defence Secretary and UK Foreign Secretary, brings to the Company extensive knowledge and high level contacts throughout central and eastern Europe and central Asia. His skills encompass an unrivalled understanding of the regional political dynamics in Ramco's areas of interest and his advice to the Board continues to prove of considerable value. Malcolm is a member of the Audit and Remuneration Committees and holds a number of other Non-Executive Directorships.

7 Peter Everett SPMB BSc CBIM Aged 70
Appointed December 1994. Peter Everett is the Senior Independent Non-Executive Director on the Board and is Chairman of the Audit and Remuneration Committees. He has extensive international experience in the exploration and production business. Peter has been instrumental in advising the Board on its successful strategy of forming partnerships and alliances with major oil companies. Peter is also a Non-Executive Director of Edinburgh Java Trust plc.

8 David Boyle Aged 59
Appointed November 2000. David Boyle is the most recently appointed Non-Executive Director and is also a member of the Company's Audit and Remuneration Committees. David has had a long career in corporate finance and asset management, holding positions within Mercury Asset Management (1986-97), Rowan Investment Managers (1982-86), and Morgan Grenfell (1965-82). David is also a Non-Executive Director of a number of other companies and investment funds.

Financial Review

This Financial Review is intended to assist in the understanding of the Group's results of operations for the year ended 31 December 2001 and of its financial position as at 31 December 2001.

1 **Christopher G Moar MA CA**
Company Secretary & VP Finance
Aged 39
Chris has worked for Ramco since 1993. Prior to this he was a planning and financial accountant for Baker Oil Tools having qualified as a Chartered Accountant with Arthur Young in 1987. He was appointed Company Secretary in December 1996. Chris has an MA in Accountancy from Aberdeen University.

2 **Lisa J Newman MIRS MIPR**
Director of Corporate Affairs
Aged 33
Lisa has been working with Ramco since 1993 initially as a consultant and for the past five years in-house. Lisa has strengths in the fields of financial and corporate public relations. Lisa has 13 years of communications experience, working in London consultancies, a major banking group and Ramco. Lisa is a Member of the Institute of Public Relations and a Member of the Investor Relations Society.

3 **Steven Bertram**
Group Financial Director
For biography see page 29.

Description of business

Ramco Energy plc, a Scottish public limited company, and its subsidiaries, joint ventures and associated undertakings form an energy group with two distinct divisions: Oil and Gas and Oil Services. The Oil and Gas business is actively exploring for, appraising and developing, oil and gas reserves primarily in Ireland and central and eastern Europe. The Oil Services business specialises in downhole tubular maintenance and pipeline coatings, operating in the UK, Norway and Japan. Separate reviews of operations for each division are included on pages 14 to 27.

The Group's shares are quoted on the Alternative Investment Market (AIM) of the London Stock Exchange.

The consolidated financial statements and notes included elsewhere contain additional information and should be referred to in conjunction with this review. They have been prepared in accordance with UK Generally Accepted Accounting Principles (GAAP). The key financial data for the last five years is summarised on page 68. Detailed information by business segment can be found in note 2.

Turnover

Consolidated Group turnover for 2001 was £14.7 million up 1% from £14.5 million in 2000. Oil Services' turnover rose by 28% from £11.5 million in 2000 to £14.7 million in 2001, reflecting robust North Sea activity levels. No revenue was recognised by the Oil and Gas division.

Cost of sales

Group cost of sales reduced by 10% from £34.6 million in 2000 to £31.2 million in 2001.

Cost of sales relating to the Oil and Gas division in 2001 includes exploration write offs for unsuccessful wells in Georgia and Romania totalling £14.6 million. The division's cost of sales fell by 23% from £24.8 million in 2000 to £19.0 million in 2001, primarily due to lower exploration write offs.

Oil Services' cost of sales rose by 24% from £9.8 million in 2000 to £12.2 million in 2001, in line with increased turnover levels.

Administrative expenses

Administrative expenses from the Group remained at £1.7 million.

Income from interests in joint ventures and associated undertakings

The Group's share of pre-tax profit from its BSR Pipeline Coating joint venture fell by 73% from £701,000 in 2000 to £188,000 in 2001 despite increased activity. This was a result of technical and supply problems encountered with a major pipeline project. These problems resulted in additional costs on the contract and thus in reduced margins. Where the problems were caused by other parties the joint venture has quantified and submitted claims for compensation; no account has been or will be taken for these claims until agreement is reasonably expected or probable.

Additionally, a small contribution to profit was recognised from other associated

Financial Review *continued*

Intangible assets by region (£'000)

Ireland
Central and eastern Europe

undertakings, bringing total income from interests in joint ventures and associated undertakings to £199,000 compared with £706,000 in 2000.

Loss on ordinary activities before exceptional items, investment income, interest and taxation

The Group's loss on ordinary activities before exceptional items, investment income, interest and taxation fell from £21.1 million in 2000 to £18.0 million in 2001 primarily as a result of a reduction in the exploration write off on unsuccessful oil and gas projects.

The Group loss from its Oil and Gas division fell from £21.8 million in 2000 to £19.1 million in 2001 primarily as a result of reduced write offs for unsuccessful exploration projects.

Pre-tax profit from the Oil Services division, including the Group's share of joint ventures and associated undertakings rose by 17% to £2.8 million compared with £2.4 million in 2000.

Net interest and income from investment

Net interest and income from investment rose significantly to £3.8 million from £1.0 million in 2000. This reflects the significantly increased funds available for investment as a result of the ACG disposal.

Exceptional gain on disposal of oil and gas interest

The decision to sell the Group's 2.0825% carried interest in the ACG project offshore Azerbaijan realised an exceptional gain in 2000 of £88.8 million before taxation but after allowing for costs and management bonuses triggered by the after tax gain. This gain reflects sale proceeds of US$145 million and a book value of the interest disposed of nil as the interest had been carried by another oil company. A further US$5 million of proceeds was contingent on a future event; this payment was triggered and received during 2001 and has resulted in an additional gain of £3.4 million, in that year.

Taxation

The Group's taxation charge reduced significantly from £27.9 million in 2000 to £1.1 million in 2001. These charges reflect provision for taxation on the exceptional gains arising on the sale of the ACG interest. It is anticipated that corporation tax payable on the capital gain will be rolled over into other oil and gas projects through qualifying expenditure over the next two years. If this is achieved it will postpone the payment of that tax until the earlier of the disposal of the assets or the tenth anniversary of the investment.

Profit/loss for the financial year

A loss for the financial year of £12.0 million was recorded in 2001 compared with a profit of £40.8 million in 2000 for the reasons outlined above.

Balance sheet

The Group and Company balance sheets as at 31 December 2001 are shown on page 43. Group net assets have reduced from £92.2 million at 31 December 2000 to £80.3 million at 31 December 2001. This movement arose primarily as a result of the loss for the year and in particular, the write off of unsuccessful oil and gas exploration expenditure offset by profits from the Oil Services division. At 31 December 2001, the Group held £12.2 million as cash or short term deposits and received £30.8 million as the second instalment of the ACG proceeds in February 2002. A further US$45 million is receivable in February 2003. These funds provide the Group with sufficient resources to pursue all of the oil and gas projects to which it is currently committed.

Cash flow

Cash flow from operations

As indicated by the consolidated cash flow statement on page 44 the Group's net cash inflow from operating activities was £25.0 million for the year ended 31 December 2001 (2000: outflow £(3.1) million).

During these years, the Group utilised significant cash resources to finance its oil and gas activities in the Caspian region and

‘The Group remains in a strong cash position with no debt.’

Steven Bertram
Group Financial Director

Financial Review *continued*

central and eastern Europe. These outflows were, during 2000, partially offset through revenue generation from the Oil and Gas division. The decision to dispose of the Group's interest in ACG will reduce oil and gas revenue in the short term, although this loss of revenue will be compensated by interest income.

Cash flows related to taxation
and investing and financing activities

The Group paid amounts in respect of UK and overseas taxes of £274,000 in 2001 and £206,000 in 2000. In 2001 and 2000 the Group invested approximately £3.6 million and £1.9 million respectively, in fixed assets. Fixed asset purchases in 2001 related primarily to the Group's new head office and additional land at Badentoy. Additionally, the Oil and Gas division invested £15.8 million in 2001 and £13.6 million in 2000 in connection with its various projects, the biggest investment being in its Seven Heads project offshore Ireland.

Future capital requirements

The Group believes that as a result of the sale of its ACG interest it has the funds it needs to meet its current and planned commitments. The Group expects, however, if it is successful in discovering commercial reserves in its portfolio of oil and gas projects that it will require substantial resources in addition to the available cash in order to fund its share of future expenditure for those prospects.

It is the Group's intention, at an appropriate time, to reduce its interest in certain of its projects by farming out part of its interests to other companies as it did successfully during 2001 in Poland. This strategy reduces the future capital requirements of the Group in respect of particular projects.

Although the Group is actively considering new prospects, there can be no assurance that any of them will actually be successful or that the amount and timing of expenditures for such prospects will not vary materially from those currently contemplated.

The ability of the Group to access additional capital on acceptable terms will depend on the success and timing of the Group's projects and the status of various capital markets at the time such capital is sought.

Most of the Group's current prospects are in the exploration or appraisal stages and only the Seven Heads project contains proven reserves. To the extent that the other projects do not prove capable of commercial development, the Company's capital expenditure requirements in connection with such prospects will be significantly smaller. The Group intends to fund its capital requirements during 2002 primarily from its cash resources.

Market risks

The Group is exposed to a variety of risks, including the effects of changes in interest rates and foreign currency exchange rates. In the normal course of business the Group also faces certain other risks which are non-financial or non-quantifiable. These have not been discussed here. To the extent that the Group's oil and gas assets are developed successfully, the Group's assets, revenues and cash flows will become dominated by Dollar-based oil and gas operations. Accordingly, the Sterling/Dollar exchange rate is important to the Sterling price of the shares traded on AIM.

The table below sets forth, for the periods and dates indicated, the exchange rate for the Dollar against Sterling based on the *Noon Buying Rate*.

Dollar/Sterling exchange rates

	At end of period	Average rate	High	Low
1997	1.64	1.64	1.68	1.60
1998	1.66	1.66	1.71	1.66
1999	1.61	1.66	1.71	1.56
2000	1.49	1.52	1.65	1.40
2001	1.46	1.44	1.49	1.41

The average rates on the last business day of each full month during the relevant period.

Details of how the Group manages interest rate and foreign currency exchange risks are included in note 21.

Steven R Bertram
Group Financial Director
30 April 2002

Report of the Directors

The Directors submit their report and audited Group financial statements for the year ended 31 December 2001.

Review of the business, principal activities and future developments
The principal activities of the Group are the exploration, development and production of hydrocarbons and the provision of oil services. The activities of the subsidiaries, joint venture and associates are detailed in note 26 to the financial statements. Reviews of current and future developments of the Company, its subsidiaries, joint venture and associates are given in the Chairman's Statement, in the Reviews of Operations and in the Financial Review.

Results and dividends
The Group consolidated profit and loss account set out on page 42 shows a loss on ordinary activities before tax of £10.8 million (2000: profit £68.7 million). After tax the Group loss for the year was £12.0 million (2000: profit £40.8 million).

The Directors do not recommend the payment of a dividend (2000: nil per share) and £12.0 million will be deducted from the Group's reserves.

Employees
Although much of the Group's work is unsuitable for disabled persons, positive efforts are made to recruit and train disabled persons for suitable work.

During the year the policy of providing employees with information about the Group has been continued and employees have also been encouraged to present their suggestions and views on the Group.

Employees are encouraged directly to participate in the business through a share option scheme.

Directors
Biographies of the present Directors of the Company are listed on page 29.

In accordance with the Company's Articles of Association, M D Seymour and D F Stover, who were appointed to the Board on 1 July 2001, automatically retire and being eligible offer themselves for re-election. N S Cumming, S R Bertram and Sir M Rifkind retire by rotation and being eligible offer themselves for re-election. All of the Directors standing for re-election have a service contract with an unexpired notice period of one year, except Sir M Rifkind who does not have a service contract with the Company. Details of the remuneration of the Directors and the interests of the Directors in the share capital, share options and material contracts of the Company and the Group are disclosed in note 4 and note 23 to the financial statements. The Remuneration Committee Report is also included on page 40.

Substantial shareholders
The Directors have been notified of the following interests in 3% or more of the Company's issued share capital at 12 April 2002:

Name of member	No. of shares	% of capital
Directors	3,960,124	15.30
ML Invest plc	2,418,910	9.35
Prudential plc	1,256,439	4.85
Finsbury Trust plc	1,065,000	4.11
Artemis Smaller Co Trust	900,000	3.48
S.G. Warburg Trust Co Ltd	869,975	3.36

Share capital
Details of allotments made during the year and between 1 January 2002 and 30 April 2002 are given in note 16 to the financial statements.

Creditor payment policy
The Company's current policy concerning the payment of its trade creditors is to:
a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;
b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
c) pay in accordance with its contractual and other legal obligations.
The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. UK subsidiaries follow the same policy. The Company's average creditor payment period at 31 December 2001 was 30 days.

Branches
The Group operates a branch outside of the UK in Bulgaria.

Charitable contributions
Contributions made by the Group during the year for charitable purposes were £4,000 (2000: £28,000).

Annual General Meeting Special Business
The Annual General Meeting (AGM) will commence at 12.30 p.m. on 11 June 2002 at the Marcliffe at Pitfodels, North Deeside Road, Aberdeen.

In addition to the routine business of the AGM, there are three items of Special Business detailed in the Notice of Meeting as Resolution numbers 8 to 10.

Resolution 8 authorises the Directors to allot unissued shares in the capital of the Company. This authority will expire at the conclusion of the next Annual General Meeting of the Company.

Resolution 9 is a disapplication of the statutory pre-emption rights contained in the Companies Act 1985 and empowers the Directors to allot ordinary shares for cash in connection with rights issues and pursuant to employees' share schemes which have been approved in general meeting. It also permits the issue generally of ordinary shares having a nominal value of up to £129,500 (being 5% of the current issued share capital), *thereby enabling the Directors to take advantage of opportunities as they arise. This authority will also expire at the next Annual General* Meeting of the Company.

Resolution 10 is a special resolution giving the Company limited powers to purchase its own shares for cancellation.

Auditors
The Auditors PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the AGM.

By order of the Board
C G Moar MA CA
Company Secretary
30 April 2002

Corporate Governance

The Board supports the highest standards in corporate governance, in keeping with many other companies of Ramco's size, has not complied fully with all of the recommendations in Section One of the Combined Code.

There is one recommendation with which the Company did not fully comply throughout the year. The roles of Chairman and Chief Executive are both currently filled by S E Remp as Executive Chairman although N S Cumming manages the day-to-day running of the Oil Services business in his capacity as Managing Director of that business and M D Seymour and D F Stover have responsibility for the Group's exploration activity and project development respectively. The Board currently does not believe it to be appropriate to separate the roles of Chairman and Chief Executive.

The Board

The Board currently comprises five Executive and three Non-Executive Directors and meets regularly throughout the year. Biographies of the Directors are presented on page 29. M D Seymour and D F Stover were appointed to the Board on 1 July 2001. The Board is responsible for the overall direction and strategy of the Group, and has adopted a schedule of matters specifically reserved for its review and, where appropriate, its decision. The Directors may, at the Company's expense, take independent professional advice should this be necessary in the furtherance of their duties. The Board as a whole considers the appointment of new Directors and for that reason has not established a Nominations Committee.

The Non-Executive Directors are independent of the Group and bring a wealth of relevant commercial and professional experience to the Board. Peter Everett is the Senior Independent Non-Executive Director. Non-Executive Directors have no service contracts but are appointed for an initial term of three years, renewable as appropriate. Their reappointment is subject to shareholder approval at least once every three years due to retirement by rotation as provided in the Company's Articles of Association.

Audit and Remuneration Committees

The Company has Audit and Remuneration Committees that are comprised solely of independent Non-Executive Directors who take no part in the discussion of their own remuneration. They are chaired by Peter Everett and the other members are Sir Malcolm Rifkind and David Boyle. The Remuneration Committee determines the remuneration of the Executive Directors and advises the Board on incentive schemes for employees. Its Remuneration Report is presented on page 40. The Audit Committee meets at least twice a year to review the annual and interim accounts and the effectiveness of internal controls.

The Group's External Auditors attend some of the Committee meetings and the planning, scope and results of their audit are reviewed.

Internal control

The Group has a process for the review of its business risk management. The process was in place for the whole of the last financial year.

The Board of Directors has overall responsibility for the Group's system of internal financial control and for maintaining the effectiveness of this system. Such a system can provide reasonable but not absolute assurance that assets are safeguarded, transactions authorised and correctly recorded and that material errors and irregularities are either prevented or would be detected within a timely period.

The Board has put in place an organisational structure, which has been developed and refined over a number of years, with clearly defined lines of responsibility and delegation of authority. The Directors have delegated to executive management, within the individual business units, implementation of the system of internal financial control. The business units are required to follow established procedures for budgeting, capital expenditure, information and reporting systems, all of which are reviewed and monitored by the Board of Directors.

The individual business units report their results on a monthly basis with actual results compared to budget and a rolling forecast for the year. The Group reports to shareholders on a half yearly basis.

The Directors have reviewed the effectiveness of the Group's system of internal control.

Internal audits

The Group does not have an internal audit function but the need for such a function is reviewed at least annually and management actively participates in, and encourages audits of, the Group's joint venture activities. It is the current view of the Board that the lack of an internal audit function does not impair the effectiveness of the system of internal control.

Investor relations
Communications with investors are given high priority. The Executive Directors have regular dialogue with investors and City analysts. All shareholders are sent the Annual Report and Accounts, Interim Report and may have elected to receive all press releases, many choosing to receive this information by e-mail.

The Company has a web site, www.ramco-plc.com, which is regularly updated and contains a wide range of information about the Group including share price information, Annual Report and Accounts and press releases.

The Board uses the AGM to communicate with all shareholders and welcomes their participation. The Board aims to ensure that the Chairman of the Audit and Remuneration Committees is available at the AGM to answer questions. The Company complies with best practice in ensuring that the Notice of the AGM is despatched to shareholders at least 20 working days ahead of the meeting.

Directors' responsibilities
Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs *of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.*

The Directors confirm that suitable accounting policies have been used and applied consistently. The Directors also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2001 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.*

Going concern
After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Remuneration Committee Report

The members of the Remuneration Committee are Mr. Peter Everett (Chairman), Sir Malcolm Rifkind and Mr. David Boyle, all of whom are Non-Executive Directors of the Company. The Remuneration Committee has followed the provisions set out in Schedules A and B of the Combined Code in preparing this Report. The Remuneration Committee believes that Ramco's reward structure is in accordance with those recommendations, other than, as discussed below, in relation to the notice periods under service contracts, prior to 1 January 2002.

The Committee, which meets at least twice each year, is responsible to the Board for determining the terms and conditions of employment of the Executive Directors and their remuneration packages (including pension rights and any compensation payments) and oversees the operation of the Company's Employee Share Option Schemes.

The Committee has access to external independent professional advice, at the Company's expense, as it sees fit. None of the Committee members has any personal financial interest, other than as a shareholder and share option holder, in the matters to be decided by the Committee nor any conflicts arising from cross-directorships or day-to-day involvement in the running of Ramco.

Directors' remuneration packages consist of annual salary, performance related bonuses, health, car and other benefits, pension contributions and share options. Ramco operates in the international oil and gas industry and aims to attract, reward, motivate and retain top executives in a manner appropriate to that industry and with the objective of long term accumulation of value for shareholders. The terms on which several senior executives have recently been recruited to the Oil and Gas team have confirmed that the remuneration packages currently being offered are in line with industry norms.

During 2001 each of S E Remp, S R Bertram and N S Cumming agreed to a reduction in the period of notice of termination to be given by the Company under his contract, in the case of S E Remp from three years to one and for the others from two years to one. As from 1 January 2002 all of the Executive Directors have service contracts with the Company with a rolling notice period of one year.

Performance related Profit Bonuses are calculated as a percentage of the after tax profit of the division or divisions for which each Executive Director performs duties. They are payable following certification of the Group results by the Auditors for each year, although interim payments can be approved by the Remuneration Committee where established businesses are involved. A Disposal Bonus is payable on the after tax gain realised, if all or any part of the businesses of a division is disposed of by the Group.

Director	*Profit* Bonus	*Disposal* Bonus	Division
S E Remp	6.0%	6.0%	All
S R Bertram	1.5%	1.5%	All
M D Seymour	1.0%	1.0%	Oil and Gas
D F Stover	1.0%	1.0%	Oil and Gas
N S Cumming	2.5%	3.95%	Oil Services

S E Remp has voluntarily agreed that his Profit and Disposal Bonuses should reduce to 5% with effect from 1 January 2002; the bonuses surrendered will be reallocated to other members of the management team.

The remuneration of Non-Executive Directors is determined by the Board after consideration of appropriate external comparisons and the responsibilities and time involvement of individual Directors. No Director is involved in deciding his own remuneration.

The details of Directors' remuneration and share options are given in note 4 to the financial statements.

P Everett
Chairman, Remuneration Committee
30 April 2002

Auditors' Report to the shareholders of Ramco Energy plc

Independent Auditors' report to the members of Ramco Energy plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Reviews of Operations, the Financial Review and the Corporate Governance Statement.

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

The maintenance and integrity of the Ramco Energy plc web site is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Aberdeen, Scotland
30 April 2002

Consolidated Profit and Loss Account

For the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Turnover – Group and share of joint venture and associates	2	19,019	18,323
Less share of joint venture and associates		(4,278)	(3,853)
Group turnover	2	14,741	14,470
Cost of sales		(31,229)	(34,590)
Gross loss		(16,488)	(20,120)
Administrative expenses		(1,724)	(1,696)
Group operating loss	3	(18,212)	(21,816)
Share of operating profit in joint venture and associates	2	199	706
Loss on ordinary activities before exceptional items, investment income and interest		(18,013)	(21,110)
Exceptional item – gain on disposal of oil and gas interest	5	3,448	88,792
(Loss)/profit before investment income, interest and taxation		(14,565)	67,682
Investment income		–	361
Interest receivable	6	3,759	628
(Loss)/profit on ordinary activities before taxation	2	(10,806)	68,671
Tax on (loss)/profit on ordinary activities	7	(1,148)	(27,860)
Retained (loss)/profit for the year	18	(11,954)	40,811
(Loss)/earnings per ordinary share			
On (loss)/profit for the financial year	8	(46.2)p	157.3p
Fully diluted (loss)/earnings per share	8	(46.2)p	152.0p

The results relate to continuing operations.

There is no material difference between the (loss)/profit on ordinary activities before taxation and the retained (loss)/profit for the year stated above, and their historical cost equivalents.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2001

	2001 £'000	2000 £'000
(Loss)/profit for the financial year	(11,954)	40,811
Unrealised translation differences on foreign currency net investments	16	(7)
Total recognised (losses)/gains relating to the year	(11,938)	40,804
Prior year adjustment	–	(7,728)
Total gains and losses recognised since last annual report	(11,938)	33,076

The notes on pages 45 to 67 form part of these financial statements.

Balance Sheets

As at 31 December 2001

	Note	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Fixed assets					
Intangible assets	9	13,076	14,553	–	–
Tangible assets	10	12,703	10,113	2,049	450
Investments					
Share of joint venture's gross assets		2,352	3,165	–	–
Share of joint venture's gross liabilities		(1,346)	(2,260)	–	–
Share of joint venture's net assets		1,006	905	–	–
In subsidiaries		–	–	37,755	74,921
In associated undertakings		15	3	–	–
Other fixed asset investments		3	3	–	–
Total investments	11	1,024	911	37,755	74,921
		26,803	25,577	39,804	75,371
Current assets					
Stocks	12	408	228	–	–
Debtors: amounts falling due after one year	13	34,784	60,402	–	–
Debtors: amounts falling due within one year	13	43,252	41,102	64,819	22,575
Cash at bank and in hand		12,216	3,021	5,111	1,698
		90,660	104,753	69,930	24,273
Creditors: amounts falling due within one year	14	(34,322)	(36,063)	(29,286)	(7,314)
Net current assets		56,338	68,690	40,644	16,959
Total assets less current liabilities		83,141	94,267	80,448	92,330
Provision for liabilities and charges	15	(2,840)	(2,097)	(147)	(160)
Net assets		80,301	92,170	80,301	92,170
Capital and reserves					
Called up share capital	16	2,588	2,583	2,588	2,583
Share premium account	18	55,421	55,339	55,421	55,339
Revaluation reserve	18	805	823	29,755	66,921
Other reserves	18	(85)	(101)	–	–
Profit and loss account	18	21,572	33,526	(7,463)	(32,673)
Equity shareholders' funds	19	80,301	92,170	80,301	92,170

These financial statements were approved by the Board of Directors on 30 April 2002

The notes on pages 45 to 67 form part of these financial statements.

S E Remp
Executive Chairman

S R Bertram
Group Financial Director

Consolidated Cash Flow Statement

For the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Net cash inflow/(outflow) from continuing operating activities	24(a)	24,968	(3,118)
Returns on investments and servicing of finance			
Interest received		3,781	699
Dividends received		–	9
Net cash inflow from returns on investments and servicing of finance		3,781	708
Taxation			
UK corporation tax paid		(3)	–
Overseas tax paid		(271)	(206)
Taxation paid		(274)	(206)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(3,571)	(1,894)
Sale of tangible fixed assets		44	54
Oil and gas expenditure – intangible assets		(15,847)	(13,594)
Payment to acquire investments		–	(488)
Receipts from sale of investments		7	840
Net cash outflow for capital expenditure and financial investment		(19,367)	(15,082)
Cash inflow/(outflow) before management of liquid resources and financing		9,108	(17,698)
Management of liquid resources			
Net transfer from term deposits		54	15,388
Net cash inflow/(outflow) before financing		9,162	(2,310)
Financing			
Purchase of share capital for cancellation		–	(495)
Issue of share capital		87	–
Net cash inflow/(outflow) from financing		87	(495)
Increase/(decrease) in cash	24(b)	9,249	(2,805)

The notes on pages 45 to 67 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2001

1 Presentation of Accounts and Accounting Policies

Description of Business
Ramco Energy plc is an international energy company which operates through two divisions. The Oil and Gas division actively explores for and develops oil and gas reserves, primarily in central and eastern Europe and Ireland. The Oil Services division specialises in downhole tubular maintenance and pipeline coatings, operating in the UK, Norway and Japan.

To the extent that the Group is successful in oil and gas exploration, development and production an increasing proportion of its assets will be located in, and its revenue derived from, central and eastern Europe. Accordingly, its future results of operations may be subject to greater economic and political risks than the Group has historically experienced with respect to the oil services operations.

Composition of Accounts
These financial statements have been prepared in accordance with UK generally accepted accounting principles. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Accounting Policies
Basis of accounting
These financial statements are prepared under the historical cost convention modified to incorporate the revaluation of certain fixed assets.

Changes in accounting policies
Financial Reporting Standard (FRS) 18 'Accounting policies' has been adopted in the year but did not require any change in accounting policy.

Basis of consolidation
These financial statements consolidate the financial accounts of Ramco Energy plc and all of its subsidiaries, made up to 31 December each year. No profit and loss account is presented for Ramco Energy plc as permitted by Section 230 of the Companies Act 1985. Transactions and balances between subsidiary undertakings are eliminated; no profit is recognised on sales between subsidiary undertakings. Shares in Group undertakings are revalued in the entity balance sheet on the basis of the Company's share of the net asset value of each of the Group's undertakings at 31 December.

1 Presentation of Accounts and Accounting Policies *continued*

Undertakings, other than subsidiaries, in which the Group has an investment comprising an interest of not less than 20% of the voting capital and over which it exerts significant influence are defined as joint ventures or associated undertakings.

Where the Group owns a long term investment of between 20% and 50% jointly with another party this investment is defined as a joint venture and accounted for using the gross equity method. The consolidated financial statements include the appropriate share of these undertakings' results and net assets based on financial statements to 31 December. In addition the Group's share of turnover, operating profit and taxation relating to joint ventures and associates is separately disclosed. Further disclosures as required by FRS 9 are provided where appropriate and in particular in note 11.

Goodwill

Goodwill arising on acquisition represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries, joint ventures and associates is capitalised and written off to the profit and loss account over its expected useful life (BSR joint venture 10 years).

Fixed assets

Oil and gas interests

Exploration and appraisal costs are accounted for under the successful efforts method of accounting. All costs incurred prior to the acquisition of licences are written off to the profit and loss account when incurred. Licence acquisition costs, geological and geophysical costs and other direct costs of exploration and appraisal are initially capitalised as intangible fixed assets, pending determination of the existence of commercial reserves in the licence area. If commercial reserves are determined to exist, then these costs are transferred to tangible assets, otherwise the costs are written off to the profit and loss account in the period in which the evaluation is made.

Development expenditure comprises all costs incurred in bringing a field to commercial production, including financing costs. All development costs are capitalised as tangible fixed assets. Once commercial production commences, tangible fixed assets are depleted field by field using the unit-of-production method, based on commercial proven and probable reserves.

The carrying amounts of fixed assets are reviewed for possible impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Fixed assets are regarded as impaired if their recoverable amount falls below their carrying value. Impairment losses are charged to the profit and loss account unless they arise on previously revalued assets, in which case they are recognised in the statement of total recognised gains and losses to the amount of the revaluation and thereafter in the profit and loss account.

Other activities

The cost of tangible fixed assets is purchase cost together with any incidental expenses of acquisition. Freehold land and buildings were professionally revalued at 31 December 1999. Subsequent additions are included at cost. When a revalued asset is disposed of it is the Group's policy to adjust the valuation immediately prior to its disposal to reflect the market value of the asset. The basis of valuation is stated in note 10 to the financial statements. Depreciation is provided on all tangible fixed assets, other than freehold land, at annual rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

Freehold buildings	– 2% to 7.5%
Long leasehold buildings	– 6.7%
Plant, fixtures and equipment	– 10% to 25% or Pipe Care Units – 120 operating months.

1 Presentation of Accounts and Accounting Policies *continued*

As fixed assets are retired, the cost or revalued amount, whichever is applicable, and accumulated depreciation relating to the fixed asset are removed from the balance sheet.

Leases
Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Stocks
Stocks are stated at the lower of cost and net realisable value on a FIFO basis of accounting.

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All exchange gains and losses are taken to the profit and loss account. The financial statements of overseas subsidiaries and associated undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to other reserves.

Financial instruments
The Group currently holds derivative financial instruments with the approval of the Board, and uses such instruments to manage its exposure to fluctuations on foreign currency exchange rates, interest rates and movements in oil and gas prices. Further details are given in note 21.

Deferred taxation
Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Defined contribution pension schemes
The Group operates defined contribution pension schemes. The pension cost represents contributions payable by the Group to the schemes.

Turnover
Turnover, which excludes value added tax and sales between Group companies, represents the invoiced value of goods and services supplied.

Revenue recognition
Revenue associated with the development and production of hydrocarbons for those projects where the Group shares the interest with other parties is recorded on the basis of the Group's net working interest.

The Group's share of any test production for wells under appraisal is recognised as turnover with an equal amount being charged to cost of sales and credited against intangible assets so that a zero margin is recorded in line with the Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'.

Revenue associated with the provision of tubular services and pipeline coating is recognised upon completion of appropriate certification procedures.

2 Segmental Reporting

The analyses by both business and geographical segments of the Group's turnover, profit before taxation and net assets are set out below.

	Oil and Gas		Oil Services		Total	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Turnover by origin						
Former Soviet Union	–	2,475	–	–	–	2,475
Central and eastern Europe	–	523	–	–	–	523
United Kingdom	–	–	16,176	12,450	16,176	12,450
Ireland	–	–	–	–	–	–
Norway	–	–	2,469	1,704	2,469	1,704
Japan	–	–	374	1,171	374	1,171
	–	2,998	19,019	15,325	19,019	18,323
Less joint ventures and associates (UK)	–	–	(4,278)	(3,853)	(4,278)	(3,853)
Group turnover	–	2,998	14,741	11,472	14,741	14,470
Operating (loss)/profit						
Former Soviet Union	(6,710)	(14,317)	–	–	(6,710)	(14,317)
Central and eastern Europe	(9,530)	(4,175)	–	–	(9,530)	(4,175)
United Kingdom	(2,132)	(3,342)	1,430	1,029	(702)	(2,313)
Ireland	(519)	–	–	–	(519)	–
Norway	–	–	1,292	769	1,292	769
Rest of Europe	(180)	–	–	–	(180)	–
Japan	–	–	60	622	60	622
	(19,071)	(21,834)	2,782	2,420	(16,289)	(19,414)
Less joint ventures and associates	5	–	(204)	(706)	(199)	(706)
Group operating (loss)/profit	(19,066)	(21,834)	2,578	1,714	(16,488)	(20,120)
Joint venture and associates	(5)	–	204	706	199	706
(Loss)/profit on ordinary activities before exceptional items, investment income and interest	(19,071)	(21,834)	2,782	2,420	(16,289)	(19,414)
Exceptional item	3,448	88,792	–	–	3,448	88,792
Administrative expenses	(1,207)	(1,187)	(517)	(509)	(1,724)	(1,696)
(Loss)/profit before investment income, interest and taxation	(16,830)	65,771	2,265	1,911	(14,565)	67,682
Net interest and investment income					3,759	989
(Loss)/profit before taxation					(10,806)	68,671
Net assets						
Former Soviet Union	(61)	99,995	–	–	(61)	99,995
Central and eastern Europe	5,183	9,421	–	–	5,183	9,421
United Kingdom	49,827	(30,682)	14,621	12,863	64,448	(17,819)
Ireland	10,191	878	–	–	10,191	878
Norway	–	–	511	(473)	511	(473)
Rest of Europe	9	46	–	–	9	46
Japan	–	–	20	122	20	122
	65,149	79,658	15,152	12,512	80,301	92,170

The above analysis is based on the Group's management structure, there is no turnover between segments.

Turnover by destination is not materially different to turnover by origin.

3 Group Operating Loss

	2001 £'000	2000 £'000
This is stated after charging or (crediting):		
Amounts written off in respect of intangible oil and gas assets	17,324	18,274
Depreciation of tangible fixed assets	795	1,033
Amortisation of goodwill – joint venture	30	30
Operating lease rentals – land and buildings	247	328
Operating lease rentals – plant, fixtures and equipment	520	521
Loss on disposal of tangible fixed assets	24	12
Gain on exchange	(2,277)	(249)
Auditors' remuneration for – Audit (Company: £45,000; 2000: £47,000)	120	169

Remuneration to the Company's Auditors for the provision of non audit services to the Company and its UK subsidiary undertakings in 2001 was £191,000 (2000: £136,000).

4 Employees and Directors

The average monthly number of employees including Executive Directors during the year:

	2001 Number	2000 Number
Oil Services	119	106
Oil and Gas	8	11
Office and management	12	13
	139	130

Staff costs during the year amounted to:	2001 £'000	2000 £'000
Wages and salaries	4,267	8,134
Social security costs	441	928
Other pension costs (note 20)	217	227
	4,925	9,289

Included in staff costs for 2000 are bonuses triggered by the exceptional gain on the sale of the ACG interest totalling £4.9 million.

4 Employees and Directors *continued*

Directors' remuneration	Salary and fees £'000	Performance related bonus £'000	Benefits £'000	Aggregate emoluments £'000	2001 Pension contributions £'000	2000 Pension contributions £'000	2001 Total £'000	2000 Total £'000
Executive Directors								
S E Remp	400	–	36	436	89	84	525	3,615
S R Bertram	150	–	19	169	22	21	191	625
M N Burchell (retired 31/3/01)	54	64	4	122	2	6	124	1,066
N S Cumming	150	49	16	215	22	21	237	223
D F Stover (appointed 1/7/01)	90	–	8	98	13	–	111	–
M D Seymour (appointed 1/7/01)	65	–	3	68	10	–	78	–
Non-Executive Directors								
P Everett	32	–	–	32	–	–	32	29
Sir M Rifkind	20	–	–	20	–	–	20	18
D Boyle (appointed 24/11/00)	20	–	–	20	–	–	20	2
S Zeil (resigned 24/11/00)	–	–	–	–	–	–	–	16
2001	981	113	86	1,180	158	132	1,338	5,594
2000	923	4,463	76	5,462				

Retirement benefits are accruing to the five Executive Directors (2000: four Directors) under the Group's defined contribution schemes.

Directors' interests

The beneficial interests of the Directors who served during the year in the ordinary shares of 10p of the Company are as follows:

	At 31 Dec 2000 or at date of appointment*	At 31 Dec 2001 or at date of resignation or retirement†	At 20 April 2002
S E Remp	3,293,401	3,339,051	3,339,051
S E Remp (interest held under power of attorney registered holder Mrs B Remp, S E Remp's mother)	3,250	–	–
S R Bertram	140,000	140,000	140,000
M N Burchell (retired 31/3/01)	81,407	81,407†	–
N S Cumming	300,000	300,000	300,000
P Everett	21,743	21,743	21,743
Sir M Rifkind	1,300	1,300	1,300
D Boyle	10,000	10,000	10,000
D Boyle (non-beneficial)	2,500	2,500	2,500
D F Stover (appointed 1/7/01)	1,000*	1,000	1,000
M D Seymour (appointed 1/7/01)	500*	500	500
M D Seymour (non-beneficial)	144,030*	144,030	144,030
	3,999,131	4,041,531	3,960,124

4 Employees and Directors *continued*

Directors' interests in share options are as follows:

	Exercise price	At 31 Dec 2000 or at date of appointment*	Granted	Exercised	At 31 Dec 2001	Normal exercise dates
S E Remp	675p	132,500	–	–	132,500	30/4/01 – 29/4/08
S R Bertram	675p	38,000	–	–	38,000	5/5/01 – 4/5/08
S R Bertram	347.5p	–	26,660	–	26,660	11/5/04 – 10/5/11
S R Bertram	347.5p	–	35,340	–	35,340	11/5/07 – 10/5/11
N S Cumming	125p	27,000	–	–	27,000	1/7/96 – 30/6/03
N S Cumming	755p	33,000	–	–	33,000	7/11/99 – 6/11/06
N S Cumming	675p	13,500	–	–	13,500	5/5/01 – 4/5/08
N S Cumming	347.5p	–	23,005	–	23,005	11/5/04 – 10/5/11
N S Cumming	347.5p	–	30,495	–	30,495	11/5/07 – 10/5/11
D F Stover*	347.5p	43,000		–	43,000	11/5/04 – 10/5/11
D F Stover*	347.5p	57,000		–	57,000	11/5/07 – 10/5/11
M D Seymour*	395p	16,000	–	–	16,000	17/7/02 – 16/7/09
M D Seymour*	395p	24,000	–	–	24,000	17/7/04 – 16/7/09
M D Seymour*	333p	20,000	–	–	20,000	9/11/04 – 8/11/09
M D Seymour*	347.5p	17,200	–	–	17,200	11/5/04 – 10/5/11
M D Seymour*	347.5p	22,800	–	–	22,800	11/5/07 – 10/5/11
P Everett	347.5p	–	30,000	–	30,000	11/5/07 – 10/5/11
Sir M Rifkind	347.5p	–	30,000	–	30,000	11/5/07 – 10/5/11
D Boyle	347.5p	–	30,000	–	30,000	11/5/07 – 10/5/11
		444,000	205,500	–	649,500	

A summary of the performance criteria conditional upon which the options are exercisable is set out in note 17.

During 2001 the share price ranged between a high of £4.32½ and a low of £2.90. The quarterly highest and lowest closing share prices are detailed in note 16. Directors' interests in material contracts are disclosed in note 23.

A separate report from the Remuneration Committee can be found on page 40.

5 Exceptional Item – Gain on Disposal of Oil and Gas Asset

	2001 £'000	2000 £'000
Gain on disposal of interest in ACG field	3,448	93,720
Exceptional bonuses (including NIC) arising on gain	–	(4,928)
	3,448	88,792

6 Interest Receivable

	2001 £'000	2000 £'000
Bank interest	1,032	628
Other	2,727	–
	3,759	628

7 Taxation

	2001 £'000	2000 £'000
Tax on (loss)/profit on ordinary activities:		
Corporation tax at 30% (2000: 30%)	1,419	27,596
Overseas tax at 28% (2000: 28%)	497	264
Double taxation relief	(329)	(316)
Deferred taxation	13	(1)
Tax attributable to results of joint venture	55	204
Tax attributable to results of associated undertakings	–	2
	1,655	27,749
Adjustment in respect of previous periods:		
Corporation tax at 30%	(527)	(42)
Deferred taxation	19	154
Tax attributable to results of joint venture	1	(1)
	(507)	111
	1,148	27,860

Current year corporation tax in respect of exceptional items is £1,034,000 which relates to the taxable gain regarding the ACG disposal in 2000. Although this has been recognised in the tax charge to the year, the Group anticipates that the taxable gain will be relieved by future investments. Provided these investments meet the qualifying conditions for business asset rollover relief, the £1,034,000 liability will not crystallise in the foreseeable future.

8 (Loss)/Earnings Per Share

(a) Basic (loss)/earnings per share
The calculation of (loss)/earnings per share is based on the loss for the financial year of (£11,954,000) (2000: profit £40,811,000) and 25,861,480 (2000: 25,939,403) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

(b) Fully diluted (loss)/earnings per ordinary share
The calculation of fully diluted (loss)/earnings per share is based on the loss for the financial year of (£11,954,000) (2000: profit £40,811,000) and 25,861,480 (2000: 26,853,790) ordinary shares in issue plus the dilutive potential ordinary shares relating to share options.

9 Intangible Fixed Assets

	Group Exploration costs	
Intangible	2001 £'000	2000 £'000
At 1 January	14,553	19,233
Additions	15,847	13,594
Costs written off	(17,324)	(18,274)
At 31 December	13,076	14,553

Oil and gas project expenditures, including geological, geophysical and seismic costs, are accumulated as intangible fixed assets prior to the determination of commercial reserves. The unsuccessful exploration wells in Georgia and Romania account for the majority of the costs written off during the year. At 31 December 2001, intangible fixed assets totalled £13,076,000, £8,864,000 of which relates to Ireland and £4,212,000 to central and eastern Europe.

10 Tangible Fixed Assets

	Land and buildings Freehold £'000	Land and buildings Long leasehold £'000	Plant, fixtures and equipment £'000	Total £'000
Group:				
Cost or valuation:				
At 1 January 2001	7,327	1,113	6,916	15,356
Retranslation	–	–	4	4
Additions	2,699	–	1,033	3,732
Disposals	(294)	–	(968)	(1,262)
At 31 December 2001	9,732	1,113	6,985	17,830
Of which: At cost	3,907	1,113	6,985	12,005
At valuation	5,825	–	–	5,825
	9,732	1,113	6,985	17,830
Depreciation:				
At 1 January 2001	55	275	4,913	5,243
Retranslation	–	–	3	3
Provided during the year	60	74	661	795
Disposals	(17)	–	(897)	(914)
At 31 December 2001	98	349	4,680	5,127
Net book value:				
At 31 December 2001	9,634	764	2,305	12,703
At 31 December 2000	7,272	838	2,003	10,113
Company:				
Cost or valuation:				
At 1 January 2001	294	–	590	884
Additions	1,467	–	492	1,959
Disposals	(294)	–	(241)	(535)
At 31 December 2001	1,467	–	841	2,308
Of which: At cost	1,467	–	841	2,308
At valuation	–	–	–	–
	1,467	–	841	2,308
Depreciation:				
At 1 January 2001	9	–	425	434
Provided during the year	9	–	74	83
Disposals	(18)	–	(240)	(258)
At 31 December 2001	–	–	259	259
Net book value:				
At 31 December 2001	1,467	–	582	2,049
At 31 December 2000	285	–	165	450

Freehold land and buildings includes interest capitalised of £236,000 (2000: £236,000). No interest has been capitalised since 1993 when construction of the facility at Badentoy, Aberdeen was completed. The Group's freehold land and buildings were valued on an open market basis for existing use on 31 December 1999 by Smith Milligan, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors in the UK. These valuations were incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve (note 18).

10 Tangible Fixed Assets *continued*

The historical cost and depreciation of freehold land and buildings shown at valuation are as follows:

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Historical cost: At 31 December	5,361	5,840	–	479
Depreciation: At 31 December	408	582	–	237

	Group		Company	
Capital commitments:	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Contracts placed for future capital expenditure not provided in the financial statements	220	750	–	750

11 Investments

	Other fixed asset investments £'000	Joint venture £'000	Associated undertakings £'000	Total £'000
Group:				
Cost or valuation:				
At 1 January 2001				
Goodwill	–	300	–	300
Net assets	56	718	3	777
	56	1,018	3	1,077
Additions	–	–	–	–
Share of retained profit for the year	–	131	12	143
At 31 December 2001				
Goodwill	–	300	–	300
Net assets	56	849	15	920
	56	1,149	15	1,220
Amounts written off:				
At 1 January 2001				
Goodwill	–	113	–	113
Net assets	53	–	–	53
	53	113	–	166
Amortisation of goodwill	–	30	–	30
At 31 December 2001	53	143	–	196
Goodwill	–	143	–	143
Net assets	53	–	–	53
	53	143	–	196
Net book value:				
At 31 December 2001				
Goodwill	–	157	–	157
Net assets	3	849	15	867
	3	1,006	15	1,024
Net book value:				
At 31 December 2000				
Goodwill	–	187	–	187
Net assets	3	718	3	724
	3	905	3	911

11 Investments *continued*

Set out below are additional disclosures required in respect of the Group's share in its joint venture.

	2001 £'000	2000 £'000
Share of:		
Goodwill	157	187
Tangible fixed assets	2,009	2,095
Current assets	186	883
Liabilities due within one year	(1,045)	(1,973)
Provisions for liabilities and charges	(301)	(287)
	1,006	905

The Group's share of the undistributed retained earnings of its joint venture amounted to £499,000 at 31 December 2001 (2000: £367,000).

If investments in Group undertakings had not been revalued they would have been included at the following amounts:

	Subsidiary undertakings £'000
Cost:	
At 1 January 2001	3,000
Additions	–
At 31 December 2001	3,000
Provisions:	
At 1 January 2001	–
Provided during the year	–
At 31 December 2001	–
Net book value:	
At 31 December 2001	3,000
At 31 December 2000	3,000

Share of results of joint venture:	2001 £'000	2000 £'000
British Steel Ramco Pipeline Services Limited		
Turnover	7,864	7,233
Profit before taxation	376	1,402
Group share 50%	188	701
Group share of profit after tax	132	498

The principal operating Group undertakings at 31 December 2001 are listed in note 26.

	Subsidiary undertakings £'000
Company:	
At 1 January 2001	74,921
Movement on revaluation of Group undertakings	(37,166)
At 31 December 2001	37,755

12 Stocks

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Consumables and stores	408	228	–	–

13 Debtors

Amounts falling due within one year:	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Trade debtors	5,458	2,732	–	–
Amounts owed by subsidiary undertakings	–	–	63,125	20,077
Amounts owed by associated undertakings*	1,948	1,758	–	–
Group relief receivable	–	–	255	1,440
Corporation tax recoverable	12	–	–	–
Value added tax and other taxes	113	62	113	–
Other debtors	34,982	35,689	292	4
Dividends receivable from subsidiaries	–	–	900	900
Dividends receivable from joint venture	498	498	–	–
Prepayments	241	363	134	154
	43,252	41,102	64,819	22,575

*All trading balances.

Included in other debtors is £2,938,000 relating to a loan due from Island Petroleum Developments Limited, a partner of the Group in the Seven Heads project. Interest accrues daily at Clydesdale Bank base rate plus 2%, following the expiry of six months from the initial draw down. Security is in the form of a Mortgage Debenture. Ramco had several options for the repayment of this loan and in March 2002 elected to convert the full amount of the outstanding loan into an increased interest in the Seven Heads and Galley Head fields.

Amounts falling due after one year:		Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Amounts owed by associated undertakings	(1)	3,962	–	–	–
Other debtors	(2)	30,822	60,402	–	–
		34,784	60,402	–	–

(1) This relates to a loan due from Medusa Oil & Gas (Poland) Sp. zo.o. It is due to be repaid in equal annual instalments commencing on 31 December 2005. Full repayment is due by 31 December 2010. Interest is calculated daily at a rate equal to 12 month US Dollar LIBOR plus 3%.

(2) This relates to the third instalment of the proceeds of the ACG sale, which is receivable as follows:

	US Dollars $'000	Exchange rate	2001 Sterling £'000	2000 Sterling £'000
February 2002			–	30,201
February 2003	45,000	1.46	30,822	30,201
			30,822	60,402

14 Creditors – Amounts Falling Due Within One Year

	Group		Company	
Amounts falling due within one year:	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Trade creditors	3,665	1,938	252	236
Amounts owed to subsidiary undertakings	–	–	28,777	1,862
Corporation tax	28,263	27,558	2	–
Other taxes and social security	216	272	71	96
Other creditors	–	2	–	–
Accruals	2,178	6,293	184	5,120
	34,322	36,063	29,286	7,314

Included with corporation tax is £28.3 million provided in respect of the gain recognised on the sale of the ACG interest. Although this has been provided for, the Group anticipates that the taxable gain arising as a result of the disposal will be relieved by future investments. Provided these investments meet the qualifying conditions for business asset rollover relief, the actual liability will not crystallise, until the earlier of the disposal of the assets or the tenth anniversary of the investment.

15 Provision for Liabilities and Charges

	Closure costs £'000	Relocation costs £'000	Vacant properties £'000	Others £'000	Deferred tax £'000	Total £'000
Group:						
At 1 January 2001	1,403	190	196	5	303	2,097
Charged/(released) to the profit and loss account	2,367	(101)	(58)	–	32	2,240
Utilised during the year	(1,403)	(89)	–	(5)	–	(1,497)
At 31 December 2001	2,367	–	138	–	335	2,840

	Closure cost £'000	Relocation costs £'000	Vacant properties £'000	Others £'000	Deferred tax £'000	Total £'000
Company:						
At 1 January 2001	–	18	137	5	–	160
Charged to the profit and loss account	–	–	1	–	9	10
Utilised during the year	–	(18)	–	(5)	–	(23)
At 31 December 2001	–	–	138	–	9	147

15 Provision for Liabilities and Charges *continued*

Vacant properties
The Group has two vacant leasehold properties. Provision has been made for residual lease commitments, together with outgoings, after taking into account existing and anticipated sub-tenant arrangements. The provision at 31 December 2001 is based on appropriately discounted cash flows.

Closure costs
This provision represents the costs of fulfilling a drilling commitment where the Directors had decided to abandon the well. The provision is expected to be fully utilised during 2002.

Deferred taxation
Deferred taxation is provided in the financial statements as follows:

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Capital allowances in advance of depreciation	335	306	9	2
Short term timing differences	–	(1)	–	–
Other timing differences	–	(2)	–	(2)
	335	303	9	–

The unprovided (asset)/liability for deferred taxation is as follows:

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Capital allowances in advance of depreciation	(161)	(90)	–	–
Short term timing differences	–	(51)	–	–
Unrelieved losses	(8,895)	(5,617)	(130)	2
	(9,056)	(5,758)	(130)	2

The other timing differences are in respect of carried forward tax losses (£8,765,000) and carried forward capital losses (£130,000).

No tax liability would arise on the disposal, at valuation, of the Group's land and buildings.

There is a potential liability of £13.3 million which would arise if the revalued investments of the Company, in subsidiary, joint ventures and associated undertakings, were sold at their revalued amounts. Provision for these liabilities has not been made in the financial statements as there is no intention, in the foreseeable future, to dispose of these investments or intangible fixed assets.

16 Share Capital

	2001 £'000	2000 £'000
Authorised:		
40,000,000 (2000: 40,000,000) ordinary shares of 10p each	4,000	4,000
Allotted, called up and fully paid:		
25,882,595 (2000: 25,833,595) ordinary shares of 10p each	2,588	2,583

During the period from 1 January 2000 to 31 December 2001 the following new ordinary shares of 10p each were issued or cancelled:

Date of issue	No. of shares	Reason for change	Price
16 November 2000	(100,000)	Purchased for cancellation	410p – 415p
27 November 2000	(20,000)	Purchased for cancellation	410p
Total for 2000	(120,000)		
19 January 2001	5,000	Exercise of share options	80p
22 June 2001	15,000	Exercise of share options	130p
22 June 2001	29,000	Exercise of share options	220p
Total for 2001	49,000		

Total consideration for the new shares issued in 2001 was £87,000. Costs associated with the issue of these shares were £nil.

Between 1 January 2002 and 30 April 2002 no new shares were issued.

The principal trading market for the shares in the UK is the London Stock Exchange's Alternative Investment Market (AIM) on which the shares have been traded since 14 November 1996.

The following table sets forth, for the calendar quarters indicated, the reported highest and lowest price for the shares on AIM, as reported by the London Stock Exchange.

	2001 Pence per share		2000 Pence per share	
	High	Low	High	Low
First quarter	432.5	297.5	462.5	275.0
Second quarter	422.5	307.5	438.0	347.5
Third quarter	357.5	290.0	497.5	350.0
Fourth quarter	367.5	291.0	487.5	380.0

17 Share Options

The Company has granted options under a number of Employee Share Option Schemes. Before any of the share options granted under these schemes can be exercised the Group must first have achieved certain performance targets, as detailed below. As at 31 December 2001 the following options were outstanding:

Option price	2001	2000	Exercisable at 31 Dec 2001	Remaining contractual life	Normal exercise dates	Target variable	Target
80p	26,000	31,000	26,000	0.9 years	11/11/95 – 10/11/02	EPS	> RPI
125p	27,000	27,000	27,000	1.5 years	1/7/96 – 30/6/03	EPS	> RPI
130p	–	15,000	–	2.5 years	1/7/97 – 30/6/04	EPS	> RPI
220p	–	29,000	–	3.0 years	10/12/97 – 9/12/04	EPS	> RPI
595p	30,000	35,000	30,000	4.4 years	10/5/99 – 9/5/06	EPS	> RPI
755p	103,900	127,900	103,900	4.9 years	7/11/99 – 6/11/06	EPS	> RPI
1095p	2,000	2,000	2,000	5.2 years	25/2/00 – 24/2/07	EPS	> RPI
1095p	–	2,500	–	5.2 years	19/3/00 – 18/3/07	EPS	> RPI
675p	275,000	423,000	275,000	6.3 years	30/4/01 – 29/4/08	EPS	> RPI
675p	51,500	51,500	51,500	6.3 years	5/5/01 – 4/5/08	EPS	> RPI
395p	27,700	41,700	–	7.5 years	16/7/02 – 15/7/09	TSR	> RPI+5% p.a.
395p	78,550	105,050	–	7.5 years	16/7/04 – 15/7/09	TSR	> RPI+10% p.a.
333p	20,000	20,000	–	7.9 years	8/11/04 – 7/11/09	TSR	> RPI+10% p.a.
347.5p	209,195	–	–	9.4 years	10/5/04 – 9/5/11	TSR	(2)
347.5p	367,305	–	–	9.4 years	10/5/07 – 9/5/11	TSR	(1)
335p	19,800	–	–	9.9 years	11/11/04 – 31/10/11	TSR	(2)
335p	35,200	–	–	9.9 years	11/11/07 – 3/10/11	TSR	(1)
	1,273,150	910,650	515,400				

(1) Before these options can be exercised Ramco must be in the top third of the table of growth in Total Shareholder Return of the companies in the FTSE all share index.

(2) Before these options can be exercised Ramco must be in the top two thirds of the table of growth on Total Shareholder Return of the companies in the FTSE all share index.

EPS Earnings per share

TSR Total Shareholder Return

RPI Retail Price Index

Details of the Directors' options which are included in the above figures are shown in note 4 to the financial statements.

	2001 Shares	2001 Weighted average Exercise price	2000 Shares	2000 Weighted average Exercise price
Options outstanding at 1 January	910,650	573p	919,650	573p
Options exercised	(49,000)	178p	–	–
Options granted	631,500	346p	–	–
Options cancelled	(220,000)	630p	(9,000)	597p
Options outstanding at 31 December	1,273,150	466p	910,650	573p
Options available for grant 31 December	18,728		153,757	
Options exercisable at 31 December	515,400	207p	102,000	139p
Option price range				
At 31 December	80p to 1095p		80p to 1095p	
For exercised options	80p to 220p		–	

No options expired during the current or prior year.

18 Reserves

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit & loss account £'000
Group:				
At 1 January 2001	55,339	823	(101)	33,526
Issue of ordinary share capital	82	–	–	–
Exchange difference on retranslation	–	–	16	–
Loss for the year	–	–	–	(11,954)
Amortisation of deferred gain on asset sold to joint venture	–	(18)	–	–
At 31 December 2001	55,421	805	(85)	21,572

Other reserves comprise an exchange loss on retranslation.

Included in the profit and loss account above is £15,000 (2000: £3,000) representing the retained earnings of the Group's associated undertakings and £499,000 (2000: £367,000) for the Group's joint venture.

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit & loss account £'000
Company:				
At 1 January 2001	55,339	66,921	–	(32,673)
Issue of ordinary share capital	82	–	–	–
Movement on revaluation	–	(37,166)	–	–
Profit for the year	–	–	–	25,210
At 31 December 2001	55,421	29,755	–	(7,463)

19 Movement in Shareholders' Funds

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
(Loss)/profit for the financial year	(11,954)	40,811	25,210	(25,977)
Other recognised gains and losses relating to the year	16	(7)	(37,166)	66,764
Issue of ordinary share capital	87	–	87	–
Purchase of ordinary share capital for cancellation	–	(495)	–	(495)
Amortisation of deferred gain on asset sold to joint venture	(18)	(17)	–	–
Net change in shareholders' funds	(11,869)	40,292	(11,869)	40,292
Shareholders' funds at 1 January	92,170	51,878	92,170	51,878
Shareholders' funds at 31 December	80,301	92,170	80,301	92,170

20 Pension Commitments

The Group operates a number of defined contribution pension schemes. The assets of these schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and amounted to £217,000 (2000: £227,000). Contributions totalling £11,000 (2000: £nil) were payable to the funds at the year end. Details of the scheme are as follows:

(a) The Chairman is a member of a non-contributory scheme where Company contributions are currently at a rate of 22.2% of salary. This benefit will continue for as long as he is employed by the Group.

(b) The other Executive Directors belong to a non-contributory scheme where the Company contributes at a rate of 15% of salary.

(c) Other staff are eligible to join the Group's defined contribution schemes after three months' service with the Group. The Group contributes between 5% and 15% of each participating employee's salary to the scheme. The employees may also contribute to the scheme.

21 Derivatives and Other Financial Instruments

The Board reviews and agrees policies for managing financial risks.

The Group's strategy is to finance its operations through a mixture of retained profits and cash reserves. Equity finance, project finance and other alternatives are reviewed by the Board, when appropriate, to fund substantial acquisitions or oil and gas development prospects. The Group's principal financial instruments comprise investments, medium term receivables, cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations. The Group treasury department monitors the availability of and requirement for funds in the Group. Surplus cash within the Group is put out on deposit in accordance with limits and counterparties agreed by the Board, the objective being to maximise returns on funds whilst ensuring that the short term cash flow requirements of the Group are met.

The Group may from time to time, with the approval of the Board, use derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and movements in oil and gas prices.

Financial instruments held for trading purposes
The Group does not undertake any trading activity in financial instruments.

Short term debtors and creditors
Short term debtors and creditors have been excluded from all numerical disclosures, other than the currency risk disclosures.

Commodity price risk
The Group has not yet established significant oil and gas production. Therefore, the commodity price risk exposure is low and financial instruments are not currently used to manage this risk. The Board will review this exposure as production is established.

Foreign currency risk
Although the Group reports in Sterling, a large proportion of its business is conducted in US Dollars. The Group manages this, and other exposures that arise from receipt of revenues in foreign currencies, by matching receipts and payments in the same currency and actively managing the residual net position. US Dollar revenue generated by both divisions is currently used to meet the US Dollar costs of the Oil and Gas division. The Group has substantial US Dollar denominated debtors but expects that much of its near term capital expenditure will also be US Dollar denominated, consequently the Group considers that any fluctuation in exchange rates is likely to have a minimal effect on the Group, and no sensitivity analysis has therefore been presented. Exchange rates are monitored in conjunction with forecast currency requirements by Group treasury. Currency exposures are shown on pages 64 and 65.

During the year the Company entered into two Variable Forward (Partial) Foreign Exchange transactions to hedge against the impact of fluctuations in the Sterling/US Dollar exchange rate on the US Dollar denominated receivables relating to the proceeds of the ACG disposal. These hedges were still in place at the year end. The cumulative unrecognised gain under this transaction at 31 December 2001 was £212,000. £106,000 of this gain is expected to be recognised in the 2002 profit and loss account.

21 Derivatives and Other Financial Instruments *continued*

Liquidity/interest rate risk
Surplus funds on short term deposit are earning interest at rates between 1.3% and 2.8%. The Group has no debt. Board approval is required for all new borrowing facilities. Details of interest rate profiles are shown below. The Group has not used any interest rate swaps or other instruments to manage its interest profile during 2001.

Market risk
Exposure to interest rate fluctuations is minimal as the Group currently has no debt. Interest rates in the UK are relatively stable and the impact of a fluctuation in the interest rate on interest earned on the Group's short term deposits is likely to be minimal. The impact of a hypothetical relative 10% adverse movement in the interest rate across all short term deposits would have the effect of decreasing interest income in 2002 by £234,000.

(a) Interest rate risk profile of financial assets
The interest rate risk profile of financial assets of the Group at 31 December 2001 is as follows:

Currency	Fixed rate financial assets £'000	Floating rate financial assets £'000	Financial assets on which no interest is earned £'000	Total £'000
Sterling	–	5,471	23	5,494
US Dollar	–	6,266	62	6,328
Norwegian Kroner	–	326	–	326
Other	–	30	38	68
	–	12,093	123	12,216

The interest rate risk profile of financial assets of the Group at 31 December 2000 was as follows:

Currency	Fixed rate financial assets £'000	Floating rate financial assets £'000	Financial assets on which no interest is earned £'000	Total £'000
Sterling	–	2,108	38	2,146
US Dollar	31	586	2	619
Norwegian Kroner	–	100	–	100
Other	57	93	6	156
	88	2,887	46	3,021

Financial assets include cash, deposits and investments.

(b) Currency exposures
The table below shows the extent to which Group companies have monetary assets in currencies other than their local currency. Foreign exchange differences on retranslation of these assets are taken to the profit and loss account of the Group companies and the Group.

At 31 December 2001, currency exposures are as follows:

	Net foreign currency monetary assets		
Functional currency of Group operation	US Dollars £'000	Other £'000	Total £'000
Sterling	73,232	15	73,247
Norwegian Kroner	433	–	433
	73,665	15	73,680

Foreign exchange gains totalling £2,277,000 (2000: £249,000) have been recognised in the profit and loss account for the year.

21 Derivatives and Other Financial Instruments *continued*

(b) Currency exposures *continued*
At 31 December 2000, currency exposures were as follows:

Functional currency of Group operation	Net foreign currency monetary assets US Dollars £'000	Other £'000	Total £'000
Sterling	96,296	152	96,448
Norwegian Kroner	241	–	241
	96,537	152	96,689

(c) Fair values of financial assets and financial liabilities
The following is a comparison by category of the carrying amounts and fair values of the Group's financial assets and liabilities at 31 December 2001. Set out below the table is a summary of the methods and assumptions used for each category of instrument.

Primary financial instruments	Book value 2001 £'000	Book value 2000 £'000	Fair value 2001 £'000	Fair value 2000 £'000
Fixed asset investments	1,024	911	1,024	911
Cash	12,191	2,942	12,191	2,942
Short term deposits	25	79	25	79

Short term deposits
The fair value of short term deposits approximates to the carrying value because of the short maturity of these instruments.

22 Other Financial Commitments

	2001 Land and buildings £'000	2001 Other £'000	2000 Land and buildings £'000	2000 Other £'000
Group:				
Operating leases which expire:				
Within one year	63	4	64	–
In the second to fifth years inclusive	62	31	60	12
Over five years	26	–	75	14
	151	35	199	26

Leases of land and buildings are subject to periodic rent reviews.

Rental expenses are disclosed at note 3.

23 Related Party Transactions

The following transactions with related parties are disclosable.

S E Remp and N S Cumming, Executive Directors of Ramco Energy plc, are entitled to royalty payments from the Group in connection with the patent of a PCU which they have assigned to Ramco Tubular Services Limited, a subsidiary of Ramco Energy plc. S E Remp has waived his entitlement to all royalties from this agreement. This royalty entitlement for 2001 would have been £2,000. N S Cumming received £2,000 of the royalties paid during the year and is entitled to £2,000 of the accrued royalties.

In addition to his Board fees as a Non-Executive Director, Sir Malcolm Rifkind undertakes consultancy including international travel on behalf of the Group. In the year to 31 December 2001 he received fees from the Group totalling £20,000 (2000: £30,000).

During the year the Group provided accounting and administrative services to British Steel Ramco Pipeline Services Limited ('BSR'), which is a joint venture. The total value of these services was £8,000 (2000: £8,000). The amount owed by BSR for these services and other expenditures at the end of the year was £62,000 (2000: £289,000). In addition, sales of £4,521,000 (2000: £1,950,000) were made to Badentoy Tubular Services Limited ('BTS'), an associated undertaking. The amount owed at the end of the year by BTS was £1,873,000 (2000: £741,000).

24 Notes to Consolidated Cash Flow Statement

(a) Reconciliation of operating loss to net cash flow from continuing operating activities

	2001 £'000	2000 £'000
Operating loss	(18,212)	(21,816)
Exceptional gain on disposal of oil and gas interest	3,448	88,792
Amounts written off in respect of intangible oil and gas assets	17,324	18,274
Amortisation of goodwill	30	30
Depreciation on tangible fixed assets	795	1,033
Loss on sale of tangible fixed assets	24	12
Amortisation of deferred gain on asset sold to joint venture	(18)	(17)
Increase in stocks	(180)	(29)
Decrease/(increase) in debtors	23,726	(96,484)
(Decrease)/increase in creditors	(2,695)	5,427
Increase in provisions	711	1,666
Exchange difference on retranslation	15	(6)
Net cash inflow/(outflow) from continuing operating activities	24,968	(3,118)

(b) Reconciliation of net cash flow to movements in net funds

	2001 £'000	2000 £'000
Increase/(decrease) in cash in the year	9,249	(2,805)
Cash inflow from decrease in liquid resources	(54)	(15,388)
Change in net funds resulting from cash flows	9,195	(18,193)
Net funds at start of the year		
Cash at bank and in hand	2,942	5,747
Short term deposits	79	15,467
	3,021	21,214
Net funds at end of the year	12,216	3,021
Represented by:		
Cash at bank and in hand	12,191	2,942
Short term deposits	25	79
	12,216	3,021

Liquid resources represent short term deposits not qualifying as cash.

25 Litigation

The Company is currently in dispute with its partner in the Czech Republic, MND. MND has attempted unilaterally to terminate the association under which the exploration acreage has been exploited to date. Attempts to resolve the difference by negotiation have been unsuccessful and the dispute is now the subject of formal arbitration in Prague. A preliminary judgement from the arbitrators is expected later this year. Ramco is pursuing its claims vigorously, seeking either a continuation of the association according to its agreed terms or a satisfactory financial settlement.

26 Group Undertakings

	Country of registration	Class of shares	Proportion held	Nature of business
(a) Principal operating subsidiary undertakings at 31 December 2001:				
Oil and Gas division				
Ramco Oil & Gas Limited	Scotland	Ordinary	100%	Oil and gas projects
Ramco Oil Limited	Scotland	Ordinary	100%	Oil and gas projects
Ramco Hazar Energy Limited (1)	Scotland	Ordinary	100%	Oil and gas projects
Medusa Oil & Gas Limited	England	Ordinary	100%	Oil and gas projects
Medusa Czech Operations Limited (4)	Jersey	Ordinary	100%	Oil and gas projects
Medusa Oil & Gas (Europe) B.V. (4)	Netherlands	Ordinary	100%	Oil and gas projects
Oil Services division				
Ramco Oil Services Limited	Scotland	Ordinary	100%	Holding company
Ramco Oil Services International Limited (2)	Scotland	Ordinary	100%	Holding company
Ramco Norway A/S (3)	Norway	Ordinary	100%	Tubular services
Ramco Tubular Services Limited (2)	Scotland	Ordinary	100%	Tubular services

In addition there are a number of dormant subsidiary undertakings.

	Country of registration	Class of shares	Proportion held	Nature of business
(b) Associated undertakings at 31 December 2001:				
Badentoy Tubular Services Limited (2)	Scotland	Ordinary	33.3%	Tubular services
Medusa Oil & Gas (Poland) Sp. zo.o. (5)	Poland	Ordinary	41.5%	Oil and gas projects
(c) Joint venture at 31 December 2001:				
British Steel Ramco Pipeline Services Limited (2)	England	Ordinary	50%	Pipeline coating

(1) Shares held by Ramco Oil & Gas Limited
(2) Shares held by Ramco Oil Services Limited
(3) Shares held by Ramco Oil Services International Limited
(4) Shares held by Medusa Oil & Gas Limited
(5) Shares held by Medusa Oil & Gas (Europe) B.V.

Five Year Record

	2001 £'000	2000 £'000	1999 restated £'000	1998 restated £'000	1997 restated £'000
Group turnover	14,741	14,470	11,189	7,177	6,158
Cost of sales	(31,229)	(34,590)	(16,583)	(12,257)	(7,912)
Gross loss	(16,488)	(20,120)	(5,394)	(5,080)	(1,754)
Administrative expenses	(1,724)	(1,696)	(1,303)	(1,586)	(1,516)
Exceptional administrative expenses	–	–	–	(607)	–
Group operating loss	(18,212)	(21,816)	(6,697)	(7,273)	(3,270)
Income from interests in joint venture	188	701	523	1,050	293
Income/(loss) from interests in associates	11	5	–	–	(48)
Exceptional item – gain on disposal of oil and gas interest	3,448	88,792	–	–	–
(Loss)/profit before investment income, interest and taxation	(14,565)	67,682	(6,174)	(6,223)	(3,025)
Investment income	–	361	434	–	–
Interest income net	3,759	628	1,339	2,721	2,590
Taxation	(1,148)	(27,860)	(467)	(432)	(133)
Minority interests	–	–	99	38	16
Loss/(profit) for the financial year	(11,954)	40,811	(4,769)	(3,896)	(552)
(Loss)/earnings per share	(46.2)p	157.3p	(18.5)p	(15.2)p	(2.25)p
Weighted average number of shares used to compute (loss)/earnings per share	25,861,480	25,939,403	25,751,823	25,674,373	24,563,244

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