Ramco Energy plc

Annual Report and Financial Statements 2002

# FOCUSED ON HIGH POTENTIAL...

SC 62845

# Contents



Offshore Montenegro seismic acquired by Ramco in 2000

Seismic Line med-00-13-a conventional migrated seismic section

**AVO display**
An Amplitude-versus-Offset display of the same seismic line highlighting anomalies with the characteristics expected of gas-bearing sand

# Year in Review

**_March_**
Following the conversion of a £3.3 million loan to Island Petroleum Developments Limited (IPDL) Ramco increases its interest in Seven Heads from 49% to 56.5%.

**June**
Oil Services is awarded a two year US$1 million contract with Kawasaki Steel Corporation, Japan.

**July**
Ramco and partners reach agreement with Marathon for the gas from Seven Heads to be produced through Marathon's Kinsale Head facilities.

Ramco acquires additional interest in Seven Heads taking its stake to 86.5%.

**_August_**
Exploration drilling by Ramco's partner RWE Dea AG commences on the Zdynianka-1 well in Poland.

**November**
Ramco and partners are granted a Petroleum Lease over the Seven Heads gas field by the Minister of Communications, Marine and Natural Resources of Ireland.

Ramco concludes a Gas Sales Agreement with Innogy plc for its entire share of Seven Heads gas production and confirms a £60 million project finance arrangement with the Bank of Scotland.

**December**
Oil Services is awarded a three year US$3 million contract with Sumitomo Corporation Europe plc.

Ramco and its partner RWE Dea AG announce good quality gas shows from the Zdynianka-1 well.

Ramco disposes of non-core exploration licences to Falcon Oil & Gas Limited.

# The Ramco Strategy

RAMCO BELIEVES THAT AN INCREASING RANGE OF OPPORTUNITIES IS EMERGING IN THE GROWING EUROPEAN GAS MARKET.

RAMCO'S STRATEGY IS TO PROVE UP SUBSTANTIAL RESERVES OF HIGH VALUE, HIGH QUALITY GAS TO SUPPLY THESE MARKETS. THE FIRST TARGET FOR THIS STRATEGY IS THE SEVEN HEADS DEVELOPMENT OFFSHORE IRELAND, FROM WHICH FIRST GAS IS EXPECTED IN LATE 2003.

IN LINE WITH THIS MORE FOCUSED APPROACH, RAMCO DISPOSED OF FOUR NON-CORE SUBSIDIARIES DURING 2002 AND IS NOW CONCENTRATING ON KEY PROJECTS IN IRELAND, POLAND, MONTENEGRO AND BULGARIA, WHICH ARE AT DIFFERENT STAGES OF EXPLORATION AND DEVELOPMENT.

RAMCO REMAINS COMMITTED TO ITS OIL SERVICES BUSINESS, A MARKET LEADER WHICH CONTINUES TO PROVIDE THE COMPANY WITH A STABLE INCOME STREAM FROM WHICH TO DEVELOP ITS OTHER ACTIVITIES.

RAMCO BELIEVES THAT BY FOCUSING ON A SMALL PORTFOLIO OF INTERESTS IN WHICH IT HOLDS SUBSTANTIAL EQUITY POSITIONS AND IN WHICH IT CAN APPLY LEADING EDGE TECHNOLOGIES TO EXPLOIT OPPORTUNITIES AND REDUCE RISK, IT WILL CREATE OUTSTANDING VALUE FOR ITS SHAREHOLDERS.

# 2002 HAS BEEN AN IMPORTANT YEAR FOR RAMCO. THE BOARD HAS UNDERTAKEN A MAJOR STRATEGIC REVIEW RESULTING IN THE DECISION TO FOCUS ITS RESOURCES ON PURSUING A SMALL GROUP OF CORE PROJECTS.

**From left:**

**Steven Bertram**
**Group Financial Director**

**Stephen Remp**
**Executive Chairman**

**Daniel Stover**
**Chief Operating Officer**

Good progress has been made with each of these projects and a number of peripheral exploration assets have been disposed of in order to achieve this focus.

In particular, 2002 has seen intense activity on our Seven Heads Gas Project offshore Ireland, which has been transformed from an appraisal concept into a live development, targeting first production later this year. Our first production well, 48/24-6, recently tested dry gas at rates in excess of 34.3 mmscfd, substantially exceeding our best expectations.

Elsewhere, our first exploration well in Poland produced encouraging results and a second well is nearing completion. In Montenegro, we now anticipate faster progress following a privatisation process in which our partner, the State Oil Company, has become a subsidiary of Hellenic Petroleum of Greece.

Our Oil Services operation showed continued improvement in the performance of its one-stop facility at Badentoy and this went some way towards offsetting the effects of a weakening market for its other activities.

**Financial results**
Group turnover for 2002 totalled £16.8 million, up from £14.7 million in 2001. Gross losses after exploration write offs were further reduced to £6.8 million from £18.8 million in 2001. Administrative expenses fell to £1.4 million from £1.6 million the previous year and the substantial exchange gain of £2.3 million recorded in 2001 reversed during 2002 creating an exchange loss of £2.7 million. Interest income fell from £3.8 million in 2001 to £1.8 million in 2002. After providing for taxation of £0.1 million, the Group loss was £9.3 million (2001: loss £12.0 million). The Board is not recommending payment of a dividend (2001: nil). At 31 December 2002 we had cash of £24 million and since that date have received the final instalment of the ACG proceeds, plus interest due, totalling £15.4 million. In addition a £60 million project finance loan has been arranged with the Bank of Scotland to support the Seven Heads development and is now available to draw down.

**Strategy**
During 2002, the Board and senior management team looked back on the spectacular results achieved by the disposal of our interest in the ACG field offshore Azerbaijan, as well as our exploration failures. We critically analysed what we had done well and where mistakes had been made. This comprehensive strategic review has led to a new and sharper focus by all of us at Ramco.

Conventional wisdom told us that to mitigate the substantial risk in exploration we should build a portfolio with a broad spread of interests. Following the strategic review and with considerable benefit of hindsight, the Board is firmly of the belief that an overly 'broad portfolio' approach can easily lead to lack of focus, strained finances and a dilution of management time and effort.

Our successes, on the other hand, tell us that we can create outstanding value by focusing on a smaller portfolio of interests in which we can apply leading edge technologies, both to exploit opportunities and to reduce risk. We believe that Seven Heads is one such case.

Our objective is to prove up substantial natural gas reserves from a small number of projects which have high impact potential, an acceptable level of risk and in which we hold substantial equity positions. The Seven Heads development, scheduled for first production before the end of the year, is the first step towards that objective.

The Board has done two things to equip the Group for a more focused approach. Firstly, we have strengthened and expanded the management team to ensure that we have the capability to realise an ambitious strategy. The individuals who have joined Ramco during the past two years have a track record in creating significant value both through the drill bit and offshore development projects: Dan Stover recently appointed as Chief Operating Officer, Ian Phillips – VP Project Development, Terry Jones – VP Commercial, and Steve Boldy – VP Ireland. These appointments complement our strong finance team led by Steven Bertram as Group Financial

Director and Chris Moar – VP Finance and Company Secretary.

Secondly, we have disposed of a number of subsidiaries which held projects on the periphery of our business. These subsidiaries held exploration interests with significant future work commitments which together with the associated overhead expenditure will now be met by the purchaser.

**Ireland**
During 2000, Ramco re-evaluated the Seven Heads structure, originally drilled in the 1970s, using new seismic interpretation technology. The results led to a successful appraisal well in late 2001 which flowed at 13.7 mmscfd on a 92/64" choke with a flowing well head pressure of 561 psia, indicating the strong possibility of a commercial development. Much of the early part of 2002 was taken up confirming this through additional technical work using the latest technology and in negotiating access to Marathon's nearby Kinsale Head facilities. The ability to utilise existing facilities both reduced the capital cost of developing Seven Heads gas, and enabled the finalisation of a fast track development schedule. The gas field was declared commercial by Ramco and its partners in July and our growing confidence in this project was the catalyst for a series of transactions which increased our interest in the project from 49% to 86.5%.

In November, we successfully concluded a Gas Sales Agreement with Innogy for our share of the Seven Heads gas and the Irish Authorities granted Ramco and its partners a Petroleum Lease. Since then the Plan of Development for the gas field has received formal approval from the Irish government and the drilling of the first of five further production wells is now complete. Well 48/24-6 reached a total depth of 1,298m on 29 March 2003. The well set a new record for the Celtic Sea in the 12¼" hole section which was drilled with a single bit run.

Following coring and logging programmes, the well tested dry gas from the Upper Wealden sandstones at a maximum flow rate of 34.3 mmscfd, on a 128/64" choke with a flowing well head pressure of 565 psia. Ramco and partners are extremely pleased with these flow test results which substantially exceeded our expectations.

Infield pipelines required to connect the six wells to the Kinsale Head facilities were laid and trenched during late March. Currently the pipelay vessel, the Castoro Sei, is on location laying the 18" pipeline from the field back to the Marathon operated Kinsale A platform. We continue to anticipate first gas production before the end of the year.

**Poland**
Activity in Poland in the early part of 2002 was aimed at finalising the well locations for the two exploration wells to be drilled by our partner RWE Dea AG. The first of these, Zdynianka-1, spudded in August and reached a total depth of 2,325m. The well produced high quality gas and was tested over five zones. Three of those zones produced over-pressured gas together with formation water. Although encouraging, it was concluded that the well had penetrated the target horizon in a down-structure position close to the gas-water contact and the well was abandoned and its costs expensed. The second exploration well, Ropa-2, spudded in January and has reached its target depth of 2,530m. Log evaluation programmes are in progress on the well. Future plans for the acreage will be finalised once the results of the two wells have been fully studied.

**Montenegro**
In Montenegro, the privatisation of our local partner Jugopetrol Kotor (JPK), which took much of last year, limited the work that we could complete on the concession. We used the time, however, to conduct further technical work designed to help prioritise options for further exploration activity. The privatisation process was concluded towards the end of 2002, with Hellenic Petroleum of Greece emerging as the majority shareholder of JPK. Our initial discussions with Hellenic have been very productive and it is clear they share our enthusiasm for the prospectivity of the concession. In order to help accelerate the exploration process, Ramco and Hellenic are working to agree a number of changes to improve the commercial efficiency of the contract governing the exploration of the Ulcinj block.

**Bulgaria**
Our seismic acquisition and geological studies programme over the A-Lovech block in Bulgaria has advanced well and early indications from interpretation have been encouraging. As a result we have, together with our partner Anschutz, submitted a proposal to the Bulgarian government to retain the acreage for a further two years. Additional geophysical and geological studies will be completed, focused on the key areas of interest identified from last year's work.

**Outlook**
We believe that this revised portfolio will enable us to achieve the necessary balance between the upside we seek and the level of exploration and development risk we can accept and will create outstanding value for our shareholders. The year ahead will be challenging, with much to do to bring Seven Heads on stream and ongoing exploration activity in Poland, Montenegro and Bulgaria.

Oil Services, once Ramco's core business, remains an integral part of the Group. We have invested well and the profitability of Oil Services has been pivotal to the successful development of the Group's E&P business. Although North Sea activity declined during 2002, exploration by smaller independents combined with new contracts in Japan and Norway should have a positive impact in the future.

I would like to conclude by thanking all of our outstanding employees and members of our Board for their commitment, dedication and loyalty. It is a pleasure to work with all of them.

**Stephen Remp**
Executive Chairman

OUR SUCCESSES TELL US THAT WE CAN CREATE OUTSTANDING VALUE BY FOCUSING ON A SMALLER PORTFOLIO OF INTERESTS IN WHICH WE CAN APPLY LEADING EDGE TECHNOLOGIES, BOTH TO EXPLOIT OPPORTUNITIES AND TO REDUCE RISK.

# A TRANSFORMING STRATEGY FOR SUCCESS...

# A NEW NAME IN EUROPEAN GAS

RAMCO'S STRATEGY IS TO PROVE UP SUBSTANTIAL RESERVES OF HIGH VALUE, HIGH QUALITY GAS TO SUPPLY EUROPEAN MARKETS.

THE FIRST TARGET FOR THIS STRATEGY IS THE SEVEN HEADS DEVELOPMENT OFFSHORE IRELAND, FROM WHICH FIRST GAS IS EXPECTED IN LATE 2003.

**Seven Heads:**

**Top Upper Wealden structure map**

**Ireland**

Seven Heads (Ramco 86.5% – Operator)
The Seven Heads structure lies within Blocks 48/23, 48/24, 48/28 and 48/29 in the north Celtic Sea Basin, approximately 45km offshore from Cork, Ireland. The nearest facilities are on the Kinsale Platforms located 32.5km to the east north-east. Water depths over the structure are fairly constant, ranging between 97m and 104m.

The Seven Heads accumulation was discovered in 1973 by Esso with the 48/24-1 exploration well which was completed and production tested in 1974. The well tested some oil and 11 mmscfd of gas from Lower Cretaceous Wealden sandstones. The discovery was appraised by a further three Esso wells; 48/28-1 in 1974, 48/23-1 in 1976 and 48/24-2 in 1978. A further well, 48/24-3, was drilled by Marathon in 1990 before the acreage was relinquished.

Although all of these wells confirmed the presence of oil and gas the field was not believed to be commercial at that time. The nearby Kinsale Head field was already meeting Ireland's gas demand and had no spare capacity.

Esso had been drilling primarily for deeper oil reservoirs, and although oil was proved present in the Seven Heads structure, limited understanding of the distribution and quality of the oil in place prevented a declaration of commerciality. Ramco and its partners plan to investigate the potential for the oil reserves further once the gas field is in production.

**1999** In June 1999, a group led by Ramco Energy plc (chart 1), applied for and was granted, in October of that year, a Licensing Option to study the oil and gas accumulation in the Seven Heads area.

**Dedicated subsurface team provided by Helix-RDS Limited, from left:**

**Angela Holland Geologist**
**Ann Constant Geophysicist**
**Gill Sykes**
**Subsurface Manager**
**Anette Poulsen**
**Reservoir Engineer**

ADVANCES IN TECHNOLOGY SINCE THE FIELD WAS FIRST DISCOVERED PROVIDED RAMCO WITH A MUCH BETTER UNDERSTANDING OF THE REGION'S GEOLOGY

**2000** The work programme under the Licensing Option, which started in earnest in 2000, included a review of existing well information and reprocessing of existing seismic (using sophisticated mathematical algorithms to greatly reduce the effects of multiple signals created by the hard chalk sea floor in the area) and acquisition of new seismic data. Advances in technology since the field was first discovered provided Ramco and its partners with a much better understanding of the region's potential than had been available earlier.

The study work under the Licensing Option demonstrated the scope for a commercial gas field development in the Lower Cretaceous Upper Wealden reservoir.

Seven Heads partners' meeting, from left:

Magne Normann Senior VP International, DNO Barry Moir Ramco Graham Bell Financial Controller, DNO Gary Moore Director, Sunningdale Ian Phillips Ramco Ole Nygaard Petroleum Engineering Manager, DNO Terry Jones Ramco

IN 2002 THE SEVEN HEADS PARTNERS REACHED AN AGREEMENT WITH MARATHON TO ROUTE GAS THROUGH THEIR EXISTING FACILITIES

**2001** Ramco and one of its partners, Duke Energy, had agreed to adjust their respective holdings under the Licensing Option in light of their respective expenditures on the project during the Option phase. This adjustment resulted in Ramco's interest increasing from 37.5% to 49%.

Ramco and its partners applied for and were granted a Lease Undertaking relating to the gas in the Seven Heads area in August 2001. Before this happened Sunningdale Oils (Ireland) Limited farmed out a part of their interest, bringing AIM listed Northern Petroleum into the project (chart 2).

The extensive technical work completed under the Licensing Option had helped determine the location for Ramco's first appraisal well. The well, 48/24-5A, was located 3.5km from the nearest of the older wells. The well location was selected to provide confirmation of the extent and communication of gas within the structure, and was designed to improve understanding of the reservoir and verify the dual permeability nature of the field. The entire productive interval of 230 feet was cored providing comprehensive rock samples from the reservoir for the first time.

All of this data supported an evaluation of the volume of gas initially in place of 565 bcf. Using a series of cautious assumptions in a reservoir simulation model, and based on initial production rates of 60 mmscfd, a recovery factor of 50–55% was estimated. That leads to proven and probable recoverable reserves in the range 280–310bcf, which has been confirmed by independent engineers Exploration Consultants Limited. The hydrocarbon in the reservoir is unusually pure gas – over 99.5% methane ($CH_4$).

**Petroleum Lease signing ceremony, from left:**

**Dermot Ahern TD Minister for Communications, Marine and Natural Resources Daniel Stover, John Browne TD Minister of State for Communications, Marine and Natural Resources and Stephen Remp**

## THE GAS SALES ARRANGEMENTS ENABLED RAMCO TO SECURE BANK CREDIT COMMITTEE APPROVAL FOR A £60 MILLION PROJECT FINANCE FACILITY

**2002** The results of the 2001 appraisal well greatly increased Ramco's confidence in the commerciality of the field and were a catalyst *to the Company acquiring an additional* 7.5% interest in the project through the conversion of a loan it had made to one of its partners, Island Petroleum Developments Limited (Island), now a subsidiary of DNO (chart 3).

A key factor in assessing the economics of the field was the route to shore. There were two viable development options, building a new pipeline to shore or connecting to the nearby Kinsale Head *infrastructure, which had spare capacity.* In March 2002 the Seven Heads partners reached an agreement with Marathon International Petroleum Ireland Limited (Marathon) to route the Seven Heads gas through Marathon's existing facilities. This was the preferred option as it enabled a fast track development schedule for the field, avoiding the significant additional capital cost of building a new pipeline to *shore and the uncertainties associated with* onshore planning permissions. Under the commercial agreement the Seven Heads partners will share the future operating costs of the Kinsale facilities with Marathon.

Further technical and reservoir studies were completed in preparation for a formal declaration of commerciality. A change in corporate strategy by Duke Energy, moving away from upstream activity, led to a *further increase in interest in the project* by Ramco as 26% was acquired from them and a further 4% acquired from Northern Petroleum PLC (chart 4).

Ramco and its partners declared the field to be commercial in July 2002, and shortly thereafter an application for a Petroleum Lease was submitted. This was awarded to the Seven Heads partners in November 2002.

A key factor in securing the finance necessary for the development expenditure was the gas sales arrangements. Ramco concluded agreements to sell its share of the gas to Innogy, the energy trading subsidiary of RWE of Germany. The other partners in the field are required, under EU competition law, to sell their gas independently. The gas sales arrangements with Innogy enabled Ramco to secure a £60 million project *finance facility from the Bank of Scotland* and allowed the formal Plan of Development and an Environmental Impact Statement to be submitted to the Irish Authorities towards the end of 2002.

**2003** The Plan of Development and Environmental Impact Statement received approval from the Irish Authorities in March 2003, triggering the start of the fast track development programme. The primary field development plan for Seven Heads is a six well sub-sea development tied back to the Kinsale Alpha platform operated by Marathon.

Due to the large aerial extent and shallow depth of the reservoir it is neither technically nor economically feasible to drill all the wells from a central drilling/production template. As a result wells are to be drilled vertically at the optimum reservoir locations and tied back to a sub-sea production manifold. The gas will be transported to Marathon's Kinsale Alpha platform by 35km of 18" pipeline for processing and export to shore. By the end of April 2003 the first production well, 48/24-6, had been completed and had tested gas at 34.3 mmscfd. All of the infield pipelines, which will connect the wells to the manifold, had been laid and trenched and the main pipeline from the manifold to the Kinsale Alpha platform had been placed on the seabed by the end of April.

The remaining drilling and completion operations will utilise two drilling rigs and are scheduled to be completed before the end of 2003.

The Seven Heads project schedule targets first gas delivery in Q4 2003.

**The Future** Once the Seven Heads sub-sea and platform tie-in systems are commissioned, day-to-day responsibility for production operations will pass to Marathon, acting on behalf of Ramco. Ramco will retain the legal responsibility of field Operator including long term reservoir management, well intervention if required, and sub-sea repair as necessary.

Work completed to date on the regional geology around Seven Heads has given Ramco considerable encouragement that the area could hold additional commercial gas reserves. Applications over areas of interest have been filed with the Irish Authorities, as has an application relating to the oil potential deeper within the Seven Heads acreage.

**Above left:**

**Seven Heads 8" pipeline being welded at Evanton base**

**Above right:**

**Seven Heads 8" pipeline being spooled onto CSO Apache at Evanton base**

# Outline of the Irish Licensing Regime

**Petroleum Prospecting Licence**
Non-exclusive licence to explore anywhere in the Irish Continental Shelf that is not the subject of any other licence. In practice this entitles a company to undertake seismic surveys.

**Licensing Option**
Gives the holder an exclusive right to apply for an Exploration Licence
a) for a defined period
b) in return for undertaking an agreed work programme.

**Exploration Licence**
A 'Standard' licence covers an agreed work programme in water less than 200m. The work programme usually includes an exploration well. The licence period is 6 years.

A 'Deepwater Exploration' licence covers an agreed work programme in water greater than 200m. The work programme usually includes an exploration well. The licence period is 12 years.

A 'Frontier' licence covers an agreed work programme in areas where the Minister has declared the area to be a 'Frontier' area. The work programme usually includes an exploration well, but the licence period is generally longer than other licences (minimum 15 years).

**Lease Undertaking**
Gives the holder an exclusive right to apply for a Petroleum Lease
a) for a defined period
b) in return for undertaking an agreed work programme.

**Petroleum Lease**
Gives the holder an exclusive right to produce hydrocarbons for an agreed period.

# Central and Eastern Europe

**Poland**

**Acreage location map showing the prospects and leads identified by Ramco together with existing exploitation licences**

**Poland**

Carpathian Blocks (Ramco 41.5% – RWE Dea AG Operator)

Activity in Poland in the early part of 2002 was aimed at finalising the locations for the two exploration wells to be drilled. The first of these, Zdynianka-1, spudded in August and reached a total depth of 2,325m. The well produced high quality gas and was tested over five zones. Three of those zones produced over-pressured gas together with formation water. Although encouraging it was concluded the well had penetrated the target horizon in a down-structure position close to the gas-water contact and the well was abandoned.

The second exploration well on the block, Ropa-2, commenced drilling in January 2003 and reached total depth of 2,530m in April and was being evaluated as this report went to print.

## IT'S HARD NOT TO BE ENTHUSED ABOUT THE EXPLORATION POTENTIAL OF MONTENEGRO GIVEN THE RANGE OF PLAYS AND APPARENT SCALE DEMONSTRATED BY GEOLOGICAL AND GEOPHYSICAL WORK TO DATE.

**Montenegro**
Ulcinj Contract (Ramco 51% – Operator)
The privatisation of our local partner, Jugopetrol Kotor, which took much of last year, restricted the work that we could complete in the region. However, we have used the time to complete further technical work designed to help prioritise targets for further evaluation and a potential drilling programme for 2004.

The privatisation process was concluded towards of the end of 2002, with Hellenic Petroleum of Greece emerging as the majority shareholder of Jugopetrol Kotor. Our subsequent discussions with Hellenic have been very productive and it is clear they share our enthusiasm for the prospectivity of the region. Ramco and Hellenic have agreed a number of changes to the contract governing the exploration of the Ulcinj block in order to help accelerate the exploration process. These changes have been submitted for the approval of the Montenegrin authorities.

**Montenegro**

**Schematic cross section showing the range of oil and gas plays – from shallow Plio-Pleistocene gas sands to deep Mesozoic carbonate reefs**

**Montenegro**

**Regional map showing Ramco's acreage and existing oil and gas fields**

# Central and Eastern Europe continued

**Bulgaria**
A-Lovech (Ramco 20% – Anschutz Operator)
Technical studies including re-interpretation of 6,787km of existing seismic, acquisition and interpretation of 290km of new seismic and regional and location specific geological and petrophysical studies have yielded encouraging results. The Anschutz/Ramco partnership has applied to the Bulgarian authorities for a two year extension to the work programme. During that time period, additional analysis of currently held data as well as selective further data acquisition will be pursued in preparation for a potential exploratory well in 2005.

**Czech Republic**
In September 2002 Ramco reported that a partial judgement had been given in arbitration proceedings in Prague which found that the joint venture agreements relating to the Czech interests of Ramco's subsidiary, Medusa Czech Operations Limited, had been validly terminated by Moravské Naftové Doly a.s. in July 2000. On 4 March 2003, Medusa applied to the Prague Municipal Court to annul the partial judgement. The principal ground of the application was that evidence became available in December 2002 which, had it been available earlier, would have significantly influenced the arbitrators' decision. Meanwhile the arbitration proceedings continue to address how the joint venture property should be dealt with and the parties compensated. The next oral hearing is likely to take place in mid-July 2003.

**Bulgaria**

**Lovech Licence area and the well developed export pipeline infrastructure**

**Daniel Stover**
Chief Operating Officer

# Oil and Gas Division
# Interests and Reserves

*As at 31 December 2002*

| Country | Licence | Effective interest (%) | Operator |
|---|---|---|---|
| **Ireland** | Seven Heads Petroleum Lease (offshore)<br>Part Blocks 48/22, 48/23, 48/24,<br>48/27, 48/28, 48/29, 48/30 | 86.5 | Ramco |
| **Poland** | Carpathian Licences (Areas 434, 435, 454, 455) | 41.5 | RWE Dea AG |
| **Montenegro** | Ulcinj Contract (offshore/onshore) | 51 | Ramco |
| **Bulgaria** | A-Lovech | 20 | Anschutz |
| **Czech Republic** | Karlin Licence | 48 | MND |
| | Brezi-Mikulov and Bulhary Licences | 85 | MND |

All onshore unless otherwise stated.
Applications for additional acreage in Ireland are pending.
The acreage in the Czech Republic is the subject of an ongoing arbitration.

**Reserves as at 31 December 2002**

The table below shows reserves information for the Group.

**Proven plus probable gas reserves**

| | Bcf |
|---|---|
| **At 1 January 2002** | – |
| **Additions (on award of Petroleum Lease)** | 263 |
| **At 31 December 2002** | 263 |
| **Reserves by region are as follows:** | |
| **Ireland** | 263 |

These figures are extracted from the reserve report prepared by independent petroleum engineers Exploration Consultants Limited.

# DURING 2002 CONTINUED IMPROVEMENT IN THE PERFORMANCE OF OUR ONE STOP FACILITY AT BADENTOY WENT SOME WAY TOWARDS OFFSETTING THE EFFECTS OF A WEAKENING MARKET ON OUR OTHER OPERATIONS.

**Above from left:**

**Malcolm Edward**
**Commercial Director**

**Robert Taylor**
**Technical Director**

**Stewart Cumming**
**Managing Director**

**Oil Services turnover £m**

- **Pipeline Services**
- **Tubular Services**

**Tubular Services**
Badentoy produced another record year, with a substantial increase in throughput, arising not only from our major contracted users Shell and BP, but also from new users including some of the independent operators who have recently entered the North Sea market. Another contributing factor was the growth in demand for the preparation of tubulars in a ready to run condition. Traditionally this time and space consuming work has been carried out offshore. During the last quarter of 2002 we completed construction of an extension to our cleaning and coating plant, which will allow us to run three separate production lines in the facility. This increase in the capacity and flexibility of our Badentoy plant will serve us particularly well in the future at times of high demand for cleaning and coating services.

Activity at Airdrie continued to decline, resulting in the mill owners transferring the manufacturing of most of our particular size of pipe from Scotland to other mills in France. As a result our Pipe Care Unit (PCU) showed a marked decline in profitability and is now mothballed, as the pipe imported from France is being processed at Badentoy.

Our Norwegian operations were affected by a weak market in the second half of 2002. Future activity at our Florø facility looks brighter as we signed a new three year contract, to descale and coat tubulars manufactured in Japan, with Sumitomo in December. This contract comes into effect in the second quarter of 2003. Our Stavanger plant continued its satisfactory performance.

There was limited activity in our Japanese operations in 2002, resulting in a small loss from this location. Our new contract with the Kawasaki mill in Japan guarantees a fixed tonnage of chrome tubulars to be descaled over two years. The implementation of this contract was deferred because of low tubular demand, and we anticipate a start-up in September 2003.

**Pipeline Services**
Following a weak start, activity at our British Steel Ramco (BSR) joint venture improved in the second half of 2002, resulting in a positive contribution for the year. We are considering an expansion of the services offered at the Hartlepool plant in order to broaden the market served.

**Outlook**
High oil prices reflecting the conflict in the Middle East are not expected to be sustained. As a result activity levels in the North Sea remain very depressed. Exploitation of mature assets by smaller

independent operators should have a positive impact on activity levels in the future.

Despite the continuing weak market, all our operations are expected to be profitable in the coming year. Badentoy continues its resilient performance. The start of our new contract at Florø in April 2003 should improve performance at that location. Also throughput from the Japanese contract, deferred from 2002, should result in a return to profitability in Japan. BSR has started the year well, and has a substantial order book for the first half of 2003.

**Stewart Cumming**
Managing Director

**Above:**

**Bluestream's pipeline route carrying Russian gas south via the Black Sea to Turkey**

**From left clockwise:**

**Tom Masson**
**Systems Manager**

**Andrew Nicholson**
**Logistics Manager**

**George Ritchie**
**Operations Manager**

**Steve Patterson**
**Financial Controller**

# IT IS THE POLICY OF RAMCO ENERGY PLC TO CONDUCT ALL ITS OPERATIONS IN A MANNER WHICH PROTECTS PEOPLE AND PROPERTY; TO HAVE PROPER REGARD FOR THE ENVIRONMENT AND TO STRIVE TO IMPROVE ITS HEALTH, SAFETY AND ENVIRONMENTAL PERFORMANCE OVER TIME.

**Oil Services:**

**Safety video produced at Ramco's Badentoy facility highlighted some of the dangers involved in the handling of materials**

Ramco recognises that the prevention of accidents and ill health and the protection of the environment are essential to the efficient operation of its business. Accordingly, the management of health, safety and environmental issues is an integral part of the Company's management arrangements and commands equal prominence with operational and commercial considerations in our decision making process. Ramco recognises the value of both its own employees and its contractors' staff and considers their wellbeing to be a major factor in the success of all its business activities.

To deliver on these commitments and objectives, Ramco has a Corporate Management System in place to ensure that:

1 There is a health and safety management organisation in place to ensure that effective health and safety performance is achieved, and which results in all Ramco operated sites being safe places to work.
2 There is an effective environmental management organisation in place to ensure that operations have a minimal impact on the environment by identifying and managing the relevant risks.
3 The necessary training is provided for Ramco employees and contractors to ensure that they have the knowledge and capability to conduct operations in a safe and environmentally sensitive manner.
4 When planning operations, environmental issues are considered from the outset with the objective of reducing waste, minimising the consumption of resources and preventing damage to wildlife habitats.
5 Ramco's contractors understand their responsibilities for ensuring safe and healthy workplaces.
6 Adequate contingency plans are developed and implemented to manage any emergency that may arise in any of its operations.
7 Appropriate and effective security is in place for Ramco and contractor personnel and for Company assets at all operated locations and during travel to and from locations.
8 Ramco complies with all local, national and international health and safety legislation, environmental regulations and codes of practice.

Ramco provides the necessary resources, advice and guidance to ensure the communication and implementation of its health, safety and environmental policies, and monitors and reports on the Company's safety and environmental performance to the Board.

Ramco reviews and audits all aspects of the management system to ensure that it is being complied with, and to seek improvements in the system. The system is actively developed in line with the development of Ramco's business activities.

Although overall responsibility for health, safety and the environment rests with Ramco, every employee and contractor must recognise their own responsibilities (in particular, any specific responsibilities under legislation, or delegated to them as individuals) to ensure the health and safety of themselves and others.

# Board of Directors

**2 Stephen Remp BA MA Hon D Tech**
**Executive Chairman Aged 56**

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.

**1 Peter Everett SPMB BSc CBIM**
**Non-Executive Director Aged 71**

Appointed December 1994. Peter Everett is the Senior Non-Executive Director on the Board and is Chairman of the Audit and Remuneration Committees and a member of the Nominations Committee. 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.

**3 Rt Hon Sir Malcolm Rifkind KCMG QC**
**Non-Executive Director Aged 56**

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. 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 is Chairman of the Nominations Committee. He holds a number of other Non-Executive Directorships.

**4 N Stewart Cumming**
**Managing Director of Ramco Oil Services**
**Aged 54**

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.

**5 Steven Bertram MA (Hons) CA Dip BA**
**Group Financial Director Aged 43**

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.

**6 Daniel Stover BSc**
**Chief Operating Officer Aged 47**

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 UK Production Manager, 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.

**7 Vikram Lall CA**
**Non-Executive Director Aged 56**

Vikram Lall is the most recently appointed Non-Executive Director, joining the Board on 1 October 2002. Vikram has been an adviser to Ramco since 1988 and has 30 years' experience in corporate finance. He is a director of Brewin Dolphin Holdings PLC and is responsible for the Brewin Dolphin group's corporate finance activities. He is also Chairman of the Scottish Industrial Development Advisory Board, a member of The Renewing Local Democracy Group and holds a number of other Non-Executive Directorships. Vikram is a member of the Audit, Remuneration and Nominations Committees.

# RAMCO ENERGY PLC, A SCOTTISH PUBLIC LIMITED COMPANY, AND ITS SUBSIDIARIES, JOINT VENTURE AND ASSOCIATED UNDERTAKINGS FORM AN ENERGY GROUP WITH TWO DISTINCT DIVISIONS: OIL AND GAS, AND OIL SERVICES.

From left:

**Steven Bertram**
**Group Financial Director**

**Andrew Anderson,**
**Director, Natural Resources,**
**The Bank of Scotland**

**Stephen Remp**
**Executive Chairman**

**Description of business**
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 6 to 23.

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

This financial review is intended to assist in the understanding of the Group's results of operations for the year ended 31 December 2002 and its financial position at 31 December 2002. 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) and the Statement of Recommended Practice (SORP) 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'. The key financial data for the last five years is summarised on page 64. Detailed information by business segment can be found in note 2 to the financial statements.

**Turnover**
Consolidated Group turnover for 2002, which was entirely generated by the Oil Services' division, was £16.8 million, up 14% from £14.7 million in 2001.

**Cost of sales**
Group cost of sales reduced by 30% from £33.6 million in 2001 to £23.6 million in 2002.

Cost of sales relating to the Oil and Gas division in 2002 included exploration write offs totalling £5.0 million, primarily in respect of an unsuccessful well in Georgia and the Group's share of an abandoned exploration well in Poland. Despite these costs the division's cost of sales fell by 58% from £21.4 million in 2001 to £9.0 million in 2002.

Oil Services' cost of sales rose by 20% from £12.2 million in 2001 to £14.6 million in 2002. This reflects the higher activity level and the fact that a higher proportion of lower margin logistics work was completed during the year.

**Administrative expenses and exchange gains and losses**
Administrative expenses of the Group fell by 12% from £1.6 million in 2001 to £1.4 million in 2002. This reflects the first full year's savings made by combining the Corporate and Oil and Gas offices together in one office. The substantial exchange gain of £2.3 million recorded in 2001 reversed during 2002 creating an exchange loss of £2.7 million.

**Income from interests in its joint venture and associated undertakings**
The Group's total loss from its joint venture and associated undertakings totalled £34,000 compared with a profit of £199,000 in 2001.

The Oil and Gas division's share of pre-tax losses from its Polish oil and gas associated undertaking was £45,000 compared with £5,000 in 2001.

Oil Services' share of pre-tax profit from its pipeline coating joint venture fell by 90% from £188,000 in 2001 to £18,000 in 2002. A small loss was recognised from Oil Services' associated undertakings bringing total income from Oil Services' joint venture and associated undertakings to £11,000, compared with £204,000 in 2001. This reflected low activity levels throughout 2002 in these ventures.

**Loss on ordinary activities before exceptional items, interest and taxation**
The Group's loss on ordinary activities before exceptional items, interest and taxation fell to £11.0 million in 2002 from £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 £21.4 million in 2001 to £9.0 million in 2002 primarily as a result of reduced write offs of unsuccessful exploration projects.

Profit from the Oil Services division, including the Group's share of its joint venture and associated undertakings, fell by 19% to £2.2 million compared with £2.7 million in 2001.

**Net interest**
Net interest receivable fell by 53% to £1.8 million from £3.8 million in 2001. This reflects both the reduced funds available for investment as a result of the expenditure on the Seven Heads development and falling interest rates.

**Taxation**
The Group's taxation charge reduced significantly from £1.1 million in 2001 to £0.1 million in 2002. The higher charge in 2001 reflects tax provided on the exceptional gain arising on that part of the sale of the ACG interest which was recognised in that year.

**Loss for the financial year**
A loss for the financial year of £9.3 million was recorded in 2002 compared with a loss of £12.0 million in 2001 for the reasons outlined above.

**Balance sheet**
The Group and Company balance sheets as at 31 December 2002 are shown on page 41. Group net assets have reduced from £80.3 million at 31 December 2001 to £72.0 million at 31 December 2002. This movement arose primarily as a result of the loss for the year. At 31 December 2002, the Group held £24.0 million as cash or short term deposits and received £15.4 million as the final instalment of the ACG proceeds in February 2003. The Group has arranged project finance of £60 million to ensure that it has sufficient resources to fund its share of the balance of the budgeted Seven Heads development expenditure. The Group has also put in place additional standby borrowing facilities to cover possible cost overruns during the development phase which is expected to be concluded by the end of 2003.

**Cash flow**
Cash flow from operations
As indicated by the consolidated cash flow statement on page 42 the Group's net cash inflow from operating activities was £39.1 million and £25.0 million for the years ended 31 December 2002 and 2001 respectively. During these years, the Company utilised significant cash resources to finance its oil and gas activities in Ireland and central and eastern Europe.

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 £402,000 in 2002. This related to profitable joint venture and overseas subsidiaries outside of the Group's UK tax group. In 2001 and 2002 the Group invested approximately £3.6 million and £0.8 million respectively, in fixed assets. Fixed asset purchases in 2002 related primarily to extensions to the Oil Services facilities at Badentoy and Norway and completion of the Group's new head office. Also in connection with its Oil and Gas operations, the Group invested £15.8 million in 2001 and £25.6 million in 2002 in connection with its projects, the biggest investment being in its Seven Heads project offshore Ireland.

Future capital requirements
The Group's current prospects, apart from Seven Heads, are in the exploration or appraisal stages and do not contain any proven reserves. Independent reserves engineers, Exploration Consultants Limited, have reported proven and probable gas reserves of 304 bcf for the Seven Heads field, 263 bcf net to Ramco. These reserves have enabled the Group to secure project finance of £60 million to assist with its share of the expenditure required to put the field into production. If the development schedule is met, first gas production is expected before the end of 2003. The Group has concluded a Gas Sales Agreement for its share of the field's gas with Innogy Ireland Limited, a subsidiary of RWE.

The Group believes that it has the cash, deposits and borrowing facilities it needs to meet its current and planned commitments. The Group expects, however, if it is successful in discovering further commercial reserves in its portfolio of oil and gas projects that it may require substantial resources in addition to those currently available to fund its share of future expenses for those other 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 interest to other companies as it did successfully during 2001 in Poland with RWE farming in. This strategy reduces the future capital requirements of the Group in respect of those projects. Although the Group is actively considering new prospects, there can be no assurance that any of them will actually be secured 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. If such projects do not prove capable of commercial development, the Group's future capital expenditure requirements in connection with such prospects will be significantly smaller. The Group intends to fund its capital requirements during 2003 from its cash resources and its project finance facility.

**Market risks**
The Group is exposed to a variety of market 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 non-financial or non-quantifiable

## WE WERE PLEASED TO CONCLUDE OUR £60 MILLION PROJECT FINANCE FACILITY WITH THE BANK OF SCOTLAND AND LOOK FORWARD TO A PRODUCTIVE RELATIONSHIP WITH THEM.

risks. These have not been discussed here. To the extent that the Group's oil and gas assets can be successfully developed, the Group's assets, revenues and cash flows will become dominated by Dollar or Euro based oil and gas operations. Accordingly, the Sterling/Dollar and Sterling/Euro exchange rates will be important to the Sterling prices of the shares traded on AIM.

The tables below set forth, for the periods and dates indicated, the exchange rates for the Dollar and the Euro against Sterling.

**Dollar/Sterling exchange rates**
(Dollar per Pound Sterling)

| | At end of period | Average rate[1] | High | Low |
|---|---|---|---|---|
| 1998 | 1.66 | 1.66 | 1.71 | 1.66 |
| 1999 | 1.61 | 1.61 | 1.67 | 1.56 |
| 2000 | 1.49 | 1.52 | 1.65 | 1.40 |
| 2001 | 1.46 | 1.44 | 1.49 | 1.41 |
| 2002 | 1.61 | 1.51 | 1.61 | 1.41 |

**Euro/Sterling exchange rates**
(Euro per Pound Sterling)

| | At end of period | Average rate[1] | High | Low |
|---|---|---|---|---|
| 1998 | 1.42 | 1.48 | 1.55 | 1.41 |
| 1999 | 1.61 | 1.53 | 1.61 | 1.45 |
| 2000 | 1.59 | 1.65 | 1.72 | 1.58 |
| 2001 | 1.63 | 1.62 | 1.67 | 1.58 |
| 2002 | 1.53 | 1.59 | 1.63 | 1.53 |

[1]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 22 to the financial statements.

**Steven Bertram**
Group Financial Director
12 May 2003

# Report of the Directors

The Directors submit their report and audited Group financial statements for the year ended 31 December 2002.

**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 27 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 40 shows a loss on ordinary activities before tax of £9.2 million (2001: loss £10.8 million). After tax the Group loss for the year was £9.3 million (2001: loss £12.0 million).

The Directors do not recommend the payment of a dividend (2001: nil per share) and £9.3 million will be deducted from the Group's reserves.

**Employees**
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.

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.

**Directors**
Biographies of the present Directors of the Company are listed on pages 26 and 27.

In accordance with the Company's Articles of Association, V Lall, who was appointed to the Board on 1 October 2002, automatically retires and being eligible offers himself for re-election. P Everett retires by rotation and being eligible offers himself for re-election. Neither of the Directors offering themselves for re-election have service contracts with the Company. Details of the remuneration of the Directors and the interests of the Directors in the share capital and share options of the Company are disclosed in the Remuneration Report included on pages 36 to 38.

**Substantial shareholders**
The Directors have been notified of the following interests in 3% or more of the Company's issued share capital at 16 April 2003:

| Name of member | No. of shares | % of capital |
|---|---|---|
| Directors | 3,800,389 | 14.50 |
| Artemis UK Smaller Co Fund | 1,560,000 | 5.95 |
| Merrill Lynch Investment Managers Ltd | 1,487,292 | 5.68 |
| Prudential plc | 1,288,448 | 4.91 |
| Finsbury Trust plc | 1,065,000 | 4.06 |
| S.G. Warburg Trust Co Ltd | 869,975 | 3.32 |
| Capital Group Companies Inc | 800,000 | 3.05 |

**Share capital**
Details of allotments made during the year and between 1 January 2003 and 16 April 2003 are given in note 17 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 2002 was 49 days (2001: 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 £7,000 (2001: £4,000).

**AGM Special Business**
The Annual General Meeting (AGM) will commence at 12.30 p.m. on 27 June 2003 at the Marcliffe at Pitfodels, North Deeside Road, Aberdeen.

In addition to the routine business of the AGM, there are four items of Special Business detailed in the Notice of Meeting as Resolution numbers 4 to 7.

Resolution 4 deals with the reappointment of our Auditors. Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 21 February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as Auditors. A resolution to reappoint PricewaterhouseCoopers LLP as Auditors to the Company will be proposed at the AGM.

Resolution 5 authorises the Directors to allot unissued shares in the capital of the Company. This authority will expire at the conclusion of the next AGM of the Company.

Resolution 6 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 £262,000 (being 10% 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 AGM of the Company.

Resolution 7 is a special resolution giving the Company limited powers to purchase its own shares for cancellation.

Christopher Moar.

By order of the Board
**Chris Moar MA CA**
**Company Secretary**
**12 May 2003**

# Corporate Governance

**Chris Moar**
**Company Secretary**

Ramco recognises the importance of, and is committed to, the highest standards of corporate governance. Ramco, as an AIM company, is not required to comply with the Combined Code on Corporate Governance, although it has applied the majority of the Combined Code principles as follows:

**Directors**
The Board comprises an Executive Chairman, three further Executive Directors and three Non-Executive Directors. Biographies of the Directors are presented on pages 26 and 27. Peter Everett is the Senior Non-Executive Director. The Board is responsible for setting overall Group strategy, policy, monitoring Group performance and authorising significant transactions.

The Board meets not less than four times a year and has adopted a schedule of matters reserved for its decision. All Directors have full and timely access to information and may take independent professional advice at the Group's expense.

The Board has three standing committees with terms of reference as follows:

**Audit and Remuneration Committees**
These committees are comprised solely of Non-Executive Directors who take no part in the discussion of their own remuneration. Both are chaired by Peter Everett and the other members are Sir Malcolm Rifkind and Vikram Lall.

Audit Committee
The Audit Committee is responsible for providing an independent oversight of the Group's systems of internal control and financial reporting processes. The External Auditors and other Directors may attend by invitation.

The External Auditors are engaged to express an opinion on the financial statements. They review and test the systems of internal financial control and data contained in the financial statements to the extent necessary to express their audit opinion. They discuss with management the reporting of results and the financial position of the Group and present their findings to the Audit Committee.

The Audit Committee reviews the independence and objectivity of the External Auditors. The Committee reviews the nature and amount of non-audit work undertaken by PricewaterhouseCoopers LLP each year to satisfy itself that there is no effect on their independence. Details of this year's fees are given in note 3 on page 46. The Committee is satisfied that PricewaterhouseCoopers LLP are independent.

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 an internal audit function is not considered appropriate given the size and nature of the operations and the Group.

Remuneration Committee
The Remuneration Committee determines the remuneration of the Executive Directors and advises the Board on incentive schemes for employees. The Remuneration Report is presented on pages 36 to 38 and contains a statement of remuneration policy and details of the remuneration of each Director.

**Nominations Committee**
The Nominations Committee is chaired by Sir Malcolm Rifkind and meets as required. The other members are Peter Everett, Vikram Lall and Steve Remp.

The Committee proposes to the Board suitable candidates for appointment as Directors of the Company, and considers Board succession plans.

Directors appointed by the Board in the course of the year must retire and offer themselves for reappointment at the next AGM. At the present time no Director will have held office for more than three years since his last appointment or reappointment. Names of Directors submitting themselves for reappointment at the next AGM are shown on page 32.

**Risk management and internal control**
The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. Management from each business area and major project identify their risks, the likelihood of those risks occurring, the impact if they do occur and the actions being taken to manage and mitigate those risks to an acceptable level. This process is reviewed by the Board annually and accords with the Turnbull guidance on internal control. It has been in place throughout the year under review and up to the date of this report.

The Board of Directors has overall responsibility for maintaining a sound system of internal financial control to safeguard shareholders' investment and the Group's assets. Such a system can provide reasonable but not absolute assurance that assets are safeguarded, transactions are authorised and correctly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. The system, which has been in place throughout the year and up to the date of this report, comprises the following main elements, all of which are reviewed by the Board:
- An organisation structure with clearly defined lines of responsibility and delegation of authority.
- Appointment of employees of the necessary calibre to fulfil their allotted responsibilities.
- Established procedures for budgeting and capital expenditure.
- Monthly reporting of actual performance compared to budget for all business units, reviewed by the Board quarterly.
- Rolling monthly forecasts for the financial year.
- The Group reports to shareholders on a half yearly basis to ensure timely reporting of financial results.

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

**Investor relations**
Communications with investors are given high priority. The Company keeps its institutional shareholders up to date with its business and objectives, and obtains their views on the Company, by means of periodic presentations. Additionally the Company is ready to respond appropriately to particular issues or questions that may be raised by investors. All shareholders are sent the Annual Report and Accounts, Interim Report and can elect 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 Company including share price information, Annual Report and financial statements and press releases.

The Board views the AGM as an opportunity to communicate with private investors and encourages them to attend. The Board aims to ensure that the Chairman of the Audit and Remuneration Committees is available to answer questions. The Executive Chairman gives a short presentation on the business and its trading position. Shareholders are invited to ask questions and are given the opportunity to meet the Directors informally following the meeting. 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 with the exception of the changes arising on the adoption of new accounting standards in the year, as explained on page 43 under note 1 'Accounting Policies'. 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 2002 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.

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.

**Going concern**

After making enquiries, the Directors have 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.

**Compliance with the Combined Code**

As mentioned above Ramco, as an AIM listed company, is not required to comply with the Combined Code on Corporate Governance. The Group has applied the Combined Code principles with one exception. The roles of Chairman and Chief Executive are both currently filled by S E Remp 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 D F Stover, as Chief Operating Officer, has responsibility for the Group's exploration activity and project development activity. The Board currently does not believe it to be appropriate to separate the roles of Chairman and Chief Executive.

The recently published Higgs Report on Corporate Governance and the Smith Report on Audit Committees contain many proposals which the Board will consider and look to implement as appropriate for the future wellbeing of the Group.

# Remuneration Report

**Peter Everett**
**Chairman**
**Remuneration**
**Committee**

**Introduction**

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. Ramco, as an AIM company, is not required to comply with these requirements but has done so as it is committed to the highest standards of Corporate Governance. This report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration.

The Regulations require the Auditors to report to the Company's members on the 'auditable part' of the Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

**Unaudited information**

Remuneration Committee

The members of the Remuneration Committee (the Committee) are Peter Everett (Chairman), Sir Malcolm Rifkind and Vikram Lall, all of whom are Non-Executive Directors of the Company. The Committee has followed the provisions set out in Schedules A and B of the Combined Code in preparing this Report. The Committee believes that Ramco's reward structure is in accordance with those recommendations.

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 the Committee 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.

Remuneration policy

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 remuneration packages currently being offered are intended to be competitive and comprise a mix of performance related and non-performance related remuneration designed to incentivise Directors, but not to detract from the goals of corporate governance. The packages are in line with industry norms.

Directors' service contracts

All of the Executive Directors have service contracts with the Company with a rolling notice period of one year. The Non-Executive Directors do not have service contracts with the Company.

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.

**Performance graph**

The following graph shows the Company's performance, measured by total shareholder return (TSR), compared with the performance of the AIM index also measured by total shareholder return.

Comparison of Four Year Cumulative TSR

In the absence of a relevant comparator group against which to measure the Company's performance, it is considered that the most appropriate index for comparison purposes is the AIM index.

The Board believes that the under-performance of the Ramco share price relative to the AIM index during 1999 and 2000 resulted from a sharp fall in oil prices and high market valuations in other sectors. During 2001 and 2002 higher oil prices and an adjustment to the valuations in other sectors have combined to reverse this trend.

Remuneration package

Directors' remuneration packages, which are reviewed annually, consist of annual salary, performance related bonuses, health, car and other benefits, pension contributions and share options.

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 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 | 5.0% | 5.0% | All |
| S R Bertram | 1.5% | 1.5% | All |
| D F Stover | 1.0% | 1.0% | Oil and Gas |
| N S Cumming | 2.5% | 3.95% | Oil Services |

With effect from 1 January 2003, S E Remp's profit and disposal bonuses reduced to 4.5% and D F Stover's increased to 1.5%.

**Audited information**
Directors' detailed emoluments

| | Salary and fees £'000 | Performance related bonus £'000 | Benefits £'000 | Aggregate emoluments £'000 | 2002 Pension contributions £'000 | 2001 Pension contributions £'000 | 2002 Total £'000 | 2001 Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| S E Remp | **438** | – | **25** | **463** | **94** | 89 | **557** | 525 |
| S R Bertram | **160** | – | **21** | **181** | **24** | 22 | **205** | 191 |
| M N Burchell (retired 31/3/01) | – | – | – | – | – | 2 | – | 124 |
| N S Cumming | **163** | **38** | **20** | **221** | **24** | 22 | **245** | 237 |
| D F Stover | **199** | – | **20** | **219** | **26** | 13 | **245** | 111 |
| M D Seymour (resigned 30/9/02) | **125** | – | **4** | **129** | **19** | 10 | **148** | 78 |
| **Non-Executive Directors** | | | | | | | | |
| P Everett | **32** | – | – | **32** | – | – | **32** | 32 |
| Sir M Rifkind | **20** | – | – | **20** | – | – | **20** | 20 |
| D Boyle (resigned 1/10/02) | **15** | – | – | **15** | – | – | **15** | 20 |
| V Lall (appointed 1/10/02) | **5*** | – | – | **5*** | – | – | **5*** | – |
| 2002 | **1,157** | **38** | **90** | **1,285** | **187** | 158 | **1,472** | 1,338 |
| 2001 | 981 | 113 | 86 | 1,180 | | | | |

*These fees are paid to Brewin Dolphin Securities in respect of services provided by V Lall to the Company.
Details of transactions with related parties are given in note 24 to the financial statements.

Interests in share options

| | Exercise price | At 31 Dec 2001 or date of appointment | Granted | Exercised | At 31 Dec 2002 | 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** | 11/5/06 – 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** | 11/5/06 – 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** | 11/5/06 – 10/5/11 |
| P Everett | 347.5p | 30,000 | – | – | **30,000** | 11/5/06 – 10/5/11 |
| Sir M Rifkind | 347.5p | 30,000 | – | – | **30,000** | 11/5/06 – 10/5/11 |
| | | 519,500 | – | – | **519,500** | |

A summary of the performance criteria conditional upon which the options are exercisable is set out in note 18 to the accounts. During 2002 the share price ranged between a high of 402.5p and a low of 222.5p. The quarterly highest and lowest closing share prices are detailed in note 17.

Interests in shares

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 2001 or at date of appointment* | At 31 Dec 2002 or at date of resignation* | At 16 April 2003 |
|---|---|---|---|
| S E Remp | 3,339,051 | **3,343,251** | 3,336,346 |
| S R Bertram | 140,000 | **140,000** | 140,000 |
| 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 (resigned 1/10/02) | 10,000 | **10,000*** | – |
| D Boyle (non-beneficial, resigned 1/10/02) | 2,500 | **2,500*** | – |
| D F Stover | 1,000 | **1,000** | 1,000 |
| M D Seymour (resigned 30/9/02) | 500 | **500*** | – |
| M D Seymour (non-beneficial, resigned 30/9/02) | 144,030 | **144,030*** | – |
| V Lall (appointed 1/10/02) | –* | **–** | – |
| | 3,960,124 | **3,964,324** | 3,800,389 |

**Pensions**

Directors' pensions are based on salary only, with bonuses and other discretionary benefits excluded.

Retirement benefits are accruing to the four Executive Directors (2001: five Directors) under the Group's defined contribution schemes.

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.

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

**Peter Everett**
**Chairman, Remuneration Committee**
**12 May 2003**

# 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. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration Report ('the auditable part').

**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. The Directors are also responsible for preparing the Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Remuneration Report have been 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 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 unaudited part of the Remuneration Report, the Chairman's Statement, the Operating and Financial Reviews 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 of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

**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 and the auditable part of the Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Remuneration Report 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 2002 and of the loss and cash flows of the Group for the year then ended;
• the financial statements have been properly prepared in accordance with the Companies Act 1985; and
• those parts of the Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
**Chartered Accountants and Registered Auditors**
**Aberdeen**
**12 May 2003**

# Consolidated Profit and Loss Account

*For the year ended 31 December 2002*

| | Note | 2002 £'000 | 2001 £'000 |
|---|---|---|---|
| **Turnover – Group and share of joint venture and associates** | 2 | **18,773** | 19,019 |
| Less share of joint venture and associates | | **(1,964)** | (4,278) |
| Group turnover | 2 | **16,809** | 14,741 |
| Cost of sales | | **(23,560)** | (33,586) |
| **Gross loss** | | **(6,751)** | (18,845) |
| Administrative expenses | | **(1,430)** | (1,644) |
| (Loss)/gain on exchange | | **(2,750)** | 2,277 |
| **Group operating loss** | | **(10,931)** | (18,212) |
| Share of operating (loss)/profit in joint venture and associates | 2 | **(34)** | 199 |
| **Loss on ordinary activities before exceptional items and interest** | | **(10,965)** | (18,013) |
| Exceptional item – gain on disposal of oil and gas interest | 5 | **–** | 3,448 |
| **Loss before interest and taxation** | | **(10,965)** | (14,565) |
| Interest receivable | 6 | **1,765** | 3,759 |
| **Loss on ordinary activities before taxation** | 2 | **(9,200)** | (10,806) |
| Tax on loss on ordinary activities | 7 | **(142)** | (1,148) |
| **Loss for the year** | 19 | **(9,342)** | (11,954) |
| **Loss per ordinary share – basic and fully diluted** | | | |
| On loss for the financial year | 8 | **(35.9)p** | (46.2)p |

The results relate to continuing operations.

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

# Consolidated Statement of Total Recognised Gains and Losses

*For the year ended 31 December 2002*

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Loss for the financial year | **(9,342)** | (11,954) |
| Unrealised translation differences on foreign currency net investments | **83** | 16 |
| Total recognised losses relating to the year | **(9,259)** | (11,938) |

The notes on pages 43 to 63 form part of these financial statements.

# Balance Sheets

*As at 31 December 2002*

| | Note | Group 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 9 | **2,895** | 13,076 | **–** | – |
| Development assets | 10 | **40,980** | – | **–** | – |
| Other tangible fixed assets | 11 | **12,343** | 12,703 | **2,006** | 2,049 |
| Investments | | | | | |
| Share of joint venture's gross assets | | **2,785** | 2,352 | **–** | – |
| Share of joint venture's gross liabilities | | **(1,784)** | (1,346) | **–** | – |
| Share of joint venture's net assets | | **1,001** | 1,006 | **–** | – |
| In subsidiaries | | **–** | – | **37,077** | 37,755 |
| In associated undertakings | | **9** | 15 | **–** | – |
| Other fixed asset investments | | **111** | 3 | **109** | – |
| Total investments | 12 | **1,121** | 1,024 | **37,186** | 37,755 |
| | | **57,339** | 26,803 | **39,192** | 39,804 |
| **Current assets** | | | | | |
| Stocks | 13 | **442** | 408 | **–** | – |
| Debtors: amounts falling due after one year | 14 | **3,836** | 34,784 | **–** | – |
| Debtors: amounts falling due within one year | 14 | **23,540** | 43,252 | **95,240** | 64,819 |
| Cash at bank and in hand | | **24,009** | 12,216 | **17,050** | 5,111 |
| | | **51,827** | 90,660 | **112,290** | 69,930 |
| **Creditors: amounts falling due within one year** | 15 | **(33,974)** | (34,322) | **(79,383)** | (29,286) |
| **Net current assets** | | **17,853** | 56,338 | **32,907** | 40,644 |
| **Total assets less current liabilities** | | **75,192** | 83,141 | **72,099** | 80,448 |
| **Provision for liabilities and charges** | 16 | **(3,147)** | (2,840) | **(54)** | (147) |
| **Net assets** | | **72,045** | 80,301 | **72,045** | 80,301 |
| **Capital and reserves** | | | | | |
| Called up share capital | 17 | **2,620** | 2,588 | **2,620** | 2,588 |
| Share premium account | 19 | **56,410** | 55,421 | **56,410** | 55,421 |
| Revaluation reserve | 19 | **787** | 805 | **29,076** | 29,755 |
| Other reserves | 19 | **(2)** | (85) | **–** | – |
| Profit and loss account | 19 | **12,230** | 21,572 | **(16,061)** | (7,463) |
| **Equity shareholders' funds** | 20 | **72,045** | 80,301 | **72,045** | 80,301 |

These financial statements were approved by the Board of Directors on 12 May 2003.

The notes on pages 43 to 63 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 2002*

| | Note | 2002 £'000 | 2001 £'000 |
|---|---|---|---|
| **Net cash inflow from continuing operating activities** | 25(a) | **39,150** | 24,968 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **1,384** | 3,781 |
| **Net cash inflow from returns on investments and servicing of finance** | | **1,384** | 3,781 |
| **Taxation** | | | |
| UK corporation tax paid | | **–** | (3) |
| Overseas tax paid | | **(402)** | (271) |
| **Taxation paid** | | **(402)** | (274) |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | | **(753)** | (3,571) |
| Sale of tangible fixed assets | | **16** | 44 |
| Oil and gas expenditure – intangible assets | | **(25,623)** | (15,847) |
| Receipts from sale of investments | | **–** | 7 |
| **Net cash outflow for capital expenditure and financial investment** | | **(26,360)** | (19,367) |
| **Acquisitions and disposals** | | | |
| Purchase of subsidiary undertakings | 28 | **(2,000)** | – |
| **Net cash outflow from acquisitions and disposals** | | **(2,000)** | – |
| **Cash inflow before management of liquid resources and financing** | | **11,772** | 9,108 |
| **Management of liquid resources** | | | |
| Net transfer (to)/from term deposits | | **(14,159)** | 54 |
| **Net cash (outflow)/inflow before financing** | | **(2,387)** | 9,162 |
| **Financing** | | | |
| Issue of share capital | | **21** | 87 |
| **Net cash inflow from financing** | | **21** | 87 |
| **(Decrease)/increase in cash** | 25(b) | **(2,366)** | 9,249 |

The notes on pages 43 to 63 form part of these financial statements.

# Notes to the Financial Statements

*For the year ended 31 December 2002*

## 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 Ireland and central and eastern Europe. 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 in central and eastern Europe an increasing proportion of its assets may be located in, and its revenue derived from, that region. 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 and the Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'. A summary of the more important accounting policies, which have been applied consistently except as regards Financial Reporting Standard (FRS) 19, 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. FRS 19 'Deferred Taxation' has been adopted in the current year but it had no impact on the financial statements.

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.

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 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 12.

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. The basis of valuation is stated in note 11 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 | 10% |
| Plant, fixtures and equipment | 10% to 25% or Pipe Care Units – 120 operating months. |

# Notes to the Financial Statements *continued*

*For the year ended 31 December 2002*

## 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 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 22.

Taxation
Corporation tax is provided on taxable profits at the current rate of taxation.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted. Deferred tax is measured on a non-discounted basis.

This policy for deferred tax reflects a change with effect from 1 January 2002. Previously tax deferred was accounted for in respect of all material timing differences to the extent that it was probable that a liability or asset would 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 | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| **Turnover by origin** | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| United Kingdom | – | – | **16,516** | 16,176 | **16,516** | 16,176 |
| Norway | – | – | **2,074** | 2,469 | **2,074** | 2,469 |
| Japan | – | – | **183** | 374 | **183** | 374 |
| | – | – | **18,773** | 19,019 | **18,773** | 19,019 |
| Less joint ventures and associates (UK) | – | – | **(1,964)** | (4,278) | **(1,964)** | (4,278) |
| Group turnover | – | – | **16,809** | 14,741 | **16,809** | 14,741 |
| **Operating (loss)/profit** | | | | | | |
| Former Soviet Union | **(3,456)** | (9,027) | – | – | **(3,456)** | (9,027) |
| *Central and eastern Europe* | ***(3,205)*** | *(9,530)* | – | – | ***(3,205)*** | *(9,530)* |
| United Kingdom | **(1,521)** | (2,132) | **1,620** | 1,433 | **99** | (699) |
| Ireland | **(825)** | (519) | – | – | **(825)** | (519) |
| Norway | – | – | **756** | 1,249 | **756** | 1,249 |
| Rest of Europe | **(6)** | (180) | – | – | **(6)** | (180) |
| Japan | – | – | **(148)** | 60 | **(148)** | 60 |
| | **(9,013)** | (21,388) | **2,228** | 2,742 | **(6,785)** | (18,646) |
| Less joint ventures and associates | **45** | 5 | **(11)** | (204) | **34** | (199) |
| Gross (loss)/profit | **(8,968)** | (21,383) | **2,217** | 2,538 | **(6,751)** | (18,845) |
| Joint venture and associates | **(45)** | (5) | **11** | 204 | **(34)** | 199 |
| | **(9,013)** | (21,388) | **2,228** | 2,742 | **(6,785)** | (18,646) |
| Exceptional item | – | 3,448 | – | – | – | 3,448 |
| Administrative expenses | **(1,001)** | (1,151) | **(429)** | (493) | **(1,430)** | (1,644) |
| (Loss)/gain on exchange | **(2,597)** | 2,237 | **(153)** | 40 | **(2,750)** | 2,277 |
| (Loss)/profit before interest and taxation | **(12,611)** | (16,854) | **1,646** | 2,289 | **(10,965)** | (14,565) |
| Net interest | | | | | **1,765** | 3,759 |
| **Loss before taxation** | | | | | **(9,200)** | (10,806) |
| **Net assets** | | | | | | |
| Former Soviet Union | **681** | (61) | – | – | **681** | (61) |
| Central and eastern Europe | **6,767** | 5,183 | – | – | **6,767** | 5,183 |
| United Kingdom | **8,755** | 49,827 | **14,109** | 14,621 | **22,864** | 64,448 |
| Ireland | **41,204** | 10,191 | – | – | **41,204** | 10,191 |
| Norway | – | – | **475** | 511 | **475** | 511 |
| Rest of Europe | **26** | 9 | – | – | **26** | 9 |
| Japan | – | – | **28** | 20 | **28** | 20 |
| | **57,433** | 65,149 | **14,612** | 15,152 | **72,045** | 80,301 |

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

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| This is stated after charging or (crediting): | | |
| Amounts written off in respect of intangible oil and gas assets | **5,007** | 17,324 |
| Depreciation of tangible fixed assets | **940** | 795 |
| Amortisation of goodwill – joint venture | **30** | 30 |
| Operating lease rentals – land and buildings | **292** | 247 |
| Operating lease rentals – plant, fixtures and equipment | **600** | 520 |
| (Gain)/loss on disposal of tangible fixed assets | **(15)** | 24 |
| Loss/(gain) on exchange | **2,750** | (2,277) |
| Auditors' remuneration for – Audit (Company: £28,000; 2001: £45,000) | **114** | 120 |

Remuneration to the Company's Auditors for the provision of non audit services to the Company and its UK subsidiary undertakings in 2002 was £251,000 (2001: £191,000). These services relate primarily to taxation advice.

## 4 Employees and Directors

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

| | 2002 Number | 2001 Number |
|---|---|---|
| Oil Services | **129** | 119 |
| Oil and Gas | **12** | 8 |
| Head office and management | **11** | 12 |
| | **152** | 139 |

| **Staff costs during the year amounted to:** | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Wages and salaries | **4,708** | 4,267 |
| Social security costs | **498** | 441 |
| Other pension costs (note 21) | **316** | 217 |
| | **5,522** | 4,925 |

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

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Gain on disposal of interest in ACG field | – | 3,448 |
| | – | 3,448 |

## 6 Interest Receivable

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Bank interest | **722** | 1,032 |
| Other | **1,043** | 2,727 |
| | **1,765** | 3,759 |

## 7 Taxation

| Analysis of charge in period | 2002 £'000 | 2002 £'000 | 2001 £'000 | 2001 £'000 |
|---|---|---|---|---|
| Current tax: | | | | |
| UK corporation tax at 30% (2001: 30%) | **190** | | 1,419 | |
| Double taxation relief | **(190)** | | (329) | |
| Share of joint ventures and associates | **(8)** | | 55 | |
| Adjustments in respect of previous periods | **(77)** | | (526) | |
| | | **(85)** | | 619 |
| Foreign tax | | **212** | | 497 |
| Total current tax | | **127** | | 1,116 |
| Deferred tax: | | | | |
| Origination and reversal of timing differences | **–** | | 13 | |
| Adjustments in respect of previous periods | **15** | | 19 | |
| Total deferred tax | | **15** | | 32 |
| Tax on loss on ordinary activities | | **142** | | 1,148 |

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below.

| Factors affecting tax charge for period | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Loss on ordinary activities before tax | **(9,200)** | (10,806) |
| Loss on ordinary activities multipled by standard rate of corporation tax in the UK of 30% (2001: 30%) | **(2,760)** | (3,242) |
| Effects of: | | |
| Expenses not deductible for tax purposes | **776** | (750) |
| Capital allowances in excess of depreciation | **(15)** | (32) |
| Excess foreign taxes suffered | **22** | 168 |
| Unrecognised tax losses | **2,181** | 5,234 |
| Corporation tax rate adjustment | **–** | 264 |
| Adjustments to tax in respect of prior period | **(77)** | (526) |
| | **127** | 1,116 |

## 8 Loss Per Share

**Basic and fully diluted loss per share**
The calculation of loss per share is based on the loss for the financial year of £9,342,000 (2001: loss £11,954,000) and 26,037,656 (2001: 25,861,480) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

As a loss was recorded in both 2001 and 2002 the exercise of share options would not have been dilutive and accordingly in each year the basic and fully diluted loss are the same.

## 9 Intangible Fixed Assets

| | Group exploration costs | | Company exploration costs | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| **Intangible** | £'000 | £'000 | £'000 | £'000 |
| **At 1 January** | **13,076** | 14,553 | – | – |
| Additions | **35,806** | 15,847 | – | – |
| Costs written off | **(5,007)** | (17,324) | – | – |
| Transfer to development assets | **(40,980)** | – | – | – |
| **At 31 December** | **2,895** | 13,076 | – | – |

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 Poland account for the majority of the costs written off during the year. At 31 December 2002, intangible fixed assets totalled £2,895,000, all of which relates to central and eastern Europe.

## 10 Development Assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | £'000 | £'000 | £'000 | £'000 |
| Cost and net book value | | | | |
| At 1 January | – | – | – | – |
| Transfer from intangible assets | **40,980** | – | – | – |
| **At 31 December** | **40,980** | – | – | – |

At 31 December 2002 development assets all relate to Ireland.

## 11 Other Tangible Fixed Assets

| | Land and buildings Freehold £'000 | Long leasehold £'000 | Plant, fixtures and equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Group:** | | | | |
| **Cost or valuation:** | | | | |
| **At 1 January 2002** | 9,732 | 1,113 | 6,985 | 17,830 |
| Retranslation | – | – | 95 | 95 |
| Additions | 142 | – | 423 | 565 |
| Disposals | – | – | (531) | (531) |
| **At 31 December 2002** | **9,874** | **1,113** | **6,972** | **17,959** |
| **Of which:** At cost | **4,049** | **1,113** | **6,972** | **12,134** |
| At valuation | **5,825** | **–** | **–** | **5,825** |
| | **9,874** | **1,113** | **6,972** | **17,959** |
| **Depreciation:** | | | | |
| **At 1 January 2002** | 98 | 349 | 4,680 | 5,127 |
| Retranslation | – | – | 79 | 79 |
| Provided during the year | 84 | 153 | 703 | 940 |
| Disposals | – | – | (530) | (530) |
| **At 31 December 2002** | **182** | **502** | **4,932** | **5,616** |
| **Net book value:** | | | | |
| **At 31 December 2002** | **9,692** | **611** | **2,040** | **12,343** |
| At 31 December 2001 | 9,634 | 764 | 2,305 | 12,703 |
| **Company:** | | | | |
| **Cost or valuation:** | | | | |
| **At 1 January 2002** | 1,467 | – | 841 | 2,308 |
| Additions | 52 | – | 106 | 158 |
| **At 31 December 2002** | **1,519** | **–** | **947** | **2,466** |
| **Of which:** At cost | **1,519** | **–** | **947** | **2,466** |
| At valuation | **–** | **–** | **–** | **–** |
| | **1,519** | **–** | **947** | **2,466** |
| **Depreciation:** | | | | |
| **At 1 January 2002** | – | – | 259 | 259 |
| Provided during the year | 30 | – | 171 | 201 |
| **At 31 December 2002** | **30** | **–** | **430** | **460** |
| **Net book value:** | | | | |
| **At 31 December 2002** | **1,489** | **–** | **517** | **2,006** |
| At 31 December 2001 | 1,467 | – | 582 | 2,049 |

Freehold land and buildings includes interest capitalised of £236,000 (2001: £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 19).

## 11 Other Tangible Fixed Assets *continued*

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

| | Group 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|
| **Historical cost:** | | | | |
| At 31 December | **5,631** | 5,361 | – | – |
| **Depreciation:** | | | | |
| At 31 December | **492** | 408 | – | – |

| **Capital commitments:** | Group 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|
| Contracts placed for future capital expenditure not provided in the financial statements | **29,381** | 220 | – | – |

## 12 Investments

| | Other fixed asset investments £'000 | Joint venture £'000 | Associated undertakings £'000 | Total £'000 |
|---|---|---|---|---|
| **Group:** | | | | |
| **Cost or valuation:** | | | | |
| **At 1 January 2002** | | | | |
| Goodwill | – | 300 | – | 300 |
| Net assets | 56 | 849 | 15 | 920 |
| | 56 | 1,149 | 15 | 1,220 |
| Addition | 207 | – | – | 207 |
| Share of retained profit/(loss) for the year | – | 25 | (6) | 19 |
| **At 31 December 2002** | **263** | **1,174** | **9** | **1,446** |
| Goodwill | – | **300** | – | **300** |
| Net assets | **263** | **874** | **9** | **1,146** |
| | **263** | **1,174** | **9** | **1,446** |
| **Amounts written off:** | | | | |
| **At 1 January 2002** | | | | |
| Goodwill | – | 143 | – | 143 |
| Net assets | 53 | – | – | 53 |
| | 53 | 143 | – | 196 |
| Amortisation of goodwill | – | 30 | – | 30 |
| Provision | 99 | – | – | 99 |
| **At 31 December 2002** | **152** | **173** | **–** | **325** |
| Goodwill | – | **173** | – | **173** |
| Net assets | **152** | **–** | – | **152** |
| | **152** | **173** | **–** | **325** |
| **Net book value:** | | | | |
| **At 31 December 2002** | | | | |
| Goodwill | – | **127** | – | **127** |
| Net assets | **111** | **874** | **9** | **994** |
| | **111** | **1,001** | **9** | **1,121** |
| **Net book value:** | | | | |
| **At 31 December 2001** | | | | |
| Goodwill | – | 157 | – | 157 |
| Net assets | 3 | 849 | 15 | 867 |
| | 3 | 1,006 | 15 | 1,024 |

## 12 Investments *continued*

| | Other fixed asset investments £'000 | Subsidiary undertakings £'000 |
|---|---|---|
| **Company:** | | |
| **At 1 January 2002** | – | 37,755 |
| Additions | 207 | – |
| Provisions | (98) | – |
| Movement on revaluation of Group undertakings | – | (678) |
| **At 31 December 2002** | **109** | **37,077** |

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

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| **Share of:** | | |
| Goodwill | **127** | 157 |
| Tangible fixed assets | **1,792** | 2,009 |
| Current assets | **866** | 186 |
| Liabilities due within one year | **(1,493)** | (1,045) |
| Provisions for liabilities and charges | **(291)** | (301) |
| | **1,001** | 1,006 |

The Group's share of the undistributed retained earnings of its joint venture amounted to £524,000 at 31 December 2002 (2001: £460,000).

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 2002** | 3,000 |
| Additions | – |
| **At 31 December 2002** | **3,000** |
| **Provisions:** | |
| **At 1 January 2002** | – |
| Provided during the year | – |
| **At 31 December 2002** | – |
| **Net book value:** | |
| **At 31 December 2002** | **3,000** |
| At 31 December 2001 | 3,000 |

| **Share of results of joint venture:** | 2002 £'000 | 2001 £'000 |
|---|---|---|
| **British Steel Ramco Pipeline Services Limited** | | |
| Turnover | **2,978** | 7,564 |
| Profit before taxation | **36** | 376 |
| Group share 50% | **18** | 188 |
| Group share of profit after tax | **25** | 132 |

The principal operating Group undertakings at 31 December 2002 are listed in note 27.

## 13 Stocks

| | Group 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|
| Consumables and stores | **442** | 408 | **–** | – |

## 14 Debtors

| **Amounts falling due within one year:** | Group 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|
| Trade debtors | **4,520** | 5,458 | **1** | – |
| Amounts owed by subsidiary undertakings | **–** | – | **91,763** | 63,125 |
| Amounts owed by associated undertakings* | **2,352** | 1,948 | **–** | – |
| Group relief receivable | **–** | – | **456** | 255 |
| Corporation tax recoverable | **–** | 12 | **–** | – |
| Value added tax and other taxes | **369** | 113 | **259** | 113 |
| Other debtors | **15,818** | 34,982 | **1** | 292 |
| Dividends receivable from subsidiaries | **–** | – | **2,600** | 900 |
| Dividends receivable from joint venture | **–** | 498 | **–** | – |
| Prepayments | **481** | 241 | **160** | 134 |
| | **23,540** | 43,252 | **95,240** | 64,819 |

*All trading balances.

In 2001, 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. 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 2002 £'000 | Group 2001 £'000 | Company 2002 £'000 | Company 2001 £'000 |
|---|---|---|---|---|---|
| Amounts owed by associated undertakings | (1) | **3,836** | 3,962 | **–** | – |
| Other debtors | (2) | **–** | 30,822 | **–** | – |
| | | **3,836** | 34,784 | **–** | – |

(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% and is payable annually, commencing 31 December 2005.

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

| | US Dollars $'000 | Exchange rate | 2002 Sterling £'000 | 2001 Sterling £'000 |
|---|---|---|---|---|
| February 2003 | 45,000 | 1.46 | – | 30,822 |

The balance of the proceeds of the ACG sale outstanding at 31 December 2002 was £15.4 million. This amount is included in current assets and was received in February 2003.

## 15 Creditors – Amounts Falling Due Within One Year

| | Group | | Company | |
|---|---|---|---|---|
| **Amounts falling due within one year:** | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Trade creditors | **2,106** | 3,665 | **442** | 252 |
| Amounts owed to subsidiary undertakings | **–** | – | **78,667** | 28,777 |
| Corporation tax | **25,236** | 28,263 | **–** | 2 |
| Other taxes and social security | **277** | 216 | **127** | 71 |
| Accruals | **6,355** | 2,178 | **147** | 184 |
| | **33,974** | 34,322 | **79,383** | 29,286 |

Included with corporation tax is £25.1 million (2001: £27.8 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. During the year the Group made qualifying investments for the purposes of rollover relief. As a consequence corporation tax (£2.7 million) has been reclassified to deferred tax.

## 16 Provision for Liabilities and Charges

| | Closure costs £'000 | Vacant properties £'000 | Deferred tax £'000 | Total £'000 |
|---|---|---|---|---|
| **Group:** | | | | |
| **At 1 January 2002** | 2,367 | 138 | 335 | 2,840 |
| (Released)/charged to the profit and loss account | – | (77) | 15 | (62) |
| Reclassified from corporation tax payable | – | – | 2,747 | 2,747 |
| Utilised during the year | (2,367) | (11) | – | (2,378) |
| **At 31 December 2002** | **–** | **50** | **3,097** | **3,147** |

| | Closure cost £'000 | Vacant properties £'000 | Deferred tax £'000 | Total £'000 |
|---|---|---|---|---|
| **Company:** | | | | |
| **At 1 January 2002** | – | 138 | 9 | 147 |
| Released to the profit and loss account – | (77) | (5) | (82) | |
| Utilised during the year | – | (11) | – | (11) |
| **At 31 December 2002** | **–** | **50** | **4** | **54** |

**Vacant properties**

The Group has one vacant leasehold property. 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 2002 is based on appropriately discounted cash flows.

**Closure costs**

This provision represented the costs of fulfilling a drilling commitment where the Directors had decided to abandon the well. The provision was fully utilised during 2002.

**Deferred taxation**

Deferred taxation is provided in the financial statements as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Capital allowances in advance of depreciation | **350** | 335 | **4** | 9 |
| Reclassification from current to deferred | **2,747** | – | **–** | – |
| | **3,097** | 335 | **4** | 9 |
| Provision at 1 January | **335** | 303 | **9** | 2 |
| Deferred tax charge in profit and loss account for year | **15** | 32 | **(5)** | 7 |
| Reclassification from current to deferred | **2,747** | – | **–** | – |
| Provision at 31 December | **3,097** | 335 | **4** | 9 |

## 16 Provision for Liabilities and Charges *continued*

The unprovided asset for deferred taxation is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Capital allowances in advance of depreciation | – | (161) | – | – |
| Unrelieved losses | **(11,076)** | (8,895) | **(502)** | (130) |
| | **(11,076)** | (9,056) | **(502)** | (130) |

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

## 17 Share Capital

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| **Authorised:** | | |
| 40,000,000 (2001: 40,000,000) ordinary shares of 10p each | **4,000** | 4,000 |
| **Allotted, called up and fully paid:** | | |
| 26,202,713 (2001: 25,882,595) ordinary shares of 10p each | **2,620** | 2,588 |

During the period from 1 January 2002 to 31 December 2002 the following new ordinary shares of 10p each were issued.

| Date of issue | No. of shares | Reason for change | Price |
|---|---|---|---|
| 5 June 2002 | 8,000 | Exercise of share options | 80p |
| 13 June 2002 | 2,000 | Exercise of share options | 80p |
| 3 July 2002 | 294,118 | Acquisition of Northern Exploration Limited | 340p |
| 9 October 2002 | 8,000 | Exercise of share options | 80p |
| 14 October 2002 | 8,000 | Exercise of share options | 80p |
| **Total** | 320,118 | | |

Total consideration for the new shares issued in 2002 was £1,020,800. Costs associated with the issue of these shares were £nil.

Between 1 January 2003 and 16 April 2003 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.

| | 2002 Pence per share | | 2001 Pence per share | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First quarter | **402.5** | **330.0** | 432.5 | 297.5 |
| Second quarter | **352.5** | **327.5** | 422.5 | 307.5 |
| Third quarter | **357.5** | **247.5** | 357.5 | 290.0 |
| Fourth quarter | **274.0** | **222.5** | 367.5 | 291.0 |

## 18 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 2002 the following options were outstanding:

| Option price | 2002 | 2001 | Exercisable at 31 Dec 2002 | Remaining contractual life | Normal exercise dates | Target variable | Target |
|---|---|---|---|---|---|---|---|
| 80p | **–** | 26,000 | – | – | 11/11/95 – 10/11/02 | EPS | > RPI |
| 125p | **27,000** | 27,000 | 27,000 | 0.5 years | 1/7/96 – 30/6/03 | EPS | > RPI |
| 595p | **30,000** | 30,000 | 30,000 | 3.4 years | 10/5/99 – 9/5/06 | EPS | > RPI |
| 755p | **103,900** | 103,900 | 103,900 | 3.9 years | 7/11/99 – 6/11/06 | EPS | > RPI |
| 1095p | **2,000** | 2,000 | 2,000 | 4.2 years | 25/2/00 – 24/2/07 | EPS | > RPI |
| 1095p | **2,500** | 2,500 | 2,500 | 4.2 years | 19/3/00 – 18/3/07 | EPS | > RPI |
| 675p | **265,000** | 272,500 | 265,000 | 5.3 years | 30/4/01 – 29/4/08 | EPS | > RPI |
| 675p | **51,500** | 51,500 | 51,500 | 5.3 years | 5/5/01 – 4/5/08 | EPS | > RPI |
| 395p | **10,200** | 27,700 | – | 6.5 years | 17/7/02 – 16/7/09 | TSR | > RPI+5% p.a. |
| 395p | **52,300** | 78,550 | – | 6.5 years | 17/7/04 – 16/7/09 | TSR | > RPI+10% p.a. |
| 333p | **–** | 20,000 | – | 6.9 years | 9/11/04 – 8/11/09 | TSR | > RPI+10% p.a. |
| 347.5p | **188,985** | 209,195 | – | 8.4 years | 11/5/04 – 10/5/11 | TSR | (2) |
| 347.5p | **310,515** | 367,305 | – | 8.4 years | 11/5/06 – 10/5/11 | TSR | (1) |
| 335p | **19,800** | 19,800 | – | 8.9 years | 2/11/04 – 1/10/11 | TSR | (2) |
| 335p | **35,200** | 35,200 | – | 8.9 years | 2/11/06 – 1/10/11 | TSR | (1) |
| 335p | **15,300** | – | – | 9.4 years | 5/6/05 – 4/6/12 | TSR | (2) |
| 335p | **3,200** | – | – | 9.4 years | 5/6/07 – 4/6/12 | TSR | (1) |
| 222.5p | **900** | – | – | 9.8 years | 11/10/05 – 10/10/12 | TSR | (2) |
| 222.5p | **25,600** | – | – | 9.8 years | 11/10/07 – 10/10/12 | TSR | (1) |
| | **1,143,900** | 1,273,150 | 481,900 | | | | |

(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 the Remuneration Report on pages 36 to 38.

| | 2002 Shares | 2002 Weighted average Exercise price | 2001 Shares | 2001 Weighted average Exercise price |
|---|---|---|---|---|
| Options outstanding at 1 January | **1,273,150** | **466p** | 910,650 | 573p |
| Options exercised | **(26,000)** | **80p** | (49,000) | 178p |
| Options granted | **45,000** | **269p** | 631,500 | 346p |
| Options cancelled | **(148,250)** | **376p** | (220,000) | 630p |
| Options outstanding at 31 December | **1,143,900** | **478p** | 1,273,150 | 466p |
| Options available for grant 31 December | **186,581** | | 18,728 | |
| Options exercisable at 31 December | **481,900** | **660p** | 515,400 | 207p |
| Option price range | | | | |
| At 31 December | | **125p to 1095p** | | 80p to 1095p |
| For exercised options | | **80p** | | 80p to 220p |

No options expired during the current or prior year.

## 19 Reserves

| | Share premium account £'000 | Revaluation reserve £'000 | Other reserves £'000 | Profit & loss account £'000 |
|---|---|---|---|---|
| **Group:** | | | | |
| **At 1 January 2002** | 55,421 | 805 | (85) | 21,572 |
| Issue of ordinary share capital | 989 | – | – | – |
| Exchange difference on retranslation | – | – | 83 | – |
| Loss for the year | – | – | – | (9,342) |
| Amortisation of deferred gain on asset sold to joint venture | – | (18) | – | – |
| **At 31 December 2002** | **56,410** | **787** | **(2)** | **12,230** |

Other reserves comprise an exchange loss on retranslation.

Included in the profit and loss account above is £(41,000) (2001: £15,000) representing the retained (losses)/earnings of the Group's associated undertakings and £524,000 (2001: £460,000) for the Group's joint venture.

| | Share premium account £'000 | Revaluation reserve £'000 | Other reserves £'000 | Profit & loss account £'000 |
|---|---|---|---|---|
| **Company:** | | | | |
| **At 1 January 2002** | 55,421 | 29,755 | – | (7,463) |
| Issue of ordinary share capital | 989 | – | – | – |
| Movement on revaluation | – | (679) | – | – |
| Loss for the year | – | – | – | (8,598) |
| **At 31 December 2002** | **56,410** | **29,076** | – | **(16,061)** |

## 20 Movement in Shareholders' Funds

| | Group | | Company | |
|---|---|---|---|---|
| | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| (Loss)/profit for the financial year | **(9,342)** | (11,954) | **(8,598)** | 25,210 |
| Other recognised gains and losses relating to the year | **83** | 16 | **(679)** | (37,166) |
| Issue of ordinary share capital | **1,021** | 87 | **1,021** | 87 |
| Amortisation of deferred gain on asset sold to joint venture | **(18)** | (18) | – | – |
| Net change in shareholders' funds | **(8,256)** | (11,869) | **(8,256)** | (11,869) |
| Shareholders' funds at 1 January | **80,301** | 92,170 | **80,301** | 92,170 |
| Shareholders' funds at 31 December | **72,045** | 80,301 | **72,045** | 80,301 |

## 21 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 £316,000 (2001: £217,000). Contributions totalling £nil (2001: £11,000) were payable to the funds at the year end.

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.

Details of the Directors' pension contributions are given in the Remuneration Report on pages 36 to 38.

## 22 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 and borrowings. 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 speculative 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 page 58.

During 2001 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. One of these hedges was still in place at 31 December 2002. The cumulative gain under this transaction was £1,542,000.

**Liquidity/interest rate risk**
Surplus funds on short term deposit are earning interest at a rate of 1.3%. The Group had no debt at the year end. 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 2002. In connection with the project finance arranged for the Seven Heads development project the Group will be required to use such instruments in the future.

**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 2003 by £31,000.

**(a) Interest rate risk profile of financial assets**
The interest rate risk profile of financial assets of the Group at 31 December 2002 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 | – | **7,822** | **16** | **7,838** |
| US Dollar | **14,184** | **1,532** | **21** | **15,737** |
| Norwegian Kroner | – | **313** | **1** | **314** |
| Other | – | **117** | **3** | **120** |
| | **14,184** | **9,784** | **41** | **24,009** |

## 22 Derivatives and Other Financial Instruments *continued*

**(a) Interest rate risk profile of financial assets** *continued*
The interest rate risk profile of financial assets of the Group at 31 December 2001 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 | – | 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 |

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 2002, currency exposures are as follows:

| | Net foreign currency monetary assets | | |
|---|---|---|---|
| **Functional currency of Group operation** | US Dollars £'000 | Other £'000 | Total £'000 |
| Sterling | **21,771** | **433** | **22,204** |
| Norwegian Kroner | **19** | **–** | **19** |
| | **21,790** | **433** | **22,223** |

Foreign exchange losses totalling £2,750,000 (2001: gains £2,277,000) have been recognised in the profit and loss account for the year.

At 31 December 2001, currency exposures were 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 |

**(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 2002. Set out below the table is a summary of the methods and assumptions used for each category of instrument.

| | Book value | | Fair value | |
|---|---|---|---|---|
| **Primary financial instruments** | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Cash | **9,825** | 12,191 | **9,825** | 12,191 |
| Short term deposits | **14,184** | 25 | **14,184** | 25 |

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

## 23 Other Financial Commitments

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | Land and buildings £'000 | Other £'000 | Land and buildings £'000 | Other £'000 |
| **Group:** | | | | |
| Operating leases which expire: | | | | |
| Within one year | **98** | **13** | 63 | 4 |
| In the second to fifth years inclusive | **75** | **18** | 62 | 31 |
| Over five years | **–** | **–** | 26 | – |
| | **173** | **31** | 151 | 35 |

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

Rental expenses are disclosed at note 3.

## 24 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 2002 would have been £1,000. N S Cumming received £2,000 of the royalties paid during the year and is entitled to £1,000 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 2002 he received fees from the Group totalling £20,000 (2001: £20,000).

Brewin Dolphin Securities received fees for financial advice from the Group totalling £63,000 (excluding Board fees of £5,000). The ultimate holding company of Brewin Dolphin Securities is Brewin Dolphin Holdings PLC of which Vikram Lall is a Director and shareholder.

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 (2001: £8,000). The amount owed by BSR for these services and other expenditures at the end of the year was £142,000 (2001: £62,000). In addition, sales of £5,524,000 (2001: £4,521,000) were made to Badentoy Tubular Services Limited ('BTS'), an associated undertaking. The amount owed at the end of the year by BTS was £1,680,000 (2001: £1,873,000).

# Notes to the Financial Statements *continued*

*For the year ended 31 December 2002*

## 25 Notes to Consolidated Cash Flow Statement

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

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| Operating loss | **(10,931)** | (18,212) |
| Exceptional gain on disposal of oil and gas interest | **–** | 3,448 |
| Amounts written off in respect of intangible oil and gas assets | **5,007** | 17,324 |
| Amortisation of goodwill | **30** | 30 |
| Depreciation on tangible fixed assets | **940** | 795 |
| (Gain)/loss on sale of tangible fixed assets | **(15)** | 24 |
| Amortisation of deferred gain on asset sold to joint venture | **(18)** | (18) |
| Increase in stocks | **(34)** | (180) |
| Decrease in debtors | **50,822** | 23,726 |
| Decrease in creditors | **(4,315)** | (2,695) |
| (Decrease)/increase in provisions | **(2,455)** | 711 |
| Provision against investments | **53** | – |
| Exchange difference on retranslation | **66** | 15 |
| **Net cash inflow from continuing operating activities** | **39,150** | 24,968 |

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

| | 2002 £'000 | 2001 £'000 |
|---|---|---|
| (Decrease)/increase in cash in the year | **(2,366)** | 9,249 |
| Cash outflow/(inflow) from decrease in liquid resources | **14,159** | (54) |
| **Change in net funds resulting from cash flows** | **11,793** | 9,195 |
| **Net funds at start of the year** | | |
| Cash at bank and in hand | **12,191** | 2,942 |
| Short term deposits | **25** | 79 |
| | **12,216** | 3,021 |
| **Net funds at end of the year** | **24,009** | 12,216 |
| **Represented by:** | | |
| Cash at bank and in hand | **9,825** | 12,191 |
| Short term deposits | **14,184** | 25 |
| | **24,009** | 12,216 |

Liquid resources represent short term deposits not qualifying as cash.

## 26 Litigation

(a) In September 2002 Ramco reported that a partial judgement had been given in arbitration proceedings in Prague which found that the joint venture agreements relating to the Czech interests of Ramco's subsidiary, Medusa Czech Operations Limited, had been validly terminated by Moravské Naftové Doly a.s. in July 2000. On 4 March 2003, Medusa applied to the Prague Municipal Court to annul the partial judgement. The principal ground of the application was that evidence became available in December 2002 which, had it been available earlier, would have significantly influenced the arbitrators' decision. Meanwhile the arbitration proceedings continue to address how the joint venture property should be dealt with and the parties compensated; no asset has been recognised by Ramco. The next oral hearing is likely to take place in mid-July 2003.

(b) Ramco Energy plc and its subsidiary, Ramco Oil Limited, are named as defendants with Halliburton Energy Services and Halliburton Company in a court action initiated by Anglo-Dutch (Tenge) LLC and Anglo-Dutch Petroleum International Inc in the District Court of Harris County, Texas, USA. The Anglo-Dutch companies are owned by Houston resident Scott van Dyke and his mother Teresa van Dyke. The case is currently scheduled for trial by jury in August 2003.

The Anglo-Dutch plaintiffs are alleging that Ramco and its co-defendants breached obligations of confidentiality and non-circumvention arising from an exploration and production opportunity in Kazakhstan which Halliburton and Ramco were investigating in 1997-98. Following an extensive due diligence and negotiation process which began in summer 1997, Ramco decided in autumn 1998 not to invest in the project as it did not meet the necessary investment criteria.

Ramco has consistently denied the plaintiffs' allegations in their entirety. Ramco does not now, nor has it ever had a direct or indirect interest in the Kazakhstan opportunity which is the subject of the plaintiffs' claims. Although Anglo-Dutch has alleged actual damages of $677,000,000 (£436,770,000) along wih punitive damages, interests and costs, Ramco believes that the plaintiffs' damages are without foundation in fact or law.

Ramco and Halliburton have filed motions for summary judgement seeking a ruling that the plaintiffs' claims be dismissed. In addition, the parties were required to engage in a mediation process earlier this month which has not reached a conclusion.

A decision on these motions is expected before the trial commences.

The trial is expected to run for at least five weeks. Ramco has expensed its legal costs in the case as they fall due but otherwise has made no provision for any award of damages as the Company continues to believe that Ramco has committed no wrong, that the action by Anglo-Dutch is without substance and that, in any event, Anglo-Dutch has suffered no loss. Ramco intends to vigorously defend itself at trial and any subsequent appeal proceedings if these prove necessary.

# Notes to the Financial Statements *continued*

*For the year ended 31 December 2002*

## 27 Group Undertakings

| | Country of registration | Class of shares | Proportion held | Nature of business |
|---|---|---|---|---|
| **(a) Principal operating subsidiary undertakings at 31 December 2002:** | | | | |
| **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 |
| Ramco Seven Heads Limited (6) | Scotland | Ordinary | 100% | Oil and gas projects |
| Northern Exploration Limited (1) | Ireland | Ordinary | 100% | Oil and gas projects |
| Ramco Oil & Gas B.V. (1) | 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. | | | | |
| **(b) Associated undertakings at 31 December 2002:** | | | | |
| 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 2002:** | | | | |
| 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.
(6) Shares held by Ramco Oil & Gas B.V.

## 28 Acquisition

On 3 July 2002, following the transaction noted below, the Group, through Ramco Oil & Gas Limited, acquired the entire share capital of Northern Exploration Limited ('NEL').

The share capital was acquired for an aggregate consideration of £1,774,000 of which £1,000,000 was settled by the issue of 294,118 10p ordinary shares in Ramco Energy plc and the payment of the balance was in cash. In addition, an amount of £1,226,000 was paid to Northern Petroleum plc in settlement of an intercompany debt owed by NEL at the date of acquisition.

Ramco Oil & Gas Limited has used acquisition accounting to account for the purchase.

There were no profit and loss account entries for NEL for the period from 13 June 2001, the date of incorporation, to the date of acquisition, 3 July 2002.

The company had no recognised gains or losses and therefore no separate statement of gains and losses has been prepared.

The assets and liabilities of the company acquired are set out below:

| | Book value £'000 | Fair value adjustment £'000 | Fair value £'000 |
|---|---|---|---|
| Intangible assets | 1,226 | 1,774 | 3,000 |
| Net assets | 1,226 | 1,774 | 3,000 |

| | £'000 |
|---|---|
| **Satisfied by:** | |
| Cash | 775 |
| Shares issued in Ramco Energy plc 294,118 ordinary shares of 10p each issued at closing mid market price on 28 June 2002 – £3.40 | 1,000 |
| Settlement of intercompany debt to Northern Petroleum plc | 1,225 |
| Total consideration | 3,000 |

The fair value adjustment represents the revaluation of oil and gas assets.

## 29 Post Balance Sheet Event

In April 2003, following formal approval of the Plan of Development for the Seven Heads field, Ramco Seven Heads Limited concluded a project finance facility for the development. The main facility is for £60,000,000 with an additional amount of £8,600,000 available as a standby facility.

# Five Year Record

| | 2002 £'000 | 2001 £'000 | 2000 £'000 | 1999 restated £'000 | 1998 restated £'000 |
|---|---|---|---|---|---|
| Group turnover | **16,809** | 14,741 | 14,470 | 11,189 | 7,177 |
| Cost of sales | **(23,560)** | (33,586) | (34,919) | (16,760) | (12,196) |
| Gross loss | **(6,751)** | (18,845) | (20,449) | (5,571) | (5,019) |
| Administrative expenses | **(1,430)** | (1,644) | (1,616) | (1,310) | (1,586) |
| Exceptional administrative expenses | **–** | – | – | – | (607) |
| (Loss)/gain on exchange | **(2,750)** | 2,277 | 249 | 184 | (61) |
| Group operating loss | **(10,931)** | (18,212) | (21,816) | (6,697) | (7,273) |
| Income from interests in joint venture | **18** | 188 | 701 | 523 | 1,050 |
| (Loss)/income from interests in associates | **(52)** | 11 | 5 | – | – |
| Exceptional item – gain on disposal of oil and gas interest | **–** | 3,448 | 88,792 | – | – |
| (Loss)/profit before investment income, interest and taxation | **(10,965)** | (14,565) | 67,682 | (6,174) | (6,223) |
| Investment income | **–** | – | 361 | 434 | – |
| Interest income net | **1,765** | 3,759 | 628 | 1,339 | 2,721 |
| Taxation | **(142)** | (1,148) | (27,860) | (467) | (432) |
| Minority interests | **–** | – | – | 99 | 38 |
| (Loss)/profit for the financial year | **(9,342)** | (11,954) | 40,811 | (4,769) | (3,896) |
| (Loss)/earnings per share | **(35.9)p** | (46.2)p | 157.3p | (18.5)p | (15.2)p |
| Weighted average number of shares used to compute (loss)/earnings per share | **26,037,656** | 25,861,480 | 25,939,403 | 25,751,823 | 25,674,373 |

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