

## Report of the Directors

The Directors submit their report and audited Group financial statements for the year ended 31 December 2004.

#### 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 and in the Financial Review.

#### Results and dividends

The Group consolidated profit and loss account set out on page 24 shows a loss on ordinary activities before tax of £3.3 million (2003 – loss £104.1 million). After tax the Group loss for the year was £3.4 million (2003 – loss £76.7 million).

The Directors do not recommend the payment of a dividend (2003 – nil) and £3.4 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 page 10.

In accordance with the Company's Articles of Association, D Paterson who was appointed to the Board on 28 April 2005, and M Hay who was appointed to the Board on 22 June, 2005 automatically retire and being eligible offer themselves for re-election. S R Bertram and N S Cumming retire by rotation and being eligible offer themselves for re-election. All of the Directors standing for re-election have a service contract with an unexpired notice period of one year except D Paterson and M Hay who do not 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 18 to 21.

#### Substantial shareholders

The Directors have been notified of the following interests in 3% or more

of the Company's issued share capital at 7 June 2005:

Name of member	No. of shares	% of capital
Directors	3,804,346	12.62
Artemis	1,105,000	3.67
Hansa Trusts	1,080,000	3.58

#### Share capital

There were no allotments made during the year or between 1 January 2005 and 7 June 2005.

#### Creditor payment policy

The Company's current policy concerning the payment of its trade creditors is to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- 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 2004 was 61 days (2003: 69 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 £nil (2003 – £1,000).

**AGM special business**

The Annual General Meeting (AGM) will commence at 12.30 p.m. on Tuesday 9 August 2005 at The Treetops Hotel, Springfield 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 7 to 10.

Resolution 7 authorises the Directors to allot unissued shares in the capital of the Company.

Resolution 8 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 £331,000 (being 10% of the current issued share capital), thereby enabling the Directors to take advantage of opportunities as they arise.

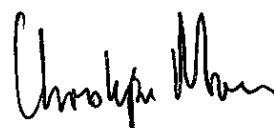
Resolution 9 is a disapplication of the statutory pre-emption rights contained in the Companies Act 1985 and empowers the Directors to allot

ordinary shares for cash in connection with warrants granted to the Company's lenders as described in note 1 to the financial statements. It permits the issue generally of ordinary shares having a nominal value of up to £300,000 (being 9% of the current issued share capital.)

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

By order of the Board,  
C G Moar MA CA  
Company Secretary

29 June 2005



## Corporate Governance

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 July 2003 Combined Code on Corporate Governance, although it has applied the majority of the Combined Code principles as follows:

### **Directors**

The Board is responsible for setting overall Group strategy, policy, monitoring Group performance and authorising significant transactions. It comprises an Executive Chairman, two further Executive Directors and two Non-Executive Directors. Biographies of the Directors are presented on page 10. Malcolm Hay is the senior independent Non-Executive Director. The Board considers both of its Non-Executive directors to be independent.

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 Malcolm Hay and the other member is Dennis Paterson.

### **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 Audit Committee meets at least three times a year and the External Auditors and other Directors may attend by invitation. The Committee was chaired by P Everett until 28 April 2005 and since 22 June 2005 it has been chaired by M Hay.

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 operational 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.

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 meets at least twice a year and determines the remuneration of the Executive Directors and advises the Board on incentive schemes for employees. The Remuneration Report is presented on page 18 and contains a statement of remuneration policy and details of the remuneration of each Director. The Committee was chaired by P Everett until 28 April 2005 and since 22 June 2005 it has been chaired by M Hay.

### **Nominations Committee**

The Nominations Committee was chaired by Sir M Rifkind until 28 April 2005 and has been chaired by Dennis Paterson since that date and meets as required. The other members are Malcolm Hay 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. Names of Directors submitting themselves for reappointment at the next AGM are shown on page 12.

#### **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 financial statements, 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](http://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.

#### **Statement of Compliance**

As mentioned above, Ramco, as an AIM listed company, is not required to comply with the July 2003 Combined Code on Corporate Governance. Until

the appointment of S R Bertram as Managing Director of Ramco Energy plc on 22 June, 2005 the roles of Chairman and Chief Executive were both filled by S E Remp. These roles have now been separated and the Company believes it now complies substantially with the Combined Code principles.

### **Directors' responsibilities**

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

The Directors confirm that suitable accounting policies have been used and applied consistently. The Directors also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 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 event 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**

The financial statements have been prepared on the going concern basis which assumes that the Company and its subsidiaries will continue in operational existence for the foreseeable future.

There are two areas of uncertainty as to whether or not the Group can be considered a going concern.

The first area of uncertainty is the future of the Group's wholly owned subsidiaries Ramco Seven Heads Limited (RSHL) and Northern Exploration Limited (NEL). RSHL and NEL together have an 86.5% interest in the Seven Heads gas field which commenced production in December 2003. RSHL and NEL entered into a finance agreement with the Group's bankers under which finance totalling £68.6 million was provided to fund

the Seven Heads gas development, £12 million of which was guaranteed by Ramco Oil Services Limited (ROSL), another wholly owned subsidiary of the Group. Shortly after production commenced, as notified to shareholders in January 2004, production of gas suffered a significant decline. The lower than anticipated production from the field, coupled with the unforeseen costs of technical studies and the back up transportation system incurred during 2004, mean that RSHL and NEL have generated much less cash from the field than had been expected. Cash generated at present levels of production is sufficient to cover ongoing operating costs. It is however insufficient to cover interest payments in full, or repayments of loan principal.

Discussions with the Group's Bankers commenced early in 2004 over the rescheduling of the £56.6 million non-recourse project loans and the £12 million loan secured on the equity of ROSL (Oil Services Guaranteed Balance – OSGB). The Company announced on 20 June, 2005 that it had reached agreement with its Bankers regarding these matters. Under the terms of this agreement, the Group's Bankers have granted waivers in respect of arrears of capital and interest (on the non-recourse loan) and breach of financial covenants until the earlier of (a) 31 December 2005 and (b) the later of (i) the formal conclusion of the sale of the business and assets of

ROSL and (ii) the formal conclusion of the sale of the business and assets of, and / or the interest of Ramco and its subsidiaries in, RSHL and NEL.

The waivers included the following conditions:

- (i) The Group will pursue the sale of the business and/or assets of ROSL to the extent necessary to repay the OSGB.
- (ii) ROSL shall continue to pay the interest on the OSGB until it is repaid in full.
- (iii) The company and RSHL shall enter into a deferral agreement with Schlumberger regarding the outstanding debt due by RSHL to Schlumberger (which had been guaranteed by the company). The deferral agreement was entered into on 14 June, 2005.
- (iv) The Group will pursue the sale of the business and/or assets of RSHL and NEL.
- (v) The Group shall procure that new capital totalling £1,000,000 be raised by 30 June, 2005. A placing of ordinary shares of the company was concluded on 23 June, 2005. Details are given in note 29 to the accounts.
- (vi) The Group shall grant warrants to its Bankers over 3 million ordinary shares. The equity price for the warrants to be £0.34 per ordinary share.

The second area of uncertainty is the outcome of the ongoing litigation in the United States detailed in note 26 to the financial statements. Because of the uncertainty surrounding the range of possible outcomes the Directors consider it is not possible to make a reliable estimate of the likely outcome of the appeal process beyond providing an estimate of the legal costs of pursuing the appeals. A provision of \$1 million (£559,000) was made in the 2003 accounts. Movements on the provision during 2004 are detailed in note 16 to the accounts. No further provision is considered necessary.

The Directors have prepared cash flow forecasts for the Group for the period ending 12 months from the date of approval of these financial statements. These indicate that the Group will have adequate cash resources to meet its obligations, with the exception of the repayment of loan principal, as they fall due. The Company and its lenders anticipate that the assets sales process will be complete before the end of 2005 and that proceeds will be sufficient to repay the recourse element of the project finance and the outstanding £1.55 million debt due by RSHL to Schlumberger. For these reasons, the Directors believe that it is appropriate for the financial statements to be prepared on the going concern basis.

If for any reason these assumptions proved to be invalid, the going concern basis may no longer be applicable and adjustments to the Group profit and loss account and Group balance sheet would be required to record additional liabilities and write down assets to their recoverable amounts.

# Remuneration Report

## Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002, except for the inclusion of a performance graph. 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 Malcolm Hay (Chairman) and Dennis Paterson, both 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, in the matters to be decided by the Committee or 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.

### *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. S E Remp and S R Bertram have voluntarily agreed to salary cuts of £125,000 and £40,000 per annum respectively for 2005. Their pension contributions will reduce pro rata.

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	4.0%	4.0%	All
S R Bertram	1.625%	1.625%	All
D F Stover	1.75%	1.75%	Oil & Gas
N S Cumming	2.5%	3.95%	Oil Services

#### **Audited Information**

##### *Directors' detailed emoluments*

	Salary and fees £'000	Performance related bonus £'000	Benefits £'000	Aggregate emoluments £'000	2004 Pension contributions £'000	2003 Pension contributions £'000	2004 Total £'000	2003 Total £'000
<b>Executive directors</b>								
S E Remp	483	—	26	509	104	100	613	594
S R Bertram	191	—	11	202	28	25	230	217
N S Cumming	178	36	22	236	26	25	262	247
D F Stover <sup>2</sup>	243	—	6	249	36	30	285	271
<b>Non-executive directors</b>								
P Everett <sup>1</sup>	25	—	—	25	—	—	25	25
Sir M Rifkind <sup>1</sup>	25	—	—	25	—	—	25	25
V Lall <sup>1</sup>	25	—	—	25	—	—	25	25*
2004	1,170	36	65	1,271	194		1,465	
2003	1,100	28	96	1,224		180		1,404

\* The table includes £23,000 for 2003 paid to Brewin Dolphin Securities in respect of fees for the services provided by V Lall to the Company. Details of transactions with related parties are given in note 24 to the financial statements.

1. Resigned 28 April 2005

2. Resigned 21 June 2005



## Remuneration Report *continued*

### *Interests in share options*

	Exercise price	At 31 Dec 2003	Granted	Exercised	At 31 Dec 2004	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	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
		<b>492,500</b>	-	-	<b>492,500</b>	

A summary of the performance criteria conditional upon which the options are exercisable is set out in note 18 to the accounts. During 2004 the share price ranged between a high of 400p and a low of 21.5p. 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 2003	At 31 Dec 2004	At 7 June 2005
S E Remp	3,336,346	3,336,346	3,336,346
S R Bertram	140,000	140,000	140,000
N S Cumming	327,000	327,000	327,000
P Everett (resigned 28/4/05)	21,743	21,743	21,743*
Sir M Rifkind (resigned 28/4/05)	1,300	1,300	1,300*
D F Stover (resigned 21/6/05)	1,000	1,000	1,000
V Lall (resigned 28/4/05)	-	-	-
	<b>3,827,389</b>	<b>3,827,389</b>	<b>3,827,389</b>

\*At date of resignation

### *Pensions*

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

### *As at 31 December 2004*

Retirement benefits were accruing to the four Executive Directors (2003: Four 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.

M Hay  
**Chairman, Remuneration Committee**  
29 June 2005

# 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 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 Financial Review and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine 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.

## **Going concern – fundamental uncertainty**

In forming our opinion, we have considered the adequacy of the disclosures set out in note 1 to the financial statements concerning the Group's current borrowing facilities and ongoing negotiations with its bankers and certain third parties and the outstanding litigation proceedings in the United States.

The financial statements have been prepared on a going concern basis, the validity of which may depend on continuing support of the Group's bankers and other creditors subsequent to the expiry of the waiver period and the achievement of planned disposals of the Group's interests in the Seven Heads field and other assets the timing of which is inherently uncertain. Should the Group's bankers and other creditors not continue to provide support, the going concern basis of preparation may no longer be applicable and adjustments to the Group profit and loss account and Group balance sheet would be required to record additional liabilities and write down assets to their recoverable amounts. Details of the circumstances relating to these fundamental uncertainties are described in note 1.

Furthermore, we have considered the adequacy of the disclosures made in note 26 of the financial statements concerning the ongoing litigation in the United States. The final settlement of this case could result in additional liabilities for which no provision has been made, and which therefore may materially affect the Group's financial statements.

Our opinion is not qualified in respect of these matters.

**Opinion**

in our opinion:

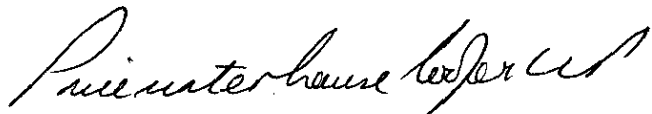
- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those 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**

Chartered Accountants and Registered Auditors

Aberdeen

29 June 2005



## Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Turnover – Group and share of joint venture and associates	2	40,574	23,873
Less share of joint venture and associates		(3,641)	(3,041)
Group turnover	2	36,933	20,832
Cost of sales before exceptional items		(40,525)	(24,249)
Exceptional items	5	5,714	(99,174)
Cost of sales after exceptional items		(34,811)	(123,423)
Gross profit/(loss)		2,122	(102,591)
Administrative expenses		(1,421)	(1,778)
Loss on exchange		(103)	(686)
Group operating profit/(loss)		598	(105,055)
Investment income		–	3
Share of operating profit in joint venture and associates	2	681	219
Profit/(loss) before interest and taxation		1,279	(104,833)
Net Interest (payable)/receivable	6	(4,565)	738
Loss on ordinary activities before taxation	2	(3,286)	(104,095)
Tax (charge)/credit on loss on ordinary activities	7	(91)	27,404
Loss for the financial year	19	(3,377)	(76,691)
Loss per ordinary share – basic and fully diluted			
On loss for the financial year	8	(11.2)p	(278.2)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 2004

	2004 £'000	2003 £'000
Loss for the financial year	(3,377)	(76,691)
Unrealised translation differences on foreign currency net investments	16	(35)
Total recognised losses relating to the year	(3,361)	(76,726)

The notes on pages 27 to 56 form part of these financial statements.

# Balance Sheets

As at 31 December 2004

	Note	Group		Company	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Fixed assets</b>					
Intangible assets	9	5,906	4,536	–	–
Other tangible fixed assets	10	16,706	72,782	1,654	1,820
<b>Investments</b>					
Share of joint venture's gross assets		2,575	2,266	–	–
Share of joint venture's gross liabilities		(1,503)	(1,164)	–	–
Share of joint venture's net assets		1,072	1,102	–	–
In subsidiaries		–	–	3,000	3,000
In associated undertakings		80	26	–	–
Other fixed asset investments		2	102	2	102
Total investments	11	1,154	1,230	3,002	3,102
		23,766	78,548	4,656	4,922
<b>Current assets</b>					
Stocks	12	2,331	2,265	–	–
Debtors: amounts falling due within one year	13	5,203	7,393	2,279	4,160
Cash at bank and in hand		3,265	3,287	119	2,125
		10,799	12,945	2,398	6,285
Creditors: amounts falling due within one year	14	(24,808)	(28,070)	(760)	(807)
Net current (liabilities)/assets		(14,009)	(15,125)	1,638	5,478
Total assets less current liabilities		9,757	63,423	6,294	10,400
Creditors: amounts falling due after more than one year	15	–	(50,055)	–	–
Provision for liabilities and charges	16	(5,274)	(5,466)	(38)	(38)
Net assets		4,483	7,902	6,256	10,362
<b>Capital and reserves</b>					
Called up share capital	17	3,014	3,014	3,014	3,014
Share premium account	19	68,576	68,576	68,576	68,576
Revaluation reserve	19	752	810	–	41
Other reserves	19	(21)	(37)	–	–
Profit and loss account	19	(67,838)	(64,461)	(65,334)	(61,269)
Equity shareholders' funds	20	4,483	7,902	6,256	10,362

These financial statements were approved by the Board of Directors on 29 June 2005.

The notes on pages 27 to 56 form part of these financial statements.

S E Remp  
Executive Chairman



S R Bertram  
Managing Director



# Consolidated Cash Flow Statement

For the year ended 31 December 2004

	<b>Note</b>	<b>2004 £'000</b>	<b>2003 £'000</b>
<b>Net cash inflow from continuing operating activities</b>	25(a)	6,728	4,177
<b>Returns on investments and servicing of finance</b>			
Interest received		376	901
Dividends received		–	3
Interest paid		(3,994)	(615)
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>		<b>(3,618)</b>	<b>289</b>
<b>Taxation</b>			
Overseas tax paid		(170)	(211)
<b>Taxation paid</b>		<b>(170)</b>	<b>(211)</b>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(86)	(277)
Sale of tangible fixed assets		54	18
Oil and gas expenditure – intangible assets		(1,370)	(2,600)
Oil and gas expenditure – development assets		–	(94,678)
Oil and gas expenditure – producing assets		(10,202)	–
Receipt of sale of investments		42	–
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(11,562)</b>	<b>(97,537)</b>
<b>Cash outflow before management of liquid resources and financing</b>		<b>(8,622)</b>	<b>(93,282)</b>
<b>Management of liquid resources</b>			
Net transfer from term deposits		–	14,184
<b>Net cash outflow before financing</b>		<b>(8,622)</b>	<b>(79,098)</b>
<b>Financing</b>			
Issue of share capital		–	12,560
Increase in debt		8,600	60,000
<b>Net cash inflow from financing</b>		<b>8,600</b>	<b>72,560</b>
<b>Decrease in cash</b>	25(b)	<b>(22)</b>	<b>(6,538)</b>

The notes on pages 27 to 56 form part of these financial statements.

# Notes to the Financial Statements

For the year ended 31 December 2004

## 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.

### 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 is set out below, these have been applied consistently.

### Basis of Preparation – Going concern

The financial statements have been prepared on the going concern basis which assumes that the Company and its subsidiaries will continue in operational existence for the foreseeable future.

*There are two areas of uncertainty as to whether or not the Group can be considered a going concern.*

The first area of uncertainty is the future of the Group's wholly owned subsidiaries Ramco Seven Heads Limited (RSHL) and Northern Exploration Limited (NEL). RSHL and NEL together have an 86.5% interest in the Seven Heads gas field which commenced production in December 2003. RSHL and NEL entered into a finance agreement with the Group's Bankers under which finance totalling £68.6 million was provided to fund the Seven Heads gas development, £12 million of which was guaranteed by Ramco Oil Services Limited (ROSL), another wholly owned subsidiary of the Group. Shortly after production commenced, as notified to shareholders in January 2004, production of gas suffered a significant decline. The lower than anticipated production from the field, coupled with the unforeseen costs of technical studies and the back up transportation system incurred during 2004, mean that RSHL and NEL have generated much less cash from the field than had been expected. Cash generated at present levels of production is sufficient to cover ongoing operating costs. It is however insufficient to cover interest payments in full, or repayments of loan principal.

Discussions with the Group's Bankers commenced early in 2004 over the rescheduling of the £56.6 million non-recourse project loans and the £12 million loan secured on the equity of ROSL. The company announced on 20 June 2005 that it had concluded an extended waiver agreement with its Bankers regarding these matters. Under the terms of this agreement, the Group's Bankers have granted waivers in respect of arrears of capital and interest and breach of financial covenants until the earlier of (a) 31 December 2005 and (b) the later of (i) the formal conclusion of the sale of the business and assets of ROSL and (ii) the formal conclusion of the sale of the business and assets of, and/or the interest of Ramco and its subsidiaries in, RSHL and NEL.

The waivers included the following conditions:

- (i) The Group will pursue the sale of the business and or assets of ROSL to the extent necessary to repay the OSGB.
- (ii) ROSL shall continue to pay the interest on the OSGB until it is repaid in full.
- (iii) The Company and RSHL shall enter into a deferral agreement with Schlumberger regarding the outstanding debt due by RSHL to Schlumberger (which had been guaranteed by the Company). The deferral agreement was entered into on 14 June 2005.
- (iv) The Group will pursue the sale of the business and or assets of RSHL and NEL.
- (v) The Group shall procure that new capital totalling £1,000,000 be raised by 30 June 2005. A placing of ordinary shares of the company was concluded on 23 June 2005. Details are given in note 29 to the accounts.



# Notes to the Financial Statements *continued*

For the year ended 31 December 2004

## 1 Presentation of Accounts and Accounting Policies *continued*

- (vi) The Group shall grant warrants to its Bankers over 3 million ordinary shares. The equity price for the warrants to be £0.34 per ordinary share.

The second area of uncertainty is the outcome of the ongoing litigation in the United States detailed in note 26 to the financial statements. Because of the uncertainty surrounding the range of possible outcomes the Directors consider it is not possible to make a reliable estimate of the likely outcome of the appeal process beyond providing an estimate of the legal costs of pursuing the appeals. A provision of \$1 million (£559,000) was made in the 2003 accounts. Movements on the provision during 2004 are detailed in note 16 to the accounts. No further provision is considered necessary.

The Directors have prepared cash flow forecasts for the Group for the period ending 12 months from the date of approval of these financial statements. These indicate that the Group will have adequate cash resources to meet its obligations, with the exception of the repayment of loan principal, as they fall due. The Company and its lenders anticipate that the assets sales process will be complete before the end of 2005 and that proceeds will be sufficient to repay the recourse element of the project finance and the outstanding debt due by RSHL to Schlumberger. For these reasons, the Directors believe that it is appropriate for the financial statements to be prepared on the going concern basis.

If for any reason these assumptions proved to be invalid, the going concern basis may no longer be applicable and adjustments to the Group profit and loss account and Group balance sheet would be required to record additional liabilities and write down assets to their recoverable amounts.

### Accounting Policies

#### Basis of accounting

These financial statements are prepared under the historical cost convention modified to incorporate the revaluation of certain fixed assets. In accordance with AIM rules the Group will be adopting International Accounting Standards as from 1 January 2007. The Group is currently in the process of assessing the impact these will have on its 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 held as fixed assets and shown at cost less an appropriate provision where the Directors consider that an impairment in the value of the investment has occurred.

Undertakings, other than subsidiaries, in which the Group has an investment over which it exerts significant influence are defined as joint venture 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 11.

#### Goodwill

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

#### Fixed assets

##### Oil and gas interests

Exploration and appraisal costs are accounted for under the successful efforts method of accounting. All costs incurred prior to the acquisition of licences are written off to the profit and loss account when incurred. Licence acquisition costs, geological and geophysical costs and the 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 profit and loss account.

##### Decommissioning

The estimated cost of dismantling and restoring the production and related facilities at the end of the economic life of each field is recognised in full at the commencement of oil and gas production. The amount recognised is the present value of the estimated future restoration cost. An offsetting tangible fixed asset is also recognised. The asset is depreciated on a unit of production basis. Changes to the present value of the estimated future restoration cost are accounted for as adjustments to the provision and fixed asset.

##### Other activities

The cost of tangible fixed assets is purchase cost together with any incidental expenses of acquisition. 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). As allowed by FRS15 the Group elected to freeze the valuation at that date. Subsequent additions are included at cost. 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.

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

# Notes to the Financial Statements *continued*

For the year ended 31 December 2004

## 1 Presentation of Accounts and Accounting Policies *continued*

*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.

### 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 and customer acceptance.

## 2 Segmental Reporting

The analysis by both business and geographical segments of the Group's turnover, loss before taxation and net assets are set out below:

	Oil and Gas		Oil Services		Total	
	2004	2003	2004	2003	2004	2003
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Turnover by origin</b>						
United Kingdom	-	-	10,232	12,091	10,232	12,091
Norway	-	-	2,008	1,913	2,008	1,913
Asia	-	-	467	57	467	57
Ireland	27,867	9,812	-	-	27,867	9,812
	27,867	9,812	12,707	14,061	40,574	23,873
Less joint venture and associates (UK)	-	-	(3,641)	(3,041)	(3,641)	(3,041)
<b>Group turnover</b>	27,867	9,812	9,066	11,020	36,933	20,832
<b>Operating profit/(loss)</b>						
Former Soviet Union	-	75	-	-	-	75
Central and eastern Europe	327	(5,632)	-	-	327	(5,632)
United Kingdom	39,814	(2,324)	1,203	748	41,017	(1,576)
Ireland	(39,663)	(95,941)	-	-	(39,663)	(95,941)
Norway	-	-	813	791	813	791
Rest of Europe	251	(77)	-	-	251	(77)
Asia	-	-	58	(12)	58	(12)
	729	(103,899)	2,074	1,527	2,803	(102,372)
Less joint venture and associates	-	(30)	(681)	(189)	(681)	(219)
<b>Gross profit/(loss)</b>	729	(103,929)	1,393	1,338	2,122	(102,591)
Joint venture and associates	-	30	681	189	681	219
	729	(103,899)	2,074	1,527	2,803	(102,372)
Administrative expenses	(995)	(1,245)	(426)	(533)	(1,421)	(1,778)
Investment income	-	3	-	-	-	3
(Loss)/gain on exchange	(53)	(706)	(50)	20	(103)	(686)
(Loss)/profit before interest and taxation	(319)	(105,847)	1,598	1,014	1,279	(104,833)
Net interest					(4,565)	738
<b>Loss before taxation</b>					(3,286)	(104,095)
<b>Net assets</b>						
Former Soviet Union	310	464	-	-	310	464
Central and eastern Europe	5,425	4,236	-	-	5,425	4,236
United Kingdom	(13,513)	19,583	9,302	4,715	(4,211)	24,298
Ireland	1,053	(3,187)	-	-	1,053	(3,187)
Norway	-	-	1,461	1,262	1,461	1,262
Rest of Europe	294	(19,224)	-	-	294	(19,224)
Asia	-	-	151	53	151	53
	(6,431)	1,872	10,914	6,030	4,483	7,902

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.

# Notes to the Financial Statements *continued*

For the year ended 31 December 2004

## 3 Group Operating Profit/(Loss)

	2004 £'000	2003 £'000
This is stated after charging:		
Amounts written off in respect of intangible oil and gas assets	-	959
Depreciation of tangible fixed assets	9,637	1,380
Amortisation of goodwill – joint venture	30	30
Operating lease rentals – land and buildings	155	186
Operating lease rentals – plant, fixtures and equipment	290	345
Loss on disposal of tangible fixed assets	37	-
Auditors' remuneration for – Audit (Company: £35,000; 2003: £40,000)	148	131

During the year the Group obtained the following non-audit services from the Auditors:	2004 £'000	2003 £'000
Tax services – advisory	71	154
– compliance	133	125
Other services – share placing	-	53
	204	332

## 4 Employees and Directors

The average monthly number of employees including Executive Directors during the year:	2004 Number	2003 Number
Oil Services	89	99
Oil and Gas	8	9
Head office and management	10	10
	107	118

	2004 £'000	2003 £'000
Staff costs during the year amounted to:		
Wages and salaries	4,060	4,104
Social security costs	464	454
Other pension costs (note 21)	347	333
	4,871	4,891

## 5 Exceptional Items

	2004 £'000	2003 £'000
Impairment provision – Seven Heads	47,698	92,969
Impairment borne by finance provider	(53,412)	–
Exploration write off – Poland	–	5,646
Legal provision (note 26)	–	559
	(5,714)	99,174

In accordance with the SORP further impairment in the carrying value of Seven Heads is being borne by the non-recourse finance provider, resulting in a net credit of £5.7 million.

## 6 Interest

	2004 £'000	2003 £'000
<b>Receivable</b>		
Bank interest	146	314
Other	230	550
	376	864
<b>Payable</b>		
Bank interest	(4,470)	(119)
Other	(471)	(7)
	(4,941)	(126)
<b>Net interest (payable)/receivable</b>	<b>(4,565)</b>	<b>738</b>

## 7 Taxation

	2004 £'000	2004 £'000	2003 £'000	2003 £'000
<b>Analysis of charge in period</b>				
<i>Current tax:</i>				
UK corporation tax at 30% (2003: 30%)	220		211	
Double taxation relief	(220)		(211)	
Share of joint venture and associates	196		43	
Adjustments in respect of previous periods	(91)		(25,044)	
		105		(25,001)
Foreign tax		278		365
Total current tax		383		(24,636)
<i>Deferred tax:</i>				
Origination and reversal of timing differences	(292)		(18)	
Adjustments in respect of previous periods	–		(2,750)	
Total deferred tax		(292)		(2,768)
Tax on loss on ordinary activities		91		(27,404)

## Notes to the Financial Statements *continued*

For the year ended 31 December 2004

### 7 Taxation *continued*

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

Factors affecting tax charge for period	2004 £'000	2003 £'000
Loss on ordinary activities before tax	(3,286)	(104,095)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	(986)	(31,228)
Effects of:		
Expenses not deductible for tax purposes	1,106	(1,287)
Capital allowances in excess of depreciation/other timing differences	(956)	27,377
Foreign taxes	(194)	(80)
Unrecognised tax losses	1,521	5,643
Adjustments to tax in respect of prior period	(91)	(25,044)
Rate difference	(17)	(17)
	383	(24,636)

The tax credit for 2003 included a credit of £27.8 million reflecting a release of the provision for tax on the profit that arose on the disposal of the Group's interest in the ACG field in Azerbaijan in 2000. The credit comprises £25 million of current tax and £2.8 million of deferred tax. Due to the losses arising from the impairment of the Group's interest in the Seven Heads gas field, the tax liability is no longer expected to be payable.

### 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 £3.4 million (2003: loss of £76.7 million) and 30,144,713 (2003: 27,570,483) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

As a loss was recorded in both 2003 and 2004 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

Intangible	Group exploration costs		Company exploration costs	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
At 1 January	4,536	2,895	-	-
Additions	1,370	2,600	-	-
Costs written off	-	(959)	-	-
At 31 December	5,906	4,536	-	-

Oil and gas project expenditures, including geological, geophysical and seismic costs, are accumulated as intangible fixed assets prior to the determination of commercial reserves. At 31 December 2004, intangible fixed assets totalled £5.9 million, all of which relates to Ireland and central and eastern Europe.

## 10 Other Tangible Fixed Assets

	Land and buildings				
	Producing assets £'000	Freehold £'000	Long leasehold £'000	Plant, fixtures and equipment £'000	Total £'000
<b>Group:</b>					
<b>Cost or valuation:</b>					
At 1 January 2004	154,548	10,079	1,113	7,163	172,903
Retranslation	–	–	–	19	19
Additions	1,261	12	–	74	1,347
Disposals	–	–	–	(284)	(284)
<b>At 31 December 2004</b>	<b>155,809</b>	<b>10,091</b>	<b>1,113</b>	<b>6,972</b>	<b>173,985</b>
Of which: At cost	155,809	4,266	1,113	6,972	168,160
At valuation	–	5,825	–	–	5,825
	<b>155,809</b>	<b>10,091</b>	<b>1,113</b>	<b>6,972</b>	<b>173,985</b>
<b>Depreciation:</b>					
At 1 January 2004	93,478	267	654	5,722	100,121
Retranslation	–	–	–	16	16
Provided during the year	9,011	83	153	390	9,637
Impairment (note 5)	47,698	–	–	–	47,698
Disposals	–	–	–	(193)	(193)
<b>At 31 December 2004</b>	<b>150,187</b>	<b>350</b>	<b>807</b>	<b>5,935</b>	<b>157,279</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>5,622</b>	<b>9,741</b>	<b>306</b>	<b>1,037</b>	<b>16,706</b>
<b>At 31 December 2003</b>	<b>61,070</b>	<b>9,812</b>	<b>459</b>	<b>1,441</b>	<b>72,782</b>



# Notes to the Financial Statements *continued*

For the year ended 31 December 2004

## 10 Other Tangible Fixed Assets *continued*

	Land and buildings				
	Producing assets £'000	Freehold £'000	Long leasehold £'000	Plant, fixtures and equipment £'000	Total £'000
<b>Company:</b>					
<b>Cost or valuation:</b>					
At 1 January 2004	–	1,519	–	988	2,507
Additions	–	–	–	25	25
Disposals	–	–	–	(121)	(121)
<b>At 31 December 2004</b>	<b>–</b>	<b>1,519</b>	<b>–</b>	<b>892</b>	<b>2,411</b>
<b>Of which: At cost</b>	<b>–</b>	<b>1,519</b>	<b>–</b>	<b>892</b>	<b>2,411</b>
At valuation	–	–	–	–	–
	–	1,519	–	892	2,411
<b>Depreciation:</b>					
At 1 January 2004	–	60	–	627	687
Provided during the year	–	31	–	130	161
Disposals	–	–	–	(91)	(91)
<b>At 31 December 2004</b>	<b>–</b>	<b>91</b>	<b>–</b>	<b>666</b>	<b>757</b>
<b>Net book value:</b>					
At 31 December 2004	–	1,428	–	226	1,654
At 31 December 2003	–	1,459	–	361	1,820

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

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Historical cost:</b>				
At 31 December	5,631	5,631	–	–
<b>Depreciation:</b>				
At 31 December	662	577	–	–
	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Capital commitments:</b>				
Contracts placed for future capital expenditure not provided in the financial statements	–	1,600	–	–

## 11 Investments

	Other fixed asset investments £'000	Joint venture £'000	Associated undertakings £'000	Total £'000
<b>Group:</b>				
<b>Cost or valuation:</b>				
<b>At 1 January 2004</b>				
Goodwill	–	300	–	300
Net assets	287	1,005	26	1,318
	287	1,305	26	1,618
Revaluation	(41)	–	–	(41)
Written off	(17)	–	–	(17)
Disposals	(140)	–	–	(140)
Share of retained profit for the year	–	–	54	54
<b>At 31 December 2004</b>	<b>89</b>	<b>1,305</b>	<b>80</b>	<b>1,474</b>
<b>Goodwill</b>	<b>–</b>	<b>300</b>	<b>–</b>	<b>300</b>
<b>Net assets</b>	<b>89</b>	<b>1,005</b>	<b>80</b>	<b>1,174</b>
	89	1,305	80	1,474
<b>Amounts written off:</b>				
<b>At 1 January 2004</b>				
Goodwill	–	203	–	203
Net assets	185	–	–	185
	185	203	–	388
Amortisation of goodwill	–	30	–	30
Disposal	(98)	–	–	(98)
<b>At 31 December 2004</b>	<b>87</b>	<b>233</b>	<b>–</b>	<b>320</b>
<b>Goodwill</b>	<b>–</b>	<b>233</b>	<b>–</b>	<b>233</b>
<b>Net assets</b>	<b>87</b>	<b>–</b>	<b>–</b>	<b>87</b>
	87	233	–	320
<b>Net book value:</b>				
<b>At 31 December 2004</b>				
Goodwill	–	67	–	67
Net assets	2	1,005	80	1,087
	2	1,072	80	1,154
<b>Net book value:</b>				
<b>At 31 December 2003</b>				
Goodwill	–	97	–	97
Net assets	102	1,005	26	1,133
	102	1,102	26	1,230

# Notes to the Financial Statements *continued*

For the year ended 31 December 2004

## 11 Investments *continued*

	Other fixed asset investments £'000	Subsidiary undertakings restated £'000
<b>Company:</b>		
<b>At 1 January 2004</b>	102	3,000
Revaluation	(41)	-
Written off	(17)	-
Disposals	(42)	-
<b>At 31 December 2004</b>	2	3,000

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

	2004 £'000	2003 £'000
<b>Share of:</b>		
Goodwill	67	97
Tangible fixed assets	1,412	1,571
Current assets	1,096	598
Liabilities due within one year	(1,252)	(888)
Provisions for liabilities and charges	(251)	(276)
	1,072	1,102

The Group's share of the undistributed retained earnings of its joint venture amounted to £655,000 at 31 December 2004 (2003: £655,000).

	2004 £'000	2003 £'000
<b>Share of results of joint venture:</b>		
<b>British Steel Ramco Pipeline Services Limited</b>		
Turnover	5,619	3,931
Profit before taxation	1,234	333
Group share 50%	617	166
Group share of profit after tax	431	131

The principal operating Group undertakings at 31 December 2004 are listed in note 27.

## 12 Stocks

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Consumables, equipment and stores	2,331	2,265	-	-

### 13 Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Amounts falling due within one year:</b>				
Trade debtors	2,175	3,581	-	15
Amounts owed by subsidiary undertakings	-	-	2,021	3,470
Amounts owed by associated undertakings*	981	1,781	-	-
Group relief receivable	-	-	-	219
Value added tax and other taxes	-	444	-	280
Other debtors	1,682	1,234	186	37
Prepayments	365	353	72	139
	<b>5,203</b>	<b>7,393</b>	<b>2,279</b>	<b>4,160</b>

\*All trading balances.

### 14 Creditors – Amounts Falling Due Within One Year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Amounts falling due within one year:</b>				
Bank loan (note 15)	19,675	10,000	-	-
Trade creditors	1,135	2,899	400	557
Amounts owed to subsidiary undertakings	-	-	-	1
Corporation tax	374	358	-	-
Other taxes and social security	439	226	173	82
Accruals	3,102	14,217	187	167
Other creditors	83	370	-	-
	<b>24,808</b>	<b>28,070</b>	<b>760</b>	<b>807</b>

Corporation tax includes overseas tax payable.

### 15 Creditors – Amounts Falling Due After More Than One Year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Amounts falling due after more than one year:</b>				
Bank loans				
Main & mezzanine	68,415	60,055	-	-
Unpaid gas price hedge	2,343	-	-	-
Unpaid interest on loan	2,329	-	-	-
	<b>73,087</b>	<b>60,055</b>	<b>-</b>	<b>-</b>
Less: Impairment borne by finance provider	(53,412)	-	-	-
	<b>19,675</b>	<b>60,055</b>	<b>-</b>	<b>-</b>
<b>Amounts falling due within one year</b>	<b>(19,675)</b>	<b>(10,000)</b>	<b>-</b>	<b>-</b>
	<b>-</b>	<b>50,055</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements *continued*

For the year ended 31 December 2004

### 15 Creditors – Amounts Falling Due After More Than One Year *continued*

This relates to a £68.6 million project finance facility arranged for the Seven Heads gas field development which is due to be repaid in six monthly instalments. Full repayment is due by 30 June 2009. The first instalment of £5.0 million fell due on 30 June 2004. The net cash generated from the field was insufficient to meet this repayment. The Company announced on 20 June 2005 that it had reached agreement with its Bankers regarding these matters. Under the terms of this agreement, the Group's Bankers have granted waivers in respect of arrears of capital and interest and breach of financial covenants until the earlier of (a) 31 December 2005 and (b) the later of (i) the formal conclusion of the sale of the business and assets of ROSL and (ii) the formal conclusion of the sale of the business and assets of, and/or the interest of Ramco and its subsidiaries in, RSHL and NEL. As a result of this agreement all of the outstanding debt has been reclassified as due within one year.

The amount of £53.4 million provided above represents an adjustment to bring the non-recourse element of the loan creditor in line with the net present value of future cash flows expected from the gas field in accordance with the Statement of Recommended Practice Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities.

Details of borrowings entered into are as follows:

#### **Project Finance – Seven Heads Gas Field**

The Group's interest in the gas field is held by two wholly owned subsidiaries, Ramco Seven Heads Limited (RSHL) and Northern Exploration Limited (NEL). RSHL entered into two facility agreements during 2003 to finance the development.

##### **(i) Senior facility agreement**

On 3 April 2003 RSHL entered into a £60 million facility agreement (the senior facility) which was drawn down in full between April and August 2003. The senior facility comprises a borrowing base amount of £48 million and an Oil Services Guaranteed Balance (OSGB) of £12 million. The principal terms of this facility are as follows:

Repayments were due to start in six monthly instalments commencing on 30 June 2004 with full repayment due by 30 June 2009. Due to the poor performance of the gas field no repayments have been made to date.

Interest is calculated daily at a rate equal to LIBOR/EURIBOR plus 1.75% and is payable six monthly in arrears.

##### **(ii) Mezzanine facility agreement**

On 15 May 2003 RSHL entered into an £8.6 million facility agreement (the mezzanine facility) which was drawn down in full on 5 January 2004. The principal terms of facility are as follows:

Repayment is due in six monthly instalments commencing after full repayment of the senior facility.

Interest is calculated daily at a rate equal to six monthly sterling LIBOR plus 6.0% and is payable six monthly in arrears.

A royalty is payable on a sliding scale from 1.125% to 3.375% of gross revenues once gross field production of 15.3 bcf per annum is achieved. Due to the poor performance of the gas field the royalty payments have not been triggered.

##### **(iii) Unpaid interest rate and gas price hedges**

During the year hedge payments fell due but were unpaid totalling £4.7 million. These amounts have been added to the principal loan.

**15 Creditors – Amounts Falling Due After More Than One Year** *continued*

**Security**

*Senior facility borrowing base amount and mezzanine facility*

First ranking UK and Irish debentures over the Principal Project Contracts, other than the Licence.

First ranking pledge over the shares of RSHL and first ranking memorandum of deposit over the shares of NEL.

First ranking assignment of the Insurances.

Direct agreements between the lenders and Marathon Oil Ireland Limited, and the lenders and the Irish Petroleum Affairs Division of the Department of Marine Communications and Natural Resources.

**OSGB**

First ranking pledge over the shares in Ramco Oil Services Limited (ROSL).

**Financial covenants**

*Senior facility*

Negative pledges by RSHL, NEL and ROSL in relation to granting security over assets and disposal of assets.

RSHL, NEL and ROSL undertake not to enter into corporate reconstructions or change substantially the nature of their businesses.

RSHL to effect and maintain a hedging programme specified by the lenders.

RSHL to open and maintain specified bank accounts in accordance with the provisions of the facility agreement as long as amounts remain payable under the facility agreement.

Debt Service cover ratio shall not be less than 1.15 to 1.

**OSGB**

ROSL covenants to be tested on a quarterly basis:

Net assets shall not at any time be less than £9 million.

A minimum cash position of £500,000 be maintained.

Ratio of trade debtors to trade creditors shall not at any time be less than 1.25 to 1.

EBITDA ratio shall not exceed 5 to 1, except in specified circumstances. This covenant was breached, the breach has been waived by the Group's Bankers.

*Mezzanine facility*

The covenants are the same as those for the senior facility except that there are no covenants in respect of ROSL or the OSGB.

# Notes to the Financial Statements *continued*

For the year ended 31 December 2004

## 16 Provision for Liabilities and Charges

	Legal fees £'000	Decom- missioning provision £'000	Vacant properties £'000	Deferred tax £'000	Total £'000
<b>Group</b>					
At 1 January 2004	559	4,540	38	329	5,466
Provided in the year	–	317	–	–	317
Utilised/released to the profit and loss account	(217)	–	–	(292)	(509)
<b>At 31 December 2004</b>	<b>342</b>	<b>4,857</b>	<b>38</b>	<b>37</b>	<b>5,274</b>

	Legal fees £'000	Decom- missioning provision £'000	Vacant properties £'000	Deferred tax £'000	Total £'000
<b>Company</b>					
At 1 January 2004 and 31 December 2004	–	–	38	–	38

### Legal fees

The legal fee provision of £342,000 (2003: £559,000) relates to the estimated cost of pursuing the appeal process in relation to the legal case described in note 26.

### Decommissioning

The decommissioning provision of £4.9 million (2003: £4.5 million) relates to producing wells in the Seven Heads gas field. The provision has been estimated using existing technology at current prices escalated at 2.5% and discounted at 7%. Decommissioning costs are expected to be incurred in 2009.

### Vacant properties

The Group has one vacant leasehold property. Provision has been made for residual lease commitments, together with outgoing, after taking into account existing and anticipated sub-tenant arrangements.

### Deferred taxation

Deferred taxation is provided in the financial statements as follows:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Capital allowances in advance of depreciation	37	329	–	–
Provision at 1 January	329	3,097	–	4
Deferred tax charge in profit and loss account for year	(292)	(2,768)	–	(4)
Provision at 31 December	37	329	–	–

## 16 Provision for Liabilities and Charges *continued*

The unprovided asset for deferred taxation is as follows:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Capital allowances in advance of depreciation	(30,269)	(28,196)	(71)	(18)
Capital gains tax held over on deferred gains	27,779	27,779	-	-
Short term timing differences	(1,560)	(26)	-	-
Unrelieved losses	(9,855)	(12,822)	(812)	(682)
Unrelieved capital losses	(668)	(800)	-	(132)
	(14,573)	(14,065)	(883)	(832)

No tax liability is expected to arise on the disposal, at valuation, of the Group's land and buildings

## 17 Share Capital

	2004 £'000	2003 £'000
<b>Authorised:</b>		
40,000,000 (2003: 40,000,000) ordinary shares of 10p each	4,000	4,000
<b>Allotted, called up and fully paid:</b>		
30,144,713 (2003: 30,144,713) ordinary shares of 10p each	3,014	3,014

During the period from 1 January 2004 to 31 December 2004 no new ordinary shares of 10p each were issued.

Between 1 January 2005 and 7 June 2005 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.

	2004		2003	
	Pence per share		Pence per share	
	High	Low	High	Low
First quarter	400.0	31.0	262.5	220.0
Second quarter	63.5	29.0	317.0	220.0
Third quarter	57.0	21.5	415.0	312.5
Fourth quarter	35.0	21.5	377.5	307.5



# Notes to the Financial Statements *continued*

For the year ended 31 December 2004

## 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 2004 the following options were outstanding:

Option price	2004	2003	Exercisable at 31 Dec 2004	Remaining contractual life	Normal exercise dates	Target variable	Target
595p	30,000	30,000	30,000	1.4 years	10/5/99 – 9/5/06	EPS	> RPI
755p	98,400	98,400	98,400	1.9 years	7/11/99 – 6/11/06	EPS	> RPI
1095p	2,000	2,000	2,000	2.2 years	25/2/00 – 24/2/07	EPS	> RPI
1095p	2,500	2,500	2,500	2.2 years	19/3/00 – 18/3/07	EPS	> RPI
675p	247,000	247,000	247,000	3.3 years	30/4/01 – 29/4/08	EPS	> RPI
675p	51,500	51,500	51,500	3.3 years	5/5/01 – 4/5/08	EPS	> RPI
395p	10,200	10,200	10,200	4.5 years	17/7/02 – 16/7/09	TSR	> RPI+5% p.a.
395p	47,800	52,300	47,800	4.5 years	17/7/04 – 16/7/09	TSR	> RPI+10% p.a.
347.5p	181,675	187,265	–	6.4 years	11/5/04 – 10/5/11	TSR	(2)
347.5p	300,825	308,235	–	6.4 years	11/5/06 – 10/5/11	TSR	(1)
335p	16,200	17,280	–	6.9 years	2/11/04 – 1/10/11	TSR	(2)
335p	28,800	30,720	–	6.9 years	2/11/06 – 1/10/11	TSR	(1)
335p	15,300	15,300	–	7.4 years	5/6/05 – 4/6/12	TSR	(2)
335p	3,200	3,200	–	7.4 years	5/6/07 – 4/6/12	TSR	(1)
222.5p	900	900	–	7.8 years	11/10/05 – 10/10/12	TSR	(2)
222.5p	25,600	25,600	–	7.8 years	11/10/07 – 10/10/12	TSR	(1)
350p	29,340	33,480	–	8.8 years	14/10/06 – 13/10/13	TSR	(2)
350p	52,160	59,520	–	8.8 years	14/10/08 – 13/10/13	TSR	(1)
	<b>1,143,400</b>	<b>1,175,400</b>	<b>489,400</b>				

(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.

## 18 Share Options *continued*

Details of the Directors' options which are included in the above figures are shown in the Remuneration Report on pages 18 to 21.

	2004		2003	
	Shares	Weighted average Exercise price	Shares	Weighted average Exercise price
Options outstanding at 1 January	1,175,400	473p	1,143,900	478p
Options exercised	-	-	(27,000)	125p
Options granted	-	-	93,000	350p
Options cancelled	(32,000)	354p	(34,500)	581p
Options outstanding at 31 December	1,143,400	476p	1,175,400	473p
Options available for grant 31 December	319,341		222,841	
Options exercisable at 31 December	489,400	657p	431,400	692p
Option price range				
At 31 December		222.5p to 1095p		222.5p to 1095p
For exercised options		-		125p

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
<b>Group:</b>				
At 1 January 2004	68,576	810	(37)	(64,461)
Exchange difference on retranslation	-	-	16	-
Movement on revaluation	-	(41)	-	-
Loss for the financial year	-	-	-	(3,377)
Amortisation of deferred gain on asset sold to joint venture	-	(17)	-	-
<b>At 31 December 2004</b>	<b>68,576</b>	<b>752</b>	<b>(21)</b>	<b>(67,838)</b>

Other reserves comprise an exchange loss on retranslation.

Included in the profit and loss account above is £79,000 (2003: £5,000) representing the retained earnings of the Group's associated undertakings and £655,000 (2003: £655,000) for the Group's joint venture.

	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit & loss account £'000
<b>Company:</b>				
At 1 January 2004	68,576	41	-	(61,269)
Movement on revaluation	-	(41)	-	-
Loss for the year	-	-	-	(4,065)
<b>At 31 December 2004</b>	<b>68,576</b>	<b>-</b>	<b>-</b>	<b>(65,334)</b>

## Notes to the Financial Statements *continued*

For the year ended 31 December 2004

### 20 Movement in Shareholders' Funds

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Loss for the financial year	(3,377)	(76,691)	(4,065)	(53,712)
Other recognised gains and losses relating to the year	16	(35)	–	–
Issue of ordinary share capital	–	12,560	–	12,560
Movement in revaluation	(41)	41	(41)	41
Amortisation of deferred gain on asset sold to joint venture	(17)	(18)	–	–
Net change in shareholders' funds	(3,419)	(64,143)	(4,106)	(41,111)
Shareholders' funds at 1 January	7,902	72,045	10,362	51,473
Shareholders' funds at 31 December	4,483	7,902	6,256	10,362

### 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 £347,000 (2003: £333,000). Contributions totalling £nil (2003: £nil) 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 18 to 21.

### 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, cash and term loan facilities whose main purpose is to finance the Group's operations. The Group has other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations. The Group treasury department monitors the availability of and requirement for funds in the Group. Surplus cash within the Group is put out on deposit in accordance with limits and counterparties agreed by the Board, the objective being to maximise returns on funds whilst ensuring that the short term cash flow requirements of the Group are met.

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

#### Financial instruments held for trading purposes

The Group does not undertake any trading activity in financial instruments.

## 22 Derivatives and Other Financial Instruments *continued*

### **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**

Commercial production of gas from the Seven Heads development started in December 2003. As a requirement of the project finance the Group was required to put in place a hedge against fluctuations in the price of natural gas. The hedges in place cover 225,000 therms per day, and cover the period from 1 January 2004 to 31 December 2006. The price has been fixed at the following rates:

2004	£0.1961 per therm
2005	£0.1930 per therm
2006	£0.1905 per therm

### **Foreign currency risk**

Although the Group reports in Sterling, elements of its business are conducted in US Dollars and Euros. The Group manages these, 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 the Group is currently used to meet the US Dollar costs of the Oil and Gas division.

The loan facility with the Group's Bankers included a draw down in Euros which is intended to hedge against the fluctuations in the Euro. The amount hedged was originally planned to be approximately the gas sales debtor for one month.

Exchange rates are monitored in conjunction with forecast currency requirements by Group treasury. Currency exposures are shown on page 50.

### **Liquidity/interest rate risk**

In 2003 the Group agreed a loan facility with the Group's Bankers for £60 million to finance the Seven Heads development. This loan was drawn down between April 2003 and August 2003 as project funds were required. The loan agreement stated that 50% of the interest rate exposure must be hedged. As a result of this, two separate interest rate hedge agreements were put in place for £14 million and £16 million (reducing to £12.8 million and £14.7 million at 30 June 2004 and £11.7 million and £13.3 million at 31 December 2004). The interest periods for these hedges run to 30 June and 31 December.

<b>Amount</b>	<b>Effective date</b>	<b>Termination date</b>	<b>Fixed rate of interest</b>
£11.7 million (2003: £14 million)	23 Apr 03	24 Apr 06	4.03%
£13.3 million (2003: £16 million)	12 Sep 03	30 Jun 09	4.53%

Board approval is required for all new borrowing facilities. Details of interest rate profiles are shown on the following page.

## Notes to the Financial Statements *continued*

For the year ended 31 December 2004

### 22 Derivatives and Other Financial Instruments *continued*

#### (a) Interest rate risk profile of financial assets

The interest rate risk profile of financial assets of the Group at 31 December 2004 is as follows:

Currency	Floating rate financial assets £'000	Financial assets on which no interest is earned £'000	Total £'000
Sterling	2,600	5	2,605
US Dollar	106	31	137
Euro	24	—	24
Norwegian Kroner	485	3	488
Other	9	2	11
	3,224	41	3,265

The interest rate risk profile of financial assets of the Group at 31 December 2003 was as follows:

Currency	Floating rate financial assets £'000	Financial assets on which no interest is earned £'000	Total £'000
Sterling	2,666	5	2,671
US Dollar	193	159	352
Euro	7	—	7
Norwegian Kroner	238	2	240
Other	15	2	17
	3,119	168	3,287

Financial assets include cash, deposits and investments.

## 22 Derivatives and Other Financial Instruments *continued*

### Interest rate risk profile of financial liabilities

After taking into account the interest rate swaps the interest rate risk profile of financial liabilities of the Group at 31 December 2004 is as follows:

Currency	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Total £'000	Weighted average fixed rate interest rate %	Weighted average period for which rate is fixed Years
Sterling	25,000	46,215	71,215	4.3%	3.1 years
Euro	–	1,872	1,872	–	–
	25,000	48,087	73,087	4.3%	3.1 years

Provisions have been made against these financial liabilities as shown in note 15.

After taking into account the interest rate swaps the interest rate risk profile of financial liabilities of the Group at 31 December 2003 was as follows:

Currency	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Total £'000	Weighted average fixed rate interest rate %	Weighted average period for which rate is fixed Years
Sterling	30,000	27,942	57,942	4.3%	4.1 years
Euro	–	2,113	2,113	–	–
	30,000	30,055	60,055	4.3%	4.1 years

Floating rate financial liabilities bear interest rates based on LIBOR/EURIBOR.

### Maturity profile

The maturity profile of the Group's financial liabilities at 31 December was as follows:

	2004 £'000	2003 £'000
In one year or less, or on demand	19,675	10,000
In more than one year but not more than two years	–	16,000
In more than two years but not more than five years	–	34,055
	19,675	60,055

# Notes to the Financial Statements *continued*

For the year ended 31 December 2004

## 22 Derivatives and Other Financial Instruments *continued*

### (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 2004, currency exposures are as follows:

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)			
	Euro £'000	US Dollars £'000	Other £'000	Total £'000
Sterling	(1,849)	108	499	(1,242)
Norwegian Kroner	–	29	–	29
	(1,849)	137	499	(1,213)

Foreign exchange losses totalling £103,000 (2003: £686,000) have been recognised in the profit and loss account for the year.

At 31 December 2003, currency exposures were as follows:

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)			
	Euro £'000	US Dollars £'000	Other £'000	Total £'000
Sterling	(2,105)	195	256	(1,654)
Norwegian Kroner	–	158	–	158
	(2,105)	353	256	(1,496)

### (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 2004. Set out below the table is a summary of the methods and assumptions used for each category of instrument.

	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Primary financial instruments</b>				
Cash	3,265	3,265	3,287	3,287
Short term borrowings	(19,675)	(19,675)	(10,000)	(10,000)
Long term borrowings	–	–	(50,055)	(50,055)
Other financial liabilities	(5,237)	(5,237)	(5,137)	(5,137)
<b>Derivative financial instruments held to manage risk</b>				
Interest rate swaps	–	184	–	262
Gas price swaps	–	(20,928)	–	(10,772)
	(21,647)	(42,391)	(61,905)	(72,415)

## 22 Derivatives and Other Financial Instruments *continued*

### Summary of methods and assumptions

#### Interest rate swaps

The fair value of interest rate swaps have been determined by reference to prices available from the markets on which the instrument involved is traded. The interest rate swaps operate in six monthly periods ending on 30 June and 31 December.

#### Gas price swaps

The fair value of gas price swaps have been determined by reference to prices available from the markets on which the instrument involved is traded. The gas price swaps are settled on a monthly basis.

#### Short term loan, deposits and cash

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

#### Long term borrowing

Fair values approximate to the carrying value as the majority are floating rates where payments are reset to market rates at intervals of less than one year.

### (d) Hedges

The table below shows the extent to which the Group has off-balance sheet (unrecognised) and on-balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

	<b>Gains</b>	<b>2004</b>	<b>Total</b>	<b>Gains</b>	<b>2003</b>	<b>Total</b>
	<b>£'000</b>	<b>Losses</b>	<b>£'000</b>	<b>£'000</b>	<b>Losses</b>	<b>£'000</b>
		<b>£'000</b>			<b>£'000</b>	
Gains or losses on hedges at the beginning of the year	262	(10,772)	(10,510)	–	–	–
Gains or losses arising in previous years that were recognised in the year	(84)	4,994	4,910	–	–	–
Total – Gains or losses arising in the previous years that were not recognised in the year	178	(5,778)	(5,600)	–	–	–
Gains or losses arising in the year that were not recognised in the year	6	(15,150)	(15,144)	262	(10,772)	(10,510)
Unrecognised gains or losses on hedges at the end of the year	184	(20,928)	(20,744)	262	(10,772)	(10,510)
Of which:						
Gains or losses expected within one year	184	(9,038)	(8,854)	262	(3,590)	(3,328)
Gains or losses expected after more than one year	–	(11,890)	(11,890)	–	(7,182)	(7,182)

There are no deferred gains or losses in respect of financial instruments.



## Notes to the Financial Statements *continued*

For the year ended 31 December 2004

### 23 Other Financial Commitments

	2004		2003	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
<b>Group:</b>				
Operating leases which expire:				
Within one year	147	8	96	9
In the second to fifth years inclusive	-	15	49	8
	147	23	145	17

Leases of land and buildings are subject to period 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 2004 would have been £1,000. N S Cumming received £1,000 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 undertook consultancy including international travel on behalf of the Group. In the year to 31 December 2004 he received no fees from the Group (2003: £20,000).

In addition to his Board fees as a Non-Executive Director, V Lall undertook consultancy on behalf of the Group. In the year to 31 December 2004 he received fees from the Group totalling £3,000 (2003: nil).

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 (2003: £8,000). The amount owed by BSR for these services and other expenditures at the end of the year was £188,000 (2003: £186,000). In addition, sales of £2.0 million (2003: £2.3 million) were made to Badentoy Tubular Services Limited ("BTS"), an associated undertaking. The amount owed at the end of the year by BTS was £537,000 (2003: £1.1 million).

## 25 Notes to the Consolidated Cash Flow Statement

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

	2004 £'000	2003 £'000
Operating profit/(loss)	598	(105,055)
Amounts written off in respect of intangible oil and gas assets	–	959
Amortisation of goodwill	30	30
Depreciation of tangible fixed assets	9,637	1,380
Loss on sale of tangible fixed assets	37	–
Amortisation of deferred gain on asset sold to joint venture	(18)	(18)
Increase in stocks	(66)	(1,823)
Decrease in debtors	2,448	20,357
Decrease in creditors	(2,446)	(5,251)
Increase in other provisions	100	547
Impairment provision	47,698	92,969
Unpaid gas price hedges added to loan	2,343	–
Impairment borne by finance provider	(53,412)	–
Provision against investments	–	34
Exchange difference on retranslation	(221)	48
<b>Net cash inflow from operating activities</b>	<b>6,728</b>	<b>4,177</b>

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

	2004 £'000	2003 £'000
Decrease in cash in the year	(22)	(6,538)
Cash inflow from increase in debt	(8,600)	(60,000)
Revaluation of bank loan – exchange difference	240	(55)
Impairment borne by finance provider	53,412	–
Unpaid gas price hedge and interest on loan	(4,672)	–
Cash inflow from (decrease)/increase in liquid resources	–	(14,184)
<b>Change in net funds/(debt) resulting from cash flows</b>	<b>40,358</b>	<b>(80,777)</b>
<b>Net (debt)/funds at start of year</b>		
Cash at bank and in hand	3,287	9,825
Short term deposits	–	14,184
Debts due within one year	(10,000)	–
Debts due after one year	(50,055)	–
	(56,768)	24,009
<b>Net debt at the end of the year</b>	<b>(16,410)</b>	<b>(56,768)</b>
<b>Represented by:</b>		
Cash at bank and in hand	3,265	3,287
Debts due within one year	(19,675)	(10,000)
Debts due after one year	–	(50,055)
	(16,410)	(56,768)

Liquid resources represent short term deposits not qualifying as cash.

# Notes to the Financial Statements *continued*

For the year ended 31 December 2004

## 25 Notes to the Consolidated Cash Flow Statement *continued*

### (e) Analysis of net (debt)/funds

	At 1 January 2004 £'000	Unpaid gas price hedges £'000	Unpaid interest on loan £'000	Impairment borne by finance provider £'000	Reclassi- fication £'000	Exchange £'000	Cash £'000	At 31 December 2004 £'000
Cash at bank and in hand	3,287	-	-	-	-	-	(22)	3,265
Debt due within one year	(10,000)	-	-	-	(9,675)	-	-	(19,675)
Debt due after one year	(50,055)	(2,343)	(2,329)	53,412	9,675	240	(8,600)	-
	(56,768)	(2,343)	(2,329)	53,412	-	240	(8,622)	(16,410)

## 26 Litigation

Following a jury verdict in October 2003, the Texas State Court issued a final judgement against Ramco Energy plc, Ramco Oil Limited and certain other defendants in a case alleging breach of contract arising from confidentiality and non-circumvention obligations. These obligations had been undertaken while Ramco was considering investment in an oilfield development project in Kazakhstan which Ramco subsequently decided not to pursue.

The principal elements of the judgement issued by the trial judge on 1 April 2004 were an award against Ramco for past and future damages of \$6.4 million plus interest and legal fees of \$9.8 million. The award of legal fees was made jointly and severally against Ramco and its co-defendant Halliburton. The plaintiff subsequently agreed settlement terms with Halliburton which has been dismissed from the case.

The appeal and related proceedings arising from the judgement awarded to Anglo Dutch in the Texas State Court continue. The appeal and the plaintiff's cross-appeal, to the Fourteenth Texas Court of Appeals were heard in Houston on 26 April 2005 and the court's decision is awaited. This process may be followed by a further appeal by either party to the Texas Supreme Court. Proceedings raised by Anglo Dutch in the Court of Session, Edinburgh, with a view to enforcing the Texas judgement in Scotland, have been suspended pending the review by the Texas Court of Appeals of an order fixing the amount of a bond which, if lodged by Ramco in Houston, would suspend any enforcement. However, before that process was suspended the plaintiff served arrestments in Scotland, freezing approximately \$200,000 of cash.

Because of the uncertainty surrounding the range of possible outcomes, the Directors consider it is not possible to make a reliable estimate of the likely outcome of the appeal process beyond providing an estimate of the legal costs of pursuing the appeals, and accordingly a provision of \$1 million (£559,000) was made in 2003. £217,000 was utilised during 2004 leaving a remaining provision of £342,000.

## 27 Group Undertakings

	Country of registration	Class of shares	Proportion held	Nature of business
<b>(a) Principal operating subsidiary undertakings at 31 December 2004:</b>				
<b>Oil and Gas division</b>				
Ramco Oil & Gas Limited	Scotland	Ordinary	100%	Oil and gas projects
Ramco Oil Limited	Scotland	Ordinary	100%	Oil and gas projects
Ramco Eastern Europe Limited	Scotland	Ordinary	100%	Holding company
Ramco Hazar Energy Limited (1)	Scotland	Ordinary	100%	Oil and gas projects
Medusa Oil & Gas Limited	England	Ordinary	100%	Oil and gas projects
Medusa Oil & Gas (Europe) B.V. (4)	Netherlands	Ordinary	100%	Oil and gas projects
Ramco Seven Heads Limited (5)	Scotland	Ordinary	100%	Oil and gas projects
Northern Exploration Limited (1)	Ireland	Ordinary	100%	Oil and gas projects
Medusa Montenegro Limited (5)	Scotland	Ordinary	100%	Oil and gas projects
Ramco Oil & Gas B.V. (1)	Netherlands	Ordinary	100%	Oil and gas projects
Ramco Donegal Limited (6)	Ireland	Ordinary	100%	Oil and gas projects
<b>Oil Services division</b>				
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 2004:**

Badentoy Tubular Services Limited (2)	Scotland	Ordinary	33.3%	Tubular services
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### **(c) Joint venture at 31 December 2004:**

British Steel Ramco Pipeline Services Limited (2)	England	Ordinary	50%	Pipeline coating
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- (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 Ramco Oil & Gas B.V.
- (6) Shares held by Ramco Eastern Europe Limited

## 28 Contingent Liability

- (a) Ramco Energy plc granted a parent company guarantee in respect of its wholly owned subsidiary Medusa Oil and Gas Limited (Medusa) to Jugopetrol A.D. Kotor (JPK) on 11 February 2003. The guarantee covers the obligations of Medusa arising from an agreement with JPK to carry out a specified work programme in connection with their interests in Montenegro. In February 2005 Ramco and Hellenic, JPK's parent company, restructured their relationship in Montenegro. One outcome of the restructuring is that, once approved by the Montenegro government, this guarantee will be released.
- (b) Ramco Energy plc, on behalf of the Seven Heads co-venturers, has entered into an agreement with Bord Gáis Éireann ("BGE") to underwrite a proportion of the costs incurred by BGE in relation to the upgrade and refurbishment of the Midleton gas compressor station. The maximum liability under this agreement is €6 million but is reduced annually each October according to the amount of tariff revenue received by BGE from shippers of Seven Heads gas. Ramco have assessed their worst case liability at €5.0 million. The net present value of this liability is €2.8 million. In light of the expectation that the Seven Heads gas field will continue to produce gas for several more years no provision is currently considered necessary.

## Notes to the Financial Statements *continued*

For the year ended 31 December 2004

### 29 Post Balance Sheet Events

- a) In January 2005 Ramco Bulgaria Limited (RBL) agreed a farm out over its interest in the A-Lovech acreage onshore Bulgaria. Chimimport JSC, a Bulgarian company with a subsidiary specialising in seismic acquisition will earn 9% of RBL's interest in the acreage by completing a 570 sq km 3D Seismic survey, leaving RBL with an 11% interest.
- b) In January 2005 Ramco Donegal Limited ("RDL"), along with partners, was granted a Frontier Exploration Licence over 101,000 acres around 70km from the north west coast of Ireland. Subsequently, Island Oil and Gas plc and Petroceltic International plc agreed to farm in to the exploration licence by carrying dry hole and testing costs of an exploration well for RDL. Farm in agreements have been signed, and a Joint Operating Agreement is currently being drafted.
- c) In February 2005 Medusa (Montenegro) Limited and Medusa Oil & Gas Limited reached an agreement with Hellenic Petroleum SA ("Hellenic") to restructure their exploration interests in Montenegro. Through these subsidiaries Ramco held a 40% interest in three blocks in the Adriatic Sea and had undertaken certain obligations to fund an exploration well and other technical work. In the event that this drilling commitment was not concluded by 15 February 2005 Ramco would have been liable to pay a \$3.0 million penalty to its partner Jugopetrol A.D. Kotor. Under the terms of the restructuring agreement Ramco have agreed to exchange their interests in all three blocks in return for Hellenic to undertake Ramco's obligations in relation to the blocks. Following the drilling of an exploration well on the acreage, Ramco will have 120 days to elect to rejoin the acreage with an interest of up to 15% in all of the blocks. Ramco's past costs in Montenegro will be taken into consideration in the calculation of the exercise price for the interest in the event that Ramco elect to exercise the back in option. Formal Government ratification of the deal with Hellenic has not yet been received.
- d) In June 2005 the Company completed the placing of 3,000,000 new ordinary shares of 10p each at an issue price of 34p per share. The placing raised £1 million net of expenses.

## Five Year Record

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Group turnover	36,933	20,832	16,809	14,741	14,470
Cost of sales	(40,525)	(24,249)	(23,560)	(33,586)	(34,919)
Exceptional items	5,714	(99,174)	–	–	–
Gross profit/(loss)	2,122	(102,591)	(6,751)	(18,845)	(20,449)
Administrative expenses	(1,421)	(1,778)	(1,430)	(1,644)	(1,616)
(Loss)/gain on exchange	(103)	(686)	(2,750)	2,277	249
Group operating profit/(loss)	598	(105,055)	(10,931)	(18,212)	(21,816)
Income from interests in joint venture	617	166	18	188	701
Income/(loss) from interests in associates	64	53	(52)	11	5
Exceptional item – gain on disposal of oil and gas interest	–	–	–	3,448	88,792
Profit/(loss) before investment income, interest and taxation	1,279	(104,836)	(10,965)	(14,565)	67,682
Investment income	–	3	–	–	361
Net interest (payable)/receivable	(4,565)	738	1,765	3,759	628
Taxation	(91)	27,404	(142)	(1,148)	(27,860)
(Loss)/profit for the financial year	(3,377)	(76,691)	(9,342)	(11,954)	40,811
(Loss)/earnings per share	(11.2)p	(278.2)p	(35.9)p	(46.2)p	157.3p
Weighted average number of shares used to compute (loss)/earnings per share	30,144,713	27,570,483	26,037,656	25,861,480	25,939,403

## Advisers

### Secretary

Christopher Moar MA CA

### Registered Office

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Aberdeen AB15 4YE  
Registered in Scotland number 62845

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### Website

[www.ramco-plc.com](http://www.ramco-plc.com)

## Notice of Annual General Meeting

Notice is hereby given that the 27th Annual General Meeting of the members of Ramco Energy plc will be held at The Treetops Hotel, Springfield Road, Aberdeen on Tuesday 9 August 2005 at 12.30 p.m. to conduct the following business:

1. To receive the Report of the Directors, the financial statements for the year ended 31 December 2004 and the Auditors' Report thereon.
2. To consider the re-election of D Paterson, who has been appointed to the Board since the last Annual General Meeting and being eligible offers himself for re-election as a Director.
3. To consider the re-election of M Hay, who has been appointed to the Board since the last Annual General Meeting and being eligible offers himself for re-election as a Director.
4. To consider the re-election of S R Bertram, who retires by rotation and being eligible offers himself for re-election as a Director.
5. To consider the re-election of N S Cumming, who retires by rotation and being eligible offers himself for re-election as a Director.
6. That PricewaterhouseCoopers LLP be reappointed Auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors.
7. As special business to consider the following Resolution as an Ordinary Resolution:  
That in accordance with Article 19 of the Articles of Association of the Company, the Directors be and they are hereby authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to allot relevant securities (as defined in the said Section 80) up to the amount of the sum equal to 1/3 of the issued share capital of the Company as at the date hereof, provided that such authority shall expire at the conclusion of the next Annual General Meeting of the Company, except that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry.
8. As special business to consider the following Resolution as a Special Resolution:  
That in accordance with Article 20 of the Articles of Association of the Company, the Directors be and they are hereby empowered pursuant to and in accordance with Section 95 of the Companies Act 1985 (the "Act"), to allot equity securities (as defined in Section 94 of the Act) for cash as if sub-section 89(1) of the Act did not apply to the allotment of equity securities pursuant to the provisions of that Article, provided that:
  - (i) for the purpose of paragraph (c) of that Article the nominal amount shall not exceed £331,000; and
  - (ii) this power shall expire on the conclusion of the next Annual General Meeting of the Company except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after its expiry.
9. As special business to consider the following Resolution as a Special Resolution:  
That in accordance with Article 20 of the Article of Association of the Company, the Directors be and they are hereby empowered pursuant to and in accordance with Section 95 of the Companies Act 1985 (the "Act"), to allot equity securities (as defined in Section 94 of the Act) for cash as if Sub-section 89(1) of the Act did not apply to the allotment of equity securities pursuant to the provisions of that Article, provided that:
  - (i) for the purpose of paragraph (c) of that Article the nominal amount shall not exceed £300,000; and
  - (ii) this power shall expire on the conclusion of the next Annual General Meeting of the Company except that the Company may before such an expiry make an offer or agreement which would or might require equity securities to be allotted after its expiry.



10. As special business to consider the following Resolution as a Special Resolution:  
That the Company be and is hereby authorised to purchase for cancellation its own ordinary shares by way of market purchase, provided that:
- (a) the maximum number of ordinary shares hereby authorised to be acquired is 3,314,000 ordinary shares of 10p each being approximately 10% of the issued share capital; .
  - (b) the maximum price which may be paid for such shares is 105% of the average of the middle market quotations derived from the Daily Official List of The London Stock Exchange for the five business days preceding the date of purchase and the minimum price is 10p per share being the nominal value thereof, in both cases exclusive of expenses; and
  - (c) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company.

By order of the Board  
C G Moar  
Company Secretary  
62 Queen's Road, Aberdeen AB15 4YE  
30 June 2005

Every member entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies, who need not be a member of the Company, to attend and on a poll, vote instead of him or her. Return of the form of proxy will not prevent a member from attending and voting in person. To be effective, forms of proxy must be received by the Company's registrars, Capita Registrars, at least 48 hours before the meeting.

The Company, pursuant to regulation 34 of the Uncertificated Securities Regulations 1995 (as amended) specifies that only those shareholders registered in the register of members of the Company at 12.30 p.m. on 7 August 2005 shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

The following documents are available for inspection at the registered office of the Company on any weekday from the date of this notice until the date of meeting and will be available for inspection at the place of the Annual General Meeting for a period of fifteen minutes prior to the meeting until its conclusion.

A statement of all transactions of each Director and his family interest in the shares of the Company and copies of all service contracts of the Directors with the Company or any of its subsidiaries.

