

Ramco Hazar Energy Limited
Annual Report and financial statements
for the year ended 31 December 2003
Registered No:- 130698



Ramco Hazar Energy Limited

Annual Report and financial statements for the year ended 31 December 2003

	Pages
Directors and advisers	1
Directors' report	2 - 3
Report of the auditors	4 - 5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8 - 12

Directors and advisers

Directors

S E Remp
S R Bertram

Secretary and registered office

J A Christie
62 Queen's Road
Aberdeen
AB15 4YE

Auditors

PricewaterhouseCoopers LLP
32 Albyn Place
Aberdeen
AB10 1YL

Solicitors

Ledingham Chalmers
Johnstone House
52 – 54 Rose Street
Aberdeen
AB10 1HA

Directors' report for the year ended 31 December 2003

The directors present their report and the audited financial statements of the company for the year ended 31 December 2003.

Principal activities

The principal activity of the company is the development and production of hydrocarbons and provision of related consultancy.

Review of business and future developments

The profit and loss account for the year is set out on page 6.

The directors are reviewing new oil and gas opportunities.

Results, dividends and transfers to reserves

The loss for the year, after taxation, of £14,507 (2002: loss £845,138) will be deducted from reserves. The directors do not recommend the payment of a dividend (2002: £1,700,000).

Directors and their interests

The directors who served during the year were:

S E Remp
S R Bertram
P Everett (Resigned 28/01/03)

At 31 December 2003 none of the directors held a beneficial interest in the shares of the company. Their shareholdings in the ultimate parent company are disclosed in the annual report of that company.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. The directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

**Directors' report
for the year ended 31 December 2003 (continued)**

Directors' responsibilities (continued)

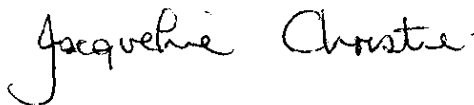
The directors confirm that suitable accounting policies have been used and applied consistently with the exception of any changes arising on the adoption of new accounting standards in the year. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

By order of the board

A handwritten signature in cursive script, reading "Jacqueline Christie".

**J A Christie
Secretary**

3 September 2004

Independent auditors' report to the members of Ramco Hazar Energy Limited

4

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law 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.

Basis of audit opinion

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

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

Independent auditors' report to the members of Ramco Hazar Energy Limited (continued)

5

Going concern – fundamental uncertainty

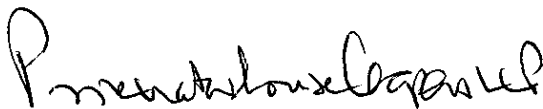
In forming our opinion, we have considered the adequacy of the disclosures set out in note 1 to the financial statements concerning the uncertainty surrounding the ongoing support from the parent company.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support of the parent company which is subject to certain uncertainties as described in note 1. If for any reason the assumptions described in note 1 proved to be invalid it is unlikely that the parent company could continue to provide support and consequently, the going concern basis of preparation may no longer be applicable and adjustments to the profit and loss account and balance sheet would be required to record additional liabilities and write down assets to their recoverable amounts.

Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
ABERDEEN

3 September 2004

**Profit and loss account
for the year ended 31 December 2003**

	Notes	2003 £	2002 £
Turnover		-	-
Cost of sales		-	(1,541)
Gross profit/(loss)		-	(1,541)
Other operating income		74,723	-
Administrative expenses		(28,141,766)	(96,505)
Loss on ordinary activities before interest and taxation		(28,067,043)	(98,046)
Interest receivable and similar income		25,430	913,209
Interest payable and similar charges	4	-	(1,651,751)
Loss on ordinary activities before taxation	2	(28,041,613)	(836,588)
Taxation on loss on ordinary activities	5	28,027,106	(8,550)
Loss for the year		(14,507)	(845,138)
Dividend payable		-	(1,700,000)
Retained loss for the year	10	(14,507)	(2,545,138)

All of the company's activities relate to continuing operations.

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

The company has no recognised gains or losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

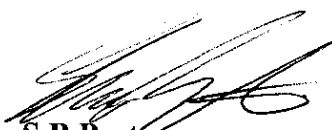
Ramco Hazar Energy Limited

7

Balance sheet at 31 December 2003

	Notes	2003 £	2002 £
Current assets			
Debtors	6	-	91,146,957
Cash at bank		-	5,267,337
		<u>-</u>	<u>96,414,294</u>
Creditors: amounts falling due within one year	7	(9,755)	(93,642,182)
Net current assets		(9,755)	2,772,112
Deferred taxation	8	-	(2,767,360)
Net (liabilities)/assets		(9,755)	4,752
Capital and reserves			
Called up share capital	9	2	2
Profit and loss account	10	(9,757)	4,750
Equity shareholders' funds – (deficit)/surplus	11	(9,755)	4,752

The financial statements on pages 6 to 12 were approved by the board of directors on 3 September 2004 and were signed on its behalf by:


S R Bertram
Director

Notes to the financial statements for the year ended 31 December 2003

1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently except as noted below, is set out below.

Basis of preparation - going concern

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. This depends on support from its ultimate parent company, Ramco Energy plc, which is subject to certain uncertainties as noted below.

Ramco Energy PLC's wholly owned subsidiaries Ramco Seven Heads Limited (RSHL) and Northern Exploration Limited (NEL) together have an 86.5% interest in the Seven Heads gas field which commenced production in December 2003. In January 2004 production of gas suffered a significant decline and as a result the cash generated at present levels and forecast levels of production is insufficient to cover repayments of the loan taken out to finance the development. The Directors of Ramco Energy plc have prepared cash flow forecasts for the group. 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. In preparing those projections the directors have assumed a successful outcome of a technical review of the Seven Heads gas field and negotiations with the Group's bankers concerning the rescheduling of the project loans and funding for the technical work. If for any reason these assumptions proved to be invalid, the going concern basis may no longer be applicable. In such circumstances it is unlikely that the parent could continue to provide support and it may therefore be inappropriate for these financial statements to be prepared on the going concern basis.

Full details of these uncertainties can be found in the annual report and accounts of the ultimate parent company Ramco Energy plc.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention.

Cash flow statement

The Company is a wholly owned subsidiary of Ramco Oil & Gas Limited which in turn is wholly owned by Ramco Energy plc and the cash flows of the company are included in the consolidated group cash flow statement of Ramco Energy plc. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a cash flow statement.

**Notes to the financial statements
for the year ended 31 December 2003 (continued)****1 Accounting policies (continued)****Taxation**

Corporation tax payable is provided on taxable profits at 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.

Foreign currencies

Foreign currency transactions are translated into sterling at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

Exchange differences arising are taken to the profit and loss account.

2 Loss on ordinary activities before taxation

	2003 £	2002 £
The loss on ordinary activities is stated after charging:		
Audit services	3,000	3,000
Non-audit services	5,750	14,484
Loss on exchange	78,656	63,349
Provision against intercompany balance	<u>28,045,488</u>	<u>-</u>

3 Directors and Employees

None of the directors who served during the year received remuneration from the company.

The Company has no employees. All administration matters are dealt with by the Company's ultimate holding company, Ramco Energy plc.

**Notes to the financial statements
for the year ended 31 December 2003 (continued)**

4 Interest payable

	2003 £	2002 £
Other interest payable	-	1,651,751

5 Taxation

	2003 £	2002 £
Tax on loss on ordinary activities:		
United Kingdom corporation tax at 30% (2002 – 30%)	-	-
(Over)/under Provision in respect of prior years – current	(25,259,745)	8,550
Over provision in respect of prior years – deferred	(2,767,360)	-
	<u>(28,027,106)</u>	<u>8,550</u>

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

	2003 £	2002 £
Loss on ordinary activities before taxation	<u>(28,041,613)</u>	<u>(836,588)</u>
Loss on ordinary activities multiplied by the standard rate of tax in UK (30%)	(8,412,484)	(250,976)
Effects of:-		
Non deductible expenses	8,393,664	600
Unrecognised losses	18,820	250,376
Tax effect of rollover/holdover relief	(25,011,909)	
Prior period adjustments	(247,836)	8,550
Current tax (credit)/charge for the year	<u>(25,259,745)</u>	<u>8,550</u>

The tax credit for the year includes a credit of £27.8 million reflecting a release of the provision for tax that arose on the disposal of the Company'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.

**Notes to the financial statements
for the year ended 31 December 2003 (continued)**

6 Debtors

	2003 £	2002 £
Amounts falling due within one year:		
Amounts owed by group undertakings	-	75,525,652
Other debtors	-	15,621,305
	<u>-</u>	<u>91,146,957</u>

Other debtors relates to the third instalment of the proceeds of the ACG sale, which was received in February 2003.

7 Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	3,055	3,502
Amounts owed to group undertakings	-	66,923,771
Accruals	6,700	3,000
Corporation Tax	-	25,011,909
Proposed Dividend	-	1,700,000
	<u>9,755</u>	<u>93,642,182</u>

Due to the losses arising from the impairment of the Group's interest in the Seven Heads gas field, it is expected that the heldover gain will be offset against tax losses within the group. Consequently, the corporation tax liability (£25,011,909) is no longer expected to be payable, and has been released to the profit and loss account.

8 Deferred tax

	2003 £	2002 £
Deferred tax		
Provision at 1 January	2,767,360	-
Reclassification from current to deferred	-	2,767,360
Release to the profit and loss account	<u>(2,767,360)</u>	<u>-</u>
Provision at 31 December	<u>-</u>	<u>2,767,360</u>

Due to the losses arising from the impairment of the Group's interest in the Seven Heads gas field, it is expected that the heldover gain will be offset against tax losses within the group. Consequently, the deferred tax liability (£2,767,360) is no longer expected to be crystallised, and has been released to the profit and loss account.

**Notes to the financial statements
for the year ended 31 December 2003 (continued)**

9 Called up equity share capital

	2003 £	2002 £
Authorised		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

10 Profit and loss account

	2003 £
At 1 January	4,750
Loss for the year	<u>(14,507)</u>
At 31 December	<u>(9,757)</u>

11 Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Shareholders funds as at 1 January	4,752	2,549,890
Loss for the year	(14,507)	(845,138)
Dividend	-	(1,700,000)
Shareholders' funds as at 31 December – (deficit)/surplus	<u>(9,755)</u>	<u>4,752</u>

12 Related party transactions

The company has taken advantage of the exemption under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Ramco Energy plc group or investees of the Ramco Energy plc group.

13 Ultimate parent undertaking

The company's immediate parent undertaking is Ramco Oil and Gas Limited, a company registered in Scotland. The directors regard Ramco Energy plc as the ultimate parent undertaking. Copies of the ultimate parent undertaking's consolidated financial statements may be obtained from The Secretary, Ramco Energy plc, 62 Queen's Road, Aberdeen, AB15 4YE.