

Press Information

29 June 2006



Ramco Energy plc

("Ramco or the Company")

Preliminary Results for the year ending 31 December 2005

2005 Highlights

- Turnover of £13.7 million (2004: £41.9 million), reflecting lower gas production from Seven Heads
- Profit after tax of £1.8 million (2004: loss of £3.4 million)
- Disposal of Oil Services division and repayment of recourse debt

Post Balance Sheet events

- Sale of interest in Seven Heads gas field
- Extension of Irish licensing Options
- Creation and listing on AIM of Lansdowne Oil & Gas
- Ramco retains an interest of 86.25%
- Raised £298,000 through the issue of new equity
- Successful appeal in Tenge lawsuit
- Sale of office building in Aberdeen concluded raising £1.5 million

Turnaround strategy being implemented

- Focus on current operations in Ireland, Montenegro and Bulgaria
- Initiation of new ventures – potential focus in Middle East and Caspian Sea
- Company now almost debt free

Steve Remp, Chairman of Ramco, commented:

"This has been an immensely challenging period for Ramco. At times our future was in doubt, but we have remained resolute and determined.

We have an exciting turnaround strategy in place and are returning to our exploration roots which brought us so much success in the nineties. With the exciting portfolio of assets that we are involved in and with the new ventures that we are planning to embark upon, Ramco is now able, for the first time in two years, to look to the future with a renewed confidence."

ENQUIRIES:

Ramco Energy – Aberdeen

Steve Remp, Executive Chairman

Steven Bertram, Managing Director

01224 352 200

College Hill - London

Nick Elwes

020 7457 2020

Preliminary Results for the year ending 31 December 2005

Chairman's Statement

This has proved to be an immensely challenging period for the Company. However, both the Board and employees have remained resolute in their commitment to Ramco's turnaround and I offer my sincere thanks to them and to the many shareholders who continued to support the Company during such trying times.

Strategy

In April 2005, the Ramco Board undertook a thorough review of the Company's prospects and strategy, following the significant problems we encountered with the Seven Heads gas development, offshore Ireland, and decided to pursue a turnaround strategy based on the following key objectives:

- The sale of our Oil Services division to repay £12 million of secured debt related to the Seven Heads development; this transaction and the associated debt repayment were completed just before the end of 2005.
- The sale of our interest in the Seven Heads gas field, which was pledged as security for the remaining project debt. The completion of this transaction in February 2006 also relieved Ramco of related liabilities in the form of parent company guarantees.
- The resolution of the long-running Tenge lawsuit in the US; whilst this objective was to a large extent outside our control, we were delighted to announce earlier this month that the Fourteenth Texas Court of Appeals had ruled in our favour and overturned the trial court's judgement in its entirety. The plaintiffs have filed a motion with the Court of Appeals for a re-hearing, but the Directors do not consider it necessary to alter the existing provision in Ramco's accounts which should cover the costs of this anticipated procedure.

Financial Results

Group turnover for 2005 totalled £13.7 million, down from £41.9 million in 2004, reflecting the lower gas production from the Seven Heads gas field and a contribution from the Oil Services division for the period to 16 December 2005.

Despite the lower turnover, Group operating profit increased from £598,000 in 2004 to £5.3 million in 2005. This improvement is largely due to exceptional adjustments to cost of sales, which reflect the impairment borne by the finance provider on the Seven Heads project, and the reversal of a previous impairment provision to bring the year end carrying value of the asset in line with the price received on its subsequent disposal early in 2006.

Administrative expenses rose slightly from £1.4 million in 2004 to £1.5 million in 2005. Cost savings instigated following the recognition of difficulties with the Seven Heads gas field were expected to result in a further reduction in administrative expenses. However, these savings were more than offset by additional professional fees incurred in the merger talks aborted in April 2005.

The overall result, before tax, for the year, after reflecting the net reversal of £4.9 million in the impairment provision against the Seven Heads gas field referred to above, is a profit of £1.9 million. After a tax charge of £84,000, the net result is an after tax profit of £1.8 million, compared with a loss of £3.4 million in 2004.

The Directors do not recommend the payment of a dividend (2004 - nil) and £1.8 million will be added to the Group's reserves.

At 31 December 2005 the Group held cash balances of £4.8 million. Of this sum, £2.9 million was ring fenced and has subsequently been repaid to the Group's lenders. Since the year end, a total of £298,000 has been raised through the issue of 1,873,102 new shares and, following the lifting of

arrestments and inhibitions related to the Tenge lawsuit earlier this month, we have concluded the sale of our office building in Aberdeen for £1.5 million and will shortly be relocating to new premises.

A debt of £0.9 million, connected with the Seven Heads development, remains due to Schlumberger. Under a waiver agreement it signed to allow us to complete the retirement of the bank debt, Schlumberger has the option to request that the debt be repaid by an issue of new Ramco shares.

Exploration

While we were pursuing our turnaround objectives, we also succeeded in retaining valuable exploration rights. We have, over the past two years, had a very limited amount of cash to devote to our exploration portfolio but have retained the following interests:

Ireland.

We required funds to ensure that we could honour commitments to complete the work programmes necessary to have our four Licensing Options in the Celtic Sea extended. Protective security (arrestments and inhibitions) put in place by the plaintiff in the Tenge lawsuit greatly limited our ability to raise the necessary funds, but we succeeded, initially in February 2006, through a private placing by a newly formed subsidiary Lansdowne Oil & Gas plc ("Lansdowne"), and later by listing that subsidiary on AIM and raising further funds. Lansdowne now holds all of our remaining Irish acreage, including our interest in Seven Heads oil. The funds raised by Lansdowne amount to over £2.3 million before expenses and ensure that it has the ability to meet its current obligations to the Irish authorities. We had already farmed out our interest in the Frontier Exploration Licence in the Donegal basin, retaining a 19.25 per cent. carried interest, and this asset was also transferred to Lansdowne. Drilling is scheduled to commence next month. At the time of its listing Lansdowne achieved a market capitalisation of £17.7 million with Ramco retaining an interest of 86.25 per cent.

Montenegro.

We have been successful in converting our 40 per cent. working interest, which we could not fund, into a carried option which entitles us to rejoin the project by acquiring an interest of up to 15 per cent. The option can be exercised after a successful well has been drilled. The operator, Jugopetrol Kotor, a subsidiary of Hellenic Petroleum, is negotiating with the newly independent Government of Montenegro with the objective of agreeing a drilling programme in the near future.

Bulgaria.

In January 2005 we announced that we had converted our 20 per cent. working interest in the A Lovech block, onshore Bulgaria, into an 11 per cent. interest carried through a planned extensive 3D seismic programme. A change in ultimate ownership of the operator in this project, Anschutz Bulgaria Limited, was the catalyst for a change to the plans for the block, with the objective of accelerating a drilling programme. We have in the past few weeks agreed a revised deal, whereby our interest reverts to its former level of 20 per cent. whilst being fully carried through this year's work programme. The work programme now includes a smaller seismic survey combined with the use of the operator's proprietary technology aimed at firming up a well site for drilling in 2007.

Outlook

We have come a very long way over the past year and now have a new sense of purpose and optimism. Following the sale of our interest in the Seven Heads gas field, the Company is almost debt-free, holds a major asset in the form of Lansdowne shares, where the current market value of our interest is £13 million, and has other exploration interests through which we are largely carried and which have the potential to create additional value.

Our intention now is to pick up where we left off in 2000. Ramco will aim to serve as a vehicle to initiate new ventures, initially as subsidiaries or joint ventures and these may be private or public as in the case of Lansdowne. We are also looking at potential new ventures in the Middle East and Caspian area, where we were a major player throughout the 90s.

Our strategy will be to remain “lean and mean” with a small corporate group that has achieved significant successes, but also one which has been through the wars – an experience that we believe will serve us well for the future.

Stephen E Remp
Chairman

Ramco Energy plc
Preliminary Results
Consolidated Profit and Loss Account
Unaudited
For the year ended 31 December 2005

	Note	2005			2004		Total Restated £'000
		Continuing operations £'000	Discontinued operations £'000	Total £'000	Continuing operations £'000	Discontinued operations £'000	
Turnover - Group and share of joint venture and associates		-	17,212	17,212	-	45,568	45,568
Less share of joint venture and associates		-	(3,548)	(3,548)	-	(3,641)	(3,641)
Group turnover	2	-	13,664	13,664	-	41,927	41,927
Cost of sales before exceptional item		(475)	(22,060)	(22,535)	1,071	(46,590)	(45,519)
Exceptional item	3	-	15,681	15,681	-	5,714	5,714
Cost of sales after exceptional item		(475)	(6,379)	(6,854)	1,071	(40,876)	(39,805)
Gross (loss) / profit		(475)	7,285	6,810	1,071	1,051	2,122
Administrative expenses		(1,030)	(445)	(1,475)	(995)	(426)	(1,421)
(Loss)/profit on exchange		(2)	-	(2)	(233)	130	(103)
Group operating (loss) / profit		(1,507)	6,840	5,333	(157)	755	598
Exceptional item	4	-	(809)	(809)	-	-	-
Share of operating profit in joint venture and associates		-	656	656	-	681	681
(Loss) / profit before interest and taxation		(1,507)	6,687	5,180	(157)	1,436	1,279
Net interest payable				(3,290)			(4,565)
Profit / (loss) on ordinary activities before taxation	2			1,890			(3,286)
Tax charge on profit/ (loss) on ordinary activities				(84)			(91)
Profit / (loss) for the financial year	11			1,806			(3,377)
Profit / (loss) per ordinary share - basic and fully diluted							
On profit / (loss) for the financial year	5			5.7p			(11.2)p

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

Consolidated Statement of Total Recognised Gains and Losses
For the year ended 31 December 2005

	2005 £'000	2004 £'000
Profit / (loss) for the financial year	1,806	(3,377)
Unrealised translation differences on foreign currency net investments	-	16
Total recognised profit / (loss) relating to the year	1,806	(3,361)

Ramco Energy plc
Preliminary Results
Balance Sheets
Unaudited
As at 31 December 2005

		Group		Company	
	Note	2005	2004	2005	2004
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	7	6,278	5,906	-	-
Other tangible fixed assets	8	11,567	16,706	1,514	1,654
Investments					
Share of joint venture's gross assets		-	2,575	-	-
Share of joint venture's gross liabilities		-	(1,503)	-	-
Share of joint venture's net assets		-	1,072	-	-
In subsidiaries		-	-	-	3,000
In associated undertakings		-	80	-	-
Other fixed asset investments		-	2	-	2
Total investments		-	1,154	-	3,002
		17,845	23,766	1,514	4,656
Current Assets					
Stocks		-	2,331	-	-
Debtors: amounts falling due within one year		1,648	5,203	264	2,279
Cash at bank and in hand		4,799	3,265	1,311	119
		6,447	10,799	1,575	2,398
Creditors: amounts falling due within one year		(11,618)	(24,808)	(1,299)	(760)
Net current (liabilities)/assets		(5,171)	(14,009)	276	1,638
Total assets less current liabilities		12,674	9,757	1,790	6,294
Provisions for liabilities and charges		(5,385)	(5,274)	(26)	(38)
Net assets		7,289	4,483	1,764	6,256
Capital and reserves					
Called up share capital		3,314	3,014	3,314	3,014
Share premium account		69,294	68,576	69,294	68,576
Revaluation reserve		-	752	-	-
Other reserves		-	(21)	-	-
Profit and loss account	11	(65,319)	(67,838)	(70,844)	(65,334)
Equity shareholders' funds	12	7,289	4,483	1,764	6,256

Ramco Energy plc
Preliminary Results
Consolidated Cash Flow Statement
Unaudited
For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities	13(a)	3,542	6,728
Returns on investments and servicing of finance			
Interest received		147	376
Interest paid		(785)	(3,994)
Net cash outflow from returns on investments and servicing of finance		(638)	(3,618)
Taxation			
Overseas corporation tax paid		(27)	(170)
Taxation paid		(27)	(170)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(216)	(86)
Sale of tangible fixed assets		9	54
Oil & gas expenditure - intangible assets		(372)	(1,370)
Oil & gas expenditure - producing assets		-	(10,202)
Receipt of sale of other fixed asset investments		144	42
Net cash outflow for capital expenditure and financial investment		(435)	(11,562)
Disposal			
Net proceeds from sale of subsidiary		11,801	-
Net cash inflow from disposal		11,801	-
Net cash inflow/(outflow) before financing		14,243	(8,622)
Financing			
Issue of share capital		1,018	-
(Decrease)/increase in debt		(13,727)	8,600
Net cash (outflow)/inflow from financing		(12,709)	8,600
Increase/(decrease) in cash	13(b)	1,534	(22)

Ramco Energy plc
Preliminary Results
Notes to the Financial Statements
Unaudited
For the year ended 31 December 2005

1. Accounting policies

Basis of presentation

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.

The Group balance sheet as at 31 December 2005 shows net current liabilities of £5.2 million. However, the Directors consider that it is appropriate to adopt a going concern assumption in preparing these financial statements as the following significant developments occurred after the balance sheet date:

(i) The bank loan of £8.2 million shown in Creditors (amounts falling due within one year) was repaid in February 2006 following the sale of the Group's interest in the Seven Heads gas field. This loan repayment was sufficient to return the Group balance sheet to positive net current assets.

(ii) As described in note 10, the Company has issued new shares raising additional funding of £298,000.

(iii) The Group successfully completed the listing of their subsidiary Lansdowne Oil & Gas plc on the Alternative Investment Market (AIM). The Group owns 86.25% of Lansdowne Oil and Gas plc, which has a current market value of £13 million.

(iv) In June 2006, the Fourteenth Court of Appeals in Texas reversed the trial court's judgement in respect of the Tenge lawsuit. This decision resulted in all arrestments and inhibitions, that had previously been placed on the Group, being lifted. As a result, missives have now been completed for the sale of the Company's head office building in Aberdeen. The £1.5m of funds from this sale are expected to be received before the end of June.

(v) The Directors are currently reviewing a number of alternative funding arrangements to allow the Group to exploit its development opportunities.

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 cash flows take into account the proceeds from the sale of the building and indicate that the Group will have adequate cash resources to meet its obligations as they fall due. 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 the cash flow 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.

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2. Segmental Reporting

	Oil & Gas		Oil Services		Total	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Turnover	4,787	32,861	12,425	12,707	17,212	45,568
Less joint venture and associates	-	-	(3,548)	(3,641)	(3,548)	(3,641)
Group turnover	4,787	32,861	8,877	9,066	13,664	41,927
Profit / (loss) before taxation						
Group	4,148	729	3,318	2,074	7,466	2,803
Less Joint venture and associates	-	-	(656)	(681)	(656)	(681)
Group gross profit	4,148	729	2,662	1,393	6,810	2,122
Joint venture and associates	-	-	656	681	656	681
	4,148	729	3,318	2,074	7,466	2,803
Administrative expenses	(1,030)	(995)	(445)	(426)	(1,475)	(1,421)
Exceptional item	-	-	(809)	-	(809)	-
(Loss)/profit on exchange	(38)	(53)	36	(50)	(2)	(103)
Profit / (loss) before interest and taxation	3,080	(319)	2,100	1,598	5,180	1,279
Net interest					(3,290)	(4,565)
Profit / (loss) before taxation					1,890	(3,286)

The Ramco Oil Services sub group was sold in December 2005 and so this part of the business has been classed as discontinued.

The turnover for the oil and gas division relates to the Seven Heads gas field which was sold after the year end. This has been included in discontinued operations in the profit and loss account. A proportion of the administrative expenses for the oil and gas division are also included in discontinued operations.

3. Exceptional Item - Seven Heads

	2005 £'000	2004 £'000
Impairment provision - Seven Heads	634	47,698
Reversal of impairment provision - Seven Heads	(5,485)	-
Impairment borne by finance provider	(10,830)	(53,412)
Mezzanine finance written off	(8,600)	-
Reversal of impairment provision borne by finance provider	8,600	-
	(15,681)	(5,714)

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 credit of £10.8 million (2004: £53.4 million).

The impairment provision against the asset was made in 2004 (£47.7 million) and there was a net reversal in 2005 (£4.9 million) to reflect the net realisable value of the asset on disposal.

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4. Exceptional Item – Disposal of Subsidiary

	2005	2004
	£'000	£'000
Loss on sale of subsidiary	809	-

On 16 December 2005 the Group sold Ramco Oil Services Limited together with its subsidiaries for £12.6 million in cash, after costs. The ROSL sub group provided downhole tubular maintenance and pipeline coating services and the disposal of ROSL sub group ceased the Ramco Group's involvement in these activities. As a result of the material change in the nature and focus of the Group's operations that this disposal represented, it has been treated as a discontinued operation in the profit and loss account (see note 13(d)).

5. Earnings / (Loss) Per Share

Basic and fully diluted earnings/(loss) per share

The calculation of earnings/(loss) per share is based on the profit for the financial year of £1.8 million (2004: loss of £3.4 million) and 31,714,576 (2004: 30,144,713) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

	2005			2004		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Profit/(loss) before interest and taxation	(1,507)	6,687	5,180	(157)	1,436	1,279
Net interest	18	(3,308)	(3,290)	301	(4,866)	(4,565)
Profit/(loss) on ordinary activities before taxation	(1,489)	3,379	1,890	144	(3,430)	(3,286)
Tax (charge)/credit on profit/(loss) on ordinary activities	(21)	(63)	(84)	552	(643)	(91)
Profit/(loss) for the financial year	(1,510)	3,316	1,806	696	(4,073)	(3,377)
Profit/(loss) per ordinary share – basic and fully diluted on profit/(loss) for the financial year	(4.8)p	10.5p	5.7p	2.3p	(13.5)p	(11.2)p

For dilutive earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two classes of dilutive potential ordinary shares, share options and share warrants. The lowest exercise price of the share options is 34p per share. In August 2005 warrants over 3,000,000 shares of 10p each, with an exercise price of 34p, each were issued to the Group's lenders. Share options and warrants are only considered dilutive if their exercise price is below the average market price of the shares for the period. On that basis none of the share options or warrants are considered dilutive for the current period.

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6. Taxation

The prior year deferred tax disclosures included a potential deferred tax liability relating to the disposal of the ACG interest in 2000. This liability was held over against expenditure incurred developing the Seven Heads interest. The disposal of the Seven Heads interest from Ramco Seven Heads Limited and Northern Exploration Limited to Ramco Celtic Sea Limited caused the heldover gain to crystallise, but also caused significant UK tax losses to be generated. The UK tax losses generated have largely been utilised offsetting the heldover gain, such that no tax liability arises on the heldover gain in 2005 and no further potential liability exists at 31 December 2005.

7. Intangible Fixed Assets

	Group Exploration Costs	
	2005	2004
	£'000	£'000
At 1 January	5,906	4,536
Additions	372	1,370
At 31 December	6,278	5,906

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 2005, intangible fixed assets totalled £6.3 million (2004: £5.9 million), all of which relates to Ireland and central and eastern Europe.

8. Other Tangible Fixed Assets

	2005	2004
	£'000	£'000
Cost and net book value	16,706	72,782
Retranslation	-	3
Additions	216	1,347
Disposals	(9,074)	(91)
Depreciation	(1,132)	(9,637)
Impairment	4,851	(47,698)
At 31 December	11,567	16,706

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9. Creditors: Amounts Falling Due After More Than One Year

	2005	2004
	£'000	£'000
Bank Loans - Main & mezzanine	68,415	68,415
- Unpaid gas price hedge	13,199	2,343
- Unpaid interest on loan	4,556	2,329
Repaid during the year	(13,727)	-
	72,443	73,087
Less: Impairment borne by finance provider	(64,242)	(53,412)
	8,201	19,675
Amounts falling due within one year	(8,201)	(19,675)
	-	-

This relates to a £68.6 million project finance facility arranged for the Seven Heads gas field development which was due to be repaid in six monthly instalments. The net cash generated from the field was insufficient to meet the repayments. 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 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 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 Company also issued warrants to the lenders for 3,000,000 ordinary shares of 10p at a price of 34p.

The amount of £64.2 million (2004: £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.

The £8.2 million outstanding at 31 December 2005, was repaid in full in February 2006 following the sale of the Group's interest in the Seven Heads gas field.

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10 . Share Capital

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.

Since 1 January 2006 there have been two placings of shares. On 5 April 2006, 520,322 new ordinary shares of 10p each were issued for 28.5 per share. The issue raised £148,000.

On 1 June 2006 952,380 new ordinary shares of 10p each were issued for 10.5p per share and 400,400 new ordinary shares of 10p each were issued for 12.5p per share. The issue raised £150,000.

11. Profit and Loss account

	2005 £'000	2004 £'000
At 1 January	(67,838)	(64,461)
Profit / (loss) for the year	1,806	(3,377)
Revaluation reserve released on disposal	713	-
At 31 December	(65,319)	(67,838)

12. Movement in Shareholders' Funds

	2005 £'000	2004 £'000
Profit / (loss) for the financial year	1,806	(3,377)
Other recognised gains and losses relating to the year	-	16
Issue of ordinary share capital	1,018	-
Movement in revaluation	-	(41)
Amortisation of deferred gain on asset sold to joint venture	(18)	(17)
Net change in shareholders' funds	2,806	(3,419)
Shareholders' funds at 1 January	4,483	7,902
Shareholders' funds at 31 December	7,289	4,483

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13. Notes to Consolidated Cash Flow Statement

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

	Continuing	Discontinued	2005	2004
	£'000	£'000	£'000	£'000
Operating (loss) / profit	(1,507)	6,840	5,333	598
Amortisation of goodwill	-	30	30	30
Gain on sale of investments	(142)	-	(142)	-
Depreciation of tangible fixed assets	301	832	1,133	9,637
(Gain)/loss on sale of tangible fixed assets	(9)	-	(9)	37
Amortisation of deferred gain on asset sold to joint venture	-	(18)	(18)	(17)
Decrease/(increase) in stocks	-	2,109	2,109	(66)
(Increase)/decrease in debtors	(107)	(141)	(248)	2,448
Increase/(decrease) in creditors	685	(328)	357	(2,446)
(Decrease)/increase in other provisions	(178)	-	(178)	100
Impairment provision	-	(4,851)	(4,851)	47,698
Unpaid gas price hedges added to loan	-	10,856	10,856	2,343
Impairment borne by finance provider	-	(10,830)	(10,830)	(53,412)
Exchange difference on retranslation	-	-	-	(222)
Net cash inflow from operating activities	(957)	4,499	3,542	6,728

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

	2005	2004
	£'000	£'000
Increase/(decrease) in cash in the year	1,534	(22)
Cash outflow/(inflow) from reduction/(increase) in debt	13,727	(8,600)
Revaluation of bank loan - exchange difference	-	240
Impairment borne by finance provider	10,830	53,412
Unpaid gas price hedges and interest on loan	(13,083)	(4,672)
Change in net debt resulting from cash flows	13,008	40,358

Net (debt) / funds at start of the year

Cash at bank and in hand	3,265	3,297
Debts due within one year	(19,675)	(10,000)
Debts due after one year	-	(50,055)
	(16,410)	(56,758)
Net debt at the end of the year	(3,402)	(16,400)

Represented by:

Cash at bank and in hand	4,799	3,265
Debts due within one year	(8,201)	(19,675)
	(3,402)	(16,410)

Liquid resources represent short term deposits not qualifying as cash

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13. Notes to Consolidated Cash Flow Statement continued

(c) Analysis of net (debt) / funds	At 1	Unpaid gas	Unpaid interest	Impairment borne	Repaid £'000	Cash £'000	At 31
	January 2005 £'000	price hedges £'000	On loan £'000	by finance provider £'000			December 2005 £'000
Cash at bank and in hand	3,265	-	-	-	-	1,534	4,799
Debt due within one year	(19,675)	(10,856)	(2,227)	10,830	13,727	-	(8,201)
	(16,410)	(10,856)	(2,227)	10,830	13,727	1,534	(3,402)

(d) Disposal of ROSL

The Group disposed of its Oil Services division on 16 December 2005. (see note 3)

	£'000
Tangible fixed assets	9,073
Stocks	222
Investments	1,586
Debtors	4,034
Creditors	(2,305)
	12,610
Loss on disposal	(809)
Cash inflow from disposal	11,801

The ROSL group contributed £0.7 million to the net operating cash flows.

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14. Litigation

Following a jury verdict in October 2003, the Texas State Court issued a Preliminary judgement on 1 April 2004 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 arose while Ramco was considering investment in an oilfield development project in Kazakhstan which Ramco subsequently decided not to pursue. Ramco's appeal, and the plaintiff's cross appeal, were heard in Houston on 26 April 2005. On 6 June 2006, the Fourteenth Texas Court of Appeals delivered its decision on the appeals lodged by both parties to the lawsuit. The original judgment issued to Anglo Dutch in 2004 was reversed in its entirety. The decision concluded by stating "we reverse the trial court's judgement and render judgement that the Plaintiffs take nothing against the Ramco Parties."

The arrestments and inhibitions which had been obtained by the plaintiffs from the Court of Session, which had been hampering the Group's ability to carry out its business, have now been lifted.

The plaintiffs have filed a motion with the Court of Appeals for a re-hearing, but the Directors do not consider that is necessary to alter the existing provision in Ramco's accounts which should cover the costs of this anticipated procedure.

Because of the uncertainty surrounding the range of possible outcomes, the Directors considered it was 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 \$1,000,000 (£559,000) was made in 2003. £181,000 was utilised during 2005 (2004: 217,000) leaving a remaining provision of £161,000 (2004: £342,000). When Preliminary legal fees have been quantified and recovery of costs resolved, any balance remaining of the accounts provision will be released to the profit and loss account.

15. Contingent Liabilities

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. This guarantee expired on 15 February 2006.

b) Ramco Energy plc, on behalf of the Seven Heads co-venturers, has entered into an agreement with Bord Gais Eireann ("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.

Following the sale of Ramco Celtic Sea Limited in February 2006 any and all exposure of Ramco to this contingent liability is covered by a back to back undertaking with Marathon Seven Heads Limited and guaranteed by Marathon Oil Corporation.

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16. Post Balance Sheet Events

(a) Sale of Ramco Celtic Sea Limited

On 2 February 2006 the Company concluded the sale of its subsidiary, Ramco Celtic Sea Limited, which held its 86.5% interest in the Seven Heads gas field for £5.3 million in cash, net of expenses, to Marathon International Petroleum Hibernia Limited. All of the proceeds of the sale, after costs, flowed to the Company's project finance lenders and retired sums due to them. The carrying value of the interest in the gas field had been reduced to the realisable amount at 31 December 2005 and consequently no gain or loss on disposal arose.

(b) Flotation of Lansdowne Oil and Gas plc

On 22 February 2006 the Company announced that it had placed its Irish exploration assets under the control of a recently established subsidiary, Lansdowne Oil and Gas plc ("Lansdowne"), which had completed a £750,000 private placing to provide working capital for the exploration assets.

On 21 April 2006 the issued share capital of Lansdowne was admitted to trading on the AIM market in conjunction with a placing of 1,882,353 shares at an issue price of 85p which raised £1.6 million before expenses. At the placing price, Lansdowne had a market capitalisation of £17.7 million. The Company, through its subsidiaries, retained an 86.25% interest in Lansdowne following the issue of the new capital.

(c) Litigation

On 6 June 2006, the Fourteenth Texas Court of Appeals delivered its decision on the appeals lodged by both parties to the Tenge lawsuit. The original judgement issued to Anglo Dutch in 2004 was reversed in its entirety. The decision concluded by stating "we reverse the trial court's judgement and render judgement that the Plaintiffs take nothing against the Ramco Parties" (see note 14)

(d) Placing of shares

On 5 April 2006 the Company issued 520,322 new ordinary shares of 10p each at a price of 28.5p to the pension fund of Stephen Remp, Chairman. The placing raised £148,000 to supplement working capital.

On 1 June 2006 the company issued 400,400 ordinary shares of 10p each to the pension fund of Stephen Remp at a price of 12.5p per share and also 952,380 ordinary shares of 10p each to an institutional investor at a price of 10.5p each. The placing raised £150,000.

(e) Office building

Following the disposal of our Oil Services division and our only producing assets the Seven Heads gas field we have considerably reduced our head office staffing levels and our existing office is now too large for our needs. As a result we have concluded the sale of the building for £1.5 million and we will shortly be relocating to new offices.

(f) Bulgaria

In January 2005 we announced that we had converted our 20% working interest in the A Lovech block onshore Bulgaria into an 11 % interest carried through a planned extensive 3D seismic programme. A change in ultimate ownership of the operator in this project Anschutz Bulgaria Limited was the catalyst for a change to the plan for the block, with the objective of accelerating a drilling programme. We have in the past few weeks agreed a revised deal where our interest reverts to its former level of 20% but we are fully carried through this years work programme. The work programme includes a smaller

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16. Post Balance Sheet Events *continued*

seismic survey and use of the operators proprietary technology aimed at firming up a well site for drilling in 2007.

17. Comparative information

Due to the fall in production of the Seven Heads gas field the Directors consider that it is more appropriate to show the hedge costs in the cost of sales rather than turnover. The prior periods have been restated to reflect this with no effect on the gross profit or net loss.

The comparative financial information is based on statutory accounts for the year ended 31 December 2004. Those accounts, upon which the auditors have issued an unqualified opinion, have been delivered to the Registrar of Companies.

18. Annual Report and Financial Statements

The auditors have indicated that it is their intention to issue a modified opinion on the financial statements to draw attention to the matters discussed in note 1.

The Annual Report and Financial Statements will be mailed to shareholders and is available from the company's website, www.ramco-plc.com.