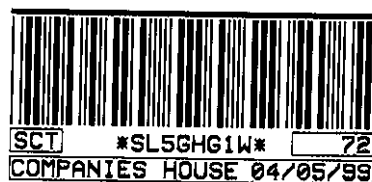


FIFE ENERGY LIMITED  
(Registered Number : 137656)

DIRECTOR'S REPORT AND ACCOUNTS

31 DECEMBER 1998

✓



# **FIFE ENERGY LIMITED**

## **DIRECTOR'S REPORT AND ACCOUNTS 31 DECEMBER 1998**

### **Directors**

HH Graves (USA)

WM Law (Appointed 4 August 1998, resigned 23 September 1998)

### **Bankers**

Bank of Scotland

9 Falkland Gate

Glenrothes

KY7 5LW

### **Auditors**

PricewaterhouseCoopers

Albany House

58 Albany Street

Edinburgh

EH1 3QR

### **Secretary**

Burness Solicitors

50 Lothian Road

Festival Square

Edinburgh

EH3 9BY

### **Registered Office**

Westfield Development Centre

Cardenden

Fife

KY5 0HP

## **FIFE ENERGY LIMITED**

### **DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 1998**

The director submits his report and audited accounts for the year ended 31 December 1998.

#### **TRADING RESULTS**

The results for the year are set out in the profit and loss account on page 6. The loss for the year of £357,599 (1997: profit £2,662,648) has been taken from reserves resulting in reserves carried forward of £213,632. The director does not recommend payment of a dividend (1997: £nil).

#### **PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS**

The principal activity of the company is the development of an Integrated Gasification Combined Cycle power station in Fife, Scotland. The development of the site will be undertaken in several projects.

Phase I is the 75MW project. The company has undertaken the initial development of the 75MW project and has transferred the assets relating to the project to the subsidiary company Fife Power which will undertake the further development of this project in respect of construction and operations. For this purpose, the company reached agreements on contracts relevant to Phase I and obtained the associated funding, thus achieving financial closure on 10 January 1997 on which date assets relating to the 75MW project were transferred to Fife Power, an unlimited liability company, which will undertake the related construction contracts and the commercial operations.

It is the current intention to continue the development of the rest of the site.

#### **FIXED ASSETS**

Information relating to fixed assets is given in Notes 9 and 10 to the accounts.

#### **DIRECTOR AND HIS INTERESTS**

The directors who held office during the year are detailed on page 1.

WM Law has no interests in the shares of the company. HH Graves has no interests in the shares of the company. Details of his interests in the company's parent company, Global Energy Europe Limited, are set out in the accounts of that company.

#### **SHARE CAPITAL**

Details of the company's share capital are disclosed in Note 14.

#### **DIRECTOR'S RESPONSIBILITIES**

Company law requires the director to prepare accounts for each financial year which 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 period. In preparing those accounts, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the accounts;

## **FIFE ENERGY LIMITED**

### **DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)**

#### **DIRECTOR'S RESPONSIBILITIES (Continued)**

- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the accounts comply with the Companies Act 1985. He is 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.

#### **YEAR 2000**

The company is aware of the potential risk to its business arising from well publicised programming shortfalls in information technology and process control systems concerning the millennium date, but does not consider there to be any material exposure. The company's existing development activities, for example gasification, would involve significant refurbishment and associated costs prior to achieving operational activity and any Year 2000 issues would be addressed at that time.

#### **AUDITORS**

Price Waterhouse resigned as auditors in July 1998. PricewaterhouseCoopers have been appointed as auditors and have indicated their willingness to continue in office. A resolution regarding their reappointment will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

8 April 1999



Burness Solicitors  
50 Lothian Road  
Festival Square  
Edinburgh  
EH3 9BY

## AUDITORS' REPORT TO THE MEMBERS OF FIFE ENERGY LIMITED

We have audited the accounts on pages 6 to 18 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

### Respective responsibilities of directors and auditors

As described on pages 2 and 3 the company's director is responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the director in the preparation of the accounts, 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 accounts 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 accounts.

### Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*

PRICEWATERHOUSECOOPERS  
Chartered Accountants  
and Registered Auditors

8 April 1999

PricewaterhouseCoopers is the successor partnership to the UK firms of Price Waterhouse and Coopers & Lybrand. The principal place of business of PricewaterhouseCoopers and its associate partnerships, and of Coopers & Lybrand, is 1 Embankment Place, London WC2N 6NN. The principal place of business of Price Waterhouse is Southwark Towers, 32 London Bridge Street, London SE1 9SY. Lists of the partners' names are available for inspection at those places.

All partners in the associate partnerships are authorised to conduct business as agents of, and all contracts for services to clients are with, PricewaterhouseCoopers. PricewaterhouseCoopers is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

**PricewaterhouseCoopers**

Albany House  
58 Albany Street  
Edinburgh EH1 3QR  
Telephone +44 (0) 131 557 9900  
Facsimile +44 (0) 131 225 5352

**AUDITORS' REPORT TO THE DIRECTOR OF FIFE ENERGY LIMITED PURSUANT  
TO SECTION 248 (3) OF THE COMPANIES ACT 1985**

We have examined the financial statements of the company and its subsidiaries for the year ended 31 December 1998.

**Basis of opinion**

The scope of our work for the purpose of this report was limited to confirming that the company is entitled to exemption from preparing group financial statements.

**Opinion**

In our opinion the company is entitled to the exemption from preparing group financial statements conferred by Section 248 of the Companies Act 1985.

*PricewaterhouseCoopers*

PricewaterhouseCoopers  
Chartered Accountants  
and Registered Auditors

8 April 1999

PricewaterhouseCoopers is the successor partnership to the UK firms of Price Waterhouse and Coopers & Lybrand. The principal place of business of PricewaterhouseCoopers and its associate partnerships, and of Coopers & Lybrand, is 1 Embankment Place, London WC2N 6NN. The principal place of business of Price Waterhouse is Southwark Towers, 32 London Bridge Street, London SE1 9SY. Lists of the partners' names are available for inspection at those places.

All partners in the associate partnerships are authorised to conduct business as agents of, and all contracts for services to clients are with, PricewaterhouseCoopers. PricewaterhouseCoopers is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

# FIFE ENERGY LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	<u>Note</u>	<u>1998</u> £	<u>1997</u> £
Turnover		-	-
Cost of sales		-	-
		<hr/>	<hr/>
<b>GROSS PROFIT</b>		-	-
Administrative expenses		(1,408,593)	(676,911)
Management charge	4	(375,000)	-
Other operating income	3	1,488,875	3,365,182
		<hr/>	<hr/>
<b>OPERATING (LOSS)/PROFIT</b>		(294,718)	2,688,271
Interest receivable		5,738	3,489
Interest payable	7	(304,557)	(10,750)
Exchange losses		(21,154)	-
		<hr/>	<hr/>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	4	(614,691)	2,681,010
Taxation	8	257,092	(18,362)
		<hr/>	<hr/>
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>	20	(357,599)	2,662,648
<b>RETAINED PROFIT/(LOSS) BROUGHT FORWARD</b>		571,231	(2,091,417)
		<hr/>	<hr/>
<b>RETAINED PROFIT CARRIED FORWARD</b>		213,632	571,231
		<hr/>	<hr/>

There were no recognised gains or losses other than the loss for the financial year (1997: £nil). All results arose from continuing operations.

# FIFE ENERGY LIMITED

## BALANCE SHEET AT 31 DECEMBER 1998

	Note	1998 £	1997 £
<b>FIXED ASSETS</b>			
Intangible assets	9	1,062,949	1,062,949
Tangible assets	10	8,412,028	7,562,028
Investment in subsidiary undertaking	21	4	4
		<hr/>	<hr/>
		9,474,981	8,624,981
<b>CURRENT ASSETS</b>			
Amounts due from group undertakings	11	2,327,300	121,815
Other debtors		-	-
Prepayments		-	8,450
Cash at bank and in hand		69,006	81,710
		<hr/>	<hr/>
		2,396,306	211,975
<b>CREDITORS (amounts falling due within one year)</b>			
	12	(9,214,425)	(8,043,649)
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		(6,818,119)	(7,831,674)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/>	<hr/>
		2,656,862	793,307
<b>CREDITORS (amounts falling due after more than one year)</b>			
	13	(2,221,154)	-
		<hr/>	<hr/>
		435,708	793,307
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Share capital	14	56,588	56,588
Share premium		165,488	165,488
Profit and loss account		213,632	571,231
		<hr/>	<hr/>
Shareholders' funds	20	435,708	793,307
		<hr/>	<hr/>

APPROVED BY THE DIRECTOR ON 7 APRIL 1999



HH Graves  
DIRECTOR



# **FIFE ENERGY LIMITED**

## **NOTES TO THE ACCOUNTS - 31 DECEMBER 1998**

### **1 GOING CONCERN**

The company's principal activity is the development of an Integrated Gasification Combined Cycle (IGCC) power station in Fife, Scotland ("the Fife Development Project"). Funding for the development of the 75MW project, Phase I, was obtained in January 1997, following the completion by the company of the relevant contracts. This enabled the company to meet its outstanding obligations as explained in Note 3 and as a consequence, these accounts have been prepared on the going concern basis.

The Fife Development Project will involve the use of certain technology and intellectual property rights owned by third parties. Contractual arrangements for the use of these rights have not yet been finalised. These technology and intellectual property rights are not required for the first phase of the 75MW project.

### **2 ACCOUNTING POLICIES**

#### **Basis of accounting**

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

#### **Intangible fixed assets**

Intangible fixed assets relating to licence agreements are stated at cost less amortisation. Intangible fixed assets are amortised over the period of the licence agreement to which they relate from the commencement of operations.

#### **Tangible fixed assets and depreciation**

Development costs which the director believes can be matched by future related revenues are capitalised within assets under development.

Tangible fixed assets including capitalised development costs are stated at cost less depreciation. No depreciation is provided on assets under development. Depreciation of other fixed assets is provided by equal annual instalments to write off their book value over their estimated useful lives.

#### **Deferred taxation**

Provision for deferred taxation is only made in respect of timing differences if a liability or asset is likely to arise in the foreseeable future. Provision is made at the corporation tax rates at which such timing differences are expected to reverse.

#### **Foreign exchange**

Transactions undertaken in foreign currencies are translated using the exchange rate ruling at the date of the transaction. Monetary assets and liabilities at the balance sheet date are translated at the closing rate. Exchange differences arising are reported as part of the results for the year.

#### **Cash flow statement**

A cash flow statement has not been prepared as the company is a small company as explained in Note 19.

# FIFE ENERGY LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

### 3 OTHER OPERATING INCOME

	<u>1998</u> £	<u>1997</u> £
Recharge of costs to subsidiary	1,488,875	585,015
Profit arising on financial closure of Phase I	-	2,780,167
	<hr/>	<hr/>
	1,488,875	3,365,182
	<hr/>	<hr/>

On 10 January 1997, the company achieved financial closure of Phase I, the 75MW project ("financial closure"). The company has therefore completed the development cycle of this phase and the actual construction and commercial operations of the project will be completed by Fife Power, an unlimited liability subsidiary company.

As part of the financial closure process of the 75MW project, specific assets relating to the 75MW project have been transferred by the company to Fife Power. The consideration for these assets was the assumption by Fife Power of specific project liabilities incurred by the company during the period of development of Phase I. This included the debts owed to the bank, Energy Investors Fund ("EIF") and the parent undertaking. In addition, a proportion of the debts owed to the ultimate parent company has also been transferred representing the development costs relating to the 75MW project. This transfer has been documented in the completion minutes and the asset and inter creditor agreements between the company and Fife Power. Additional funding arrangements have subsequently been provided by the bank and other investors to Fife Power for the further development stage of this project.

The profit arising on financial closure of Phase I arose as a result of the transfer of assets of £4.1 million, together with £0.3 million of costs incurred by the company on behalf of Fife Power. The consideration was met by the assumption of £7.2 million of liabilities.

### 4 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>1998</u> £	<u>1997</u> £
The (loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration - for audit services	9,000	7,000
- for non audit services	7,000	-
Management charge	375,000	-
	<hr/>	<hr/>

The management charge is payable to the parent company, Global Energy Europe Limited ("GEE"), for costs incurred by GEE for provision of services to the company in respect of the project development activity undertaken by FEL.

# FIFE ENERGY LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

### 5 EMPLOYEE COSTS

From January to October 1998, the company had 14 employees. Their salary costs were recharged to the subsidiary Fife Power. In November 11 staff were transferred to Fife Power and their costs are now met by that company.

	<u>1998</u> £	<u>1997</u> £
Wages and salaries	351,960	234,101
Social security costs	35,196	23,676
Pension costs	-	-
	<u>387,156</u>	<u>257,777</u>
Average number of employees during the year	<u>12</u>	<u>7</u>

In addition, the company has incurred costs of £56,626 (1997 : £68,911) in respect of the employee of the parent company. The company has recharged £424,272 (1997 : £198,529) to Fife Power in respect of services provided by its employees and the employee of the parent company.

### 6 DIRECTORS' EMOLUMENTS

During 1998, the directors received emoluments of £nil in respect of services to the company (1997 : £nil). The management services of the director have been charged to the company and its subsidiary by the ultimate parent company as detailed in Note 15.

### 7 INTEREST PAYABLE

	<u>1998</u> £	<u>1997</u> £
Interest on capital creditor	214,785	-
Interest on promissory note to El Paso	89,772	-
Interest on bank overdraft	-	1,852
Interest on bank loan	-	8,898
	<u>304,557</u>	<u>10,750</u>

### 8 TAXATION

	<u>1998</u> £	<u>1997</u> £
UK corporation tax	(187,777)	257,092
Release of prior year tax provision	(69,315)	(238,730)
	<u>(257,092)</u>	<u>18,362</u>

There are no timing differences which would result in a deferred tax liability or asset for the period. In 1998, no provision for deferred taxation was considered necessary due to the availability of tax losses (1997 : £nil); the potential deferred tax asset which would have been provided in 1998 is estimated at £10,775 (1997 : £660,000).

## FIFE ENERGY LIMITED

### NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

#### 9 INTANGIBLE FIXED ASSETS

During 1992 the company entered into an agreement whereby it was entitled to make use of certain licensed processes on payment of £1 million to British Gas plc. In December 1996, £200,000 was paid to British Gas in respect of this asset. The balance of £800,000 is contingent on financial closure of the gasification project and test runs being completed satisfactorily. The full amount of £1 million has been recorded in the accounts as the director remains confident that this financial closure will be achieved.

In addition, in 1995 the company paid \$100,000 (£62,949) directly to Global Energy Inc, the ultimate parent company, in respect of a technology licence agreement between the company and Global Energy Europe Limited, and a similar licence agreement between Global Energy Europe Limited and Global Energy Inc. This payment is a non refundable advance payment. An agreement, which will require the company to pay 2% of the future revenue stream, has been renegotiated to a payment of £1 million for the licence payable on financial closure of the gasification project. This renegotiation has not yet been formally documented by the parties. The payment is wholly contingent on the commencement of commercial operations following the achievement of financial closure of the gasification project. This additional liability has not, therefore, been recorded in these accounts.

The company has an agreement with its subsidiary Fife Power in respect of the use of the licence processes available under the agreement recorded in the accounts of the company. As the licence agreement is retained by the company, the intangible asset has been recorded in these accounts.

#### 10 TANGIBLE FIXED ASSETS

<b>Cost</b>	<b>Assets under development £</b>	<b>Office Equipment £</b>	<b>Total £</b>
At 1 January 1998	7,562,028	7,000	7,569,028
Additions	850,000	-	850,000
	<hr/>	<hr/>	<hr/>
At 31 December 1998	8,412,028	7,000	8,419,028
	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>			
At 1 January 1998	-	7,000	7,000
Charge for the period	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 1998	-	7,000	7,000
	<hr/>	<hr/>	<hr/>
<b>Net Book Amount</b>			
At 31 December 1998	8,412,028	-	8,412,028
	<hr/>	<hr/>	<hr/>
At 31 December 1997	7,562,028	-	7,562,028
	<hr/>	<hr/>	<hr/>

## **FIFE ENERGY LIMITED**

### **NOTE TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)**

#### **10 TANGIBLE FIXED ASSETS (Continued)**

Assets under development represent costs incurred in relation to the Fife Development Project to develop the IGCC power station in Fife, Scotland. The principal element of the costs incurred to date relates to the Westfield Development Centre.

During 1992, the company entered into an agreement to acquire a 125 year leasehold interest in the Westfield Development Centre from British Gas plc. The cost of the leasehold interest in the Westfield Development Centre and certain licences (included in intangible fixed assets) was £10 million. Under the terms of the agreement with British Gas plc, the company paid £1.8 million to British Gas plc on entry to the premises, with a further £0.5 million falling due on completion of certain aspects of the power generation development project or on the sale of the company's interest in the Westfield Development Centre. A further £7.7 million, including £1 million relating to the licences referred to in Note 9, was payable to British Gas plc when certain other aspects of the development project were satisfactorily completed. In addition, the company had an option to purchase the Westfield Development Centre after settling the £10 million for the leasehold interest.

On 5 June 1995, a supplementary agreement with British Gas plc was signed by the company which amended the terms of the 1992 agreement. Under the new agreement, the liability of £7.7m was split into two components; £200,000 initial payment for the licence, and £7.5m balance. As noted in note 9, the initial payment for the licence was made in December 1996. The liability of £7.5m is contingent on achievement of financial closure of the gasification project and test runs being completed satisfactorily. As a result of the completion of financial closure of Phase I in January 1997 and the director's confidence that the further financial closures and test runs will be completed satisfactorily, this asset and related liability were recognised in the balance sheet.

The charge of £0.5 million and 50% of the related accrued interest was settled in December 1995. The balance of interest was due to British Gas plc by 30 April 1998. This payment enabled the company to purchase the freehold title to the Westfield Development Centre. The company obtained clear title to the site with the exception that British Gas plc reserve the right to enter and remove the proprietary equipment relating to the gasification process.

As part of the arrangements at financial closure in January 1997 of Phase I, specific assets of £1.486 million together with £2.66 million of capitalised development costs relating to the 75MW project were transferred to Fife Power. The consideration for these transfers was effected by the assumption of Fife Power of liabilities of the company amounting to £7.2 million (refer to Note 3).

In September 1998 and April 1999, additional assets have been transferred between the company and Fife Power in order to effect the intention of the original transfer and conditions of the agreement in January 1997 for which there was a consideration of £1.486 million as noted above. As the substance of this series of transactions is to effect the transfer of specific assets for a consideration of £1.486 million, these additional transfers have been incorporated within this original transaction.

During the year, £850,000 for gasification capability costs were capitalised.

# FIFE ENERGY LIMITED

## NOTE TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

### 10 TANGIBLE FIXED ASSETS (Continued)

The principal components of tangible and intangible assets at 31 December 1998 comprise:

	1998 £million	1997 £million
Westfield site	0.81	0.81
Addition for gasification in 1998	0.85	-
Intangible asset payments	0.26	0.26
Liability on Financial Closure		
- intangible asset	0.80	0.80
- assets under development	6.75	6.75
	<hr/>	<hr/>
	9.47	8.62
	<hr/>	<hr/>
<u>Split</u>		
Tangible assets	8.41	7.56
Intangible assets	1.06	1.06
	<hr/>	<hr/>
	9.47	8.62
	<hr/>	<hr/>

The director is of the opinion that the value of the site and associated assets is significantly greater than the carrying value in the accounts.

### 11 DEBTORS - Amounts due from group undertakings

Included in the amounts due from group undertakings is an unsecured loan to Global Energy Europe Limited ("GEE"). This loan is not interest bearing and requires a thirty day notice period. GEE has net liabilities at 31 December 1998 of £2.3 million and would require distributions from its subsidiary companies to be able to repay these funds. The director of GEE is confident that future developments of the Westfield site by the subsidiaries will be achieved and, accordingly, that there is no impairment of the value of this debt.

### 12 CREDITORS (amounts falling due within one year)

	1998 £	1997 £
Capital creditor	8,429,088	7,579,088
Amounts owed to group companies	367,582	25,622
Trade creditors	241,078	99,751
Interest on promissory note to El Paso	89,772	-
Other creditors	50,004	50,004
Other taxes	18,483	3,332
Accruals	18,418	28,760
Corporation tax	-	257,092
	<hr/>	<hr/>
	9,214,425	8,043,649
	<hr/>	<hr/>

# FIFE ENERGY LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

### 12 CREDITORS (amounts falling due within one year) (Continued)

The capital creditor primarily relates to the acquisition cost of the Westfield Development Centre and certain licences plus accrued interest thereon. As explained in more detail in Note 10, a subsequent agreement with British Gas plc was signed by the company which waived the interest on the remainder of the purchase consideration of £7.5m. In addition, the liability of £7.5m has become partly contingent on financial closure of the gasification project and completion of the test run. As financial closure of Phase I was achieved in January 1997 and the director is confident that the financial closure of the gasification project and the test runs will be completed satisfactorily, the liability has been recorded in the accounts. The balance of interest on the initial purchase consideration of £500,000 was payable to British Gas plc by 30 April 1998. In accordance with the agreement, interest in respect of the capital creditor has become due during 1998 at a rate of base plus 4%.

Following the purchase of the freehold title in December 1995, the bank was provided with a standard security against the company's freehold and leasehold interest in the Westfield Development Centre. The bank continues to hold security over the whole site in respect of the debt due from the subsidiary company Fife Power.

13 CREDITORS (amounts falling due after more than one year)	1998 £	1997 £
Promissory note	2,221,154	-

On 25 September 1998, El Paso provided a loan to the company of \$3,696,000 which is due on or before 25 September 2000. Interest is due on the unpaid balance at a rate of 15% from the date of the agreement until repaid. The promissory note is secured by a floating charge over the whole property, assets and rights (including uncalled capital) of FEL. The exchange difference arising on translation at year end has been recorded in the profit and loss account.

An analysis of total creditors of the company falling due within the following periods:

	1998 £	1997 £
Within one year (Note 12)	9,214,425	8,043,649
Between one and two years	2,221,154	-
Between two and five years	-	-
In five years or more	-	-
	<hr/>	<hr/>
	11,435,579	8,043,649
	<hr/>	<hr/>

**FIFE ENERGY LIMITED****NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)****14 SHARE CAPITAL**

	<u>1998</u> £	<u>1997</u> £
Authorised:		
<b>Equity</b>		
Ordinary shares of £1 each	53,192	56,587
A ordinary shares of £0.0001	-	3
<b>Non equity</b>		
Special shares of £0.0001	3,398	-
	<hr/>	<hr/>
	56,590	56,590
	<hr/>	<hr/>
Allotted and fully paid:		
<b>Equity</b>		
Ordinary shares of £1 each	53,192	56,587
A ordinary shares of £0.0001	-	1
<b>Non equity</b>		
Special shares of £0.0001	3,396	-
	<hr/>	<hr/>
	56,588	56,588
	<hr/>	<hr/>

On 23 September 1998, 3,395 ordinary shares were redesignated as special shares. The A ordinary shares were redesignated to special shares on 24 September 1998. The purpose of the redesignation of these shares was to permit EIF to participate in a dividend which, subject to distributable reserves being available, is payable upon receipt by the company of the proceeds of the exercise by Fife Electric Limited of its option over part of the Westfield site. As a result of the transfer on 24 September 1998 by EIF to El Paso of their interests in their interests in the subsidiary company, Fife Power, EIF have agreed to transfer the interests in the special shares of FEL to Global Energy Inc. At year end, this transfer had not been completed.

The company adopted revised Articles of Association on 24 September 1998.

**Rights**

The holders of the special shares are not entitled to participate in the distribution of any profits other than the profits arising from the options with Fife Electric Limited and Global Environmental Limited.

On a return of assets on liquidation or otherwise, the surplus assets of the company remaining after payment of its liabilities shall be distributed as follows:

- in paying or assigning the relevant sum to the holders of the special shares
- and thereafter, any such surplus assets shall be distributed among the holders of the ordinary shares



## **FIFE ENERGY LIMITED**

### **NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)**

#### **14 SHARE CAPITAL (Continued)**

The relevant sum shall mean:

- if at the date on which the said return on assets is made by the company (or, if the said return is made in more than one payment, the last date) (the "return date") the holders of the special shares shall have received both the Fife Electric payment and the Global Environmental payment, the sum of £1,000;
- if at the return date the Fife Electric payment but not the Global Environmental payment shall have been received by the holders of the special shares, a distribution in specie of a right to participate in 28% of the Global Environmental payment;
- if at the return date the Global Environmental payment but not the Fife Electric payment shall have been received by the holders of the special shares, a distribution in specie of a right to participate in 28% of the Fife Electric payment;
- if at the return date neither the Fife Electric payment nor the Global Environmental payment shall have been received by the holders of the special shares, a distribution in specie of a right to participate in 28% of both such payments.

On receipt by the company of the payment from Fife Electric under the option, 28% of this receipt, after deduction of reasonable expenses and taxation, shall, without the need for any declaration by the directors or any resolution of the company, be distributed by way of dividend among the holders of the special shares.

On receipt by the company of the payment from Global Environmental under the option, 28% of this receipt, after deductions of reasonable expenses and tax, shall, without the need for any declaration by the directors or any resolution of the company, be distributed by way of dividend among the holders of the special shares.

In the event that, at the date the Fife Electric payment and/or the Global Environmental payment is to be distributed, the company is prohibited from making such a distribution by virtue of the Companies Act 1985, the following provisions shall apply:

- a) on the date the company shall pay to the holders of the special shares on account of the relevant payment the maximum sum (if any) which can then properly be paid by the company;
- b) the company shall pay to the holders of the special shares on account of the balance of the relevant payment for the time being remaining outstanding, and until the relevant payment shall have been paid in full, the maximum sum (if any) which can properly be paid by the company as soon as such sum can lawfully be paid by the company.

Following the receipt of either the Fife Electric payment and/or the Global Environmental payment, the company shall pay no dividends to its ordinary shareholders, until such time as the dividends to the special shares have been paid in full.

#### **Voting**

Holders of special shares are entitled to receive notice of and to attend and address all general meetings and to receive copies of all circulars sent to holders of shares or debentures in the company and of all resolutions of the company in general meeting but shall not be entitled to vote at any general meeting.

## **FIFE ENERGY LIMITED**

### **NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)**

#### **15 RELATED PARTY TRANSACTIONS**

In 1997, costs of £99,782 were incurred in respect of technical and advisory services provided by Global Energy Inc in relation to the Fife Development Project. The director has an interest in this ultimate parent company. In 1998, the company did not incur these costs.

#### **16 FUNDING AGREEMENTS**

The company's debt to the bank was assumed by Fife Power as part of financial closure of Phase I and the transfer of assets.

The company has entered an agreement with El Paso, a shareholder of the subsidiary company Fife Power, for a loan of \$3,696,000 (refer to Note 13). This loan has been secured by a floating charge over the assets of the company and a standard security over the heritable property. These funds have been lent to the parent company as an unsecured, non interest bearing loan (refer to Note 11).

#### **17 PARENT COMPANY**

The company's immediate parent company is Global Energy Europe Limited, a company registered in England. The company's ultimate parent company is Global Energy Inc, a company incorporated in the USA. The parent company has taken advantage of the exemption conferred by Section 248 of the Companies Act 1985 from the need to prepare group accounts, on the grounds that the group is small.

#### **18 CONTINGENT LIABILITIES AND CLAIMS**

The company has negotiated an agreement for a technology licence. As highlighted in Note 9, a \$100,000 non refundable payment was made in 1996 in respect of this licence. The renegotiation of this licence has not yet been formally documented by the parties. The existing agreement is wholly contingent on the commencement of operations following the achievement of financial closure of the gasification project. This additional liability has not been recorded in these accounts.

The company has granted options to Fife Electric Limited and Global Environmental Limited, which are group companies, in respect of the transfer of land on the payment of the option price.

The company has entered a participation fee agreement with El Paso, investors in Fife Power. This entitles El Paso in respect of certain proceeds from the sale of land at the Westfield site which is not required for the projects currently under development and/or contemplation by Fife Power, to 28% of the relevant sale proceeds.

#### **19 CASH FLOW STATEMENT**

The director has taken advantage of the exemption conferred by FRS1 from the need to prepare a cash flow statement on the grounds that the company is small as defined in Section 246 to Section 249 of the Companies Act 1985.

## **FIFE ENERGY LIMITED**

### **NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)**

#### **20 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS**

	<u>1998</u> £	<u>1997</u> £
(Loss)/profit for the financial year	(357,599)	2,662,648
Issue of share capital	-	-
Share premium on issue of shares	-	-
Opening shareholders' funds	793,307	(1,869,341)
	<hr/>	<hr/>
Closing shareholders' funds	435,708	793,307
	<hr/>	<hr/>
Equity shareholders	432,312	793,307
Non equity shareholders	3,396	-
	<hr/>	<hr/>
	435,708	793,307
	<hr/>	<hr/>

#### **21 SUBSIDIARY UNDERTAKINGS**

On 27 February 1998 the wholly owned subsidiary, Fife LeaseCo, was wound up. This was a single member company registered in Scotland with an issued share capital of £2. The company had elected not to trade.

The company has an interest in Fife Limited, a single member company registered in Scotland with an issued share capital of £2. The shares of Fife Limited held by the company have been transferred as security for a loan to Bank of Scotland Central Nominees Limited. Fife Limited holds a 50% (1997:51%) interest in Fife Power, an unlimited liability company registered in Scotland. The 75MW project construction and commercial operations will be undertaken by Fife Power.

Financial information is presented about the parent company, Fife Energy Limited, as an individual undertaking and not about its group. The director has taken advantage of the exemption conferred by Section 248 of the Companies Act 1985 from the need to prepare group accounts on the grounds that the group is small.

#### **22 GUARANTEES AND SECURITIES**

The company has transferred as security the shares held in Fife Limited to Bank of Scotland Central Nominees Limited (refer Note 21).

The company has granted to the Bank of Scotland a floating charge over the assets of the company in respect of the sums due by its subsidiary Fife Power.

During 1998, the company has granted a floating charge and standard security over the assets and heritable property of the company in respect of a promissory note for \$3,696,000 due to El Paso.