

FIFE ENERGY LIMITED
(Registered Number : 137656)

DIRECTOR'S REPORT AND ACCOUNTS

31 DECEMBER 1999

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FIFE ENERGY LIMITED

**DIRECTOR'S REPORT AND ACCOUNTS
31 DECEMBER 1999**

Directors

HH Graves (USA)

Bankers

Bank of Scotland
9 Falkland Gate
Glenrothes
KY7 5LW

Auditors

PricewaterhouseCoopers
32 Albyn Place
Aberdeen
AB10 1YL

Secretary

Burness
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 1999

The director submits his report and audited accounts for the year ended 31 December 1999.

TRADING RESULTS

The results for the year are set out in the profit and loss account. The loss for the year of £859,934 (1998: £357,599) has been transferred from reserves. The director does not recommend payment of a dividend (1998: £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. During 2000, Fife Power commenced the second phase of the project to increase the capacity of the plant to 120MW on a combined cycle basis.

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

DIRECTOR AND HIS INTERESTS

The director who held office during the year is detailed on page 1.

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.

FIFE ENERGY LIMITED

DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

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;
- 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.

AUDITORS

PricewaterhouseCoopers 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

12 FEBRUARY 2001



Director

FIFE ENERGY LIMITED

AUDITORS' REPORT TO THE MEMBERS OF FIFE ENERGY LIMITED

We have audited the accounts on pages 6 to 17.

Respective responsibilities of directors and auditors

The director is responsible for preparing the director's report. As described on page 3 this includes responsibility for preparing the accounts in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the director's report is not consistent with the accounts, 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 information specified by law regarding directors' remuneration and transactions is not disclosed.

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 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.

Fundamental uncertainty and going concern

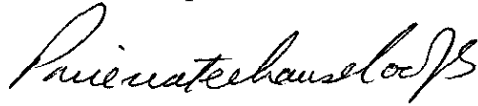
In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the ongoing funding of the company. Should the company be unable to secure adequate funding or receive distributions from the subsidiary companies, the company may be unable to continue trading. Details relating to these fundamental uncertainties are described in Note 1. In particular your attention is drawn to the need for other group companies to achieve further development targets and financial closure of other phases prior to being able to make any distributions to shareholders which would enable the company to meet these continuing liabilities.

In view of the significance of these uncertainties, we consider that they should be drawn to your attention but our opinion is not qualified in these respects.

FIFE ENERGY LIMITED

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
Aberdeen

12 February 2001

FIFE ENERGY LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	1999 £	1998 £
Turnover		-	-
Cost of sales		<u>-</u>	<u>-</u>
GROSS PROFIT		-	-
Administrative expenses		(349,624)	(1,408,593)
Management charge		-	(375,000)
Other operating income		<u>325,482</u>	<u>1,488,875</u>
OPERATING LOSS		(24,142)	(294,718)
Interest receivable		1,398	5,738
Interest payable	6	(765,113)	(304,557)
Exchange losses		<u>(72,077)</u>	<u>(21,154)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(859,934)	(614,691)
Taxation	7	<u>-</u>	<u>257,092</u>
LOSS FOR THE FINANCIAL YEAR	14	(859,934)	(357,599)
RETAINED PROFIT BROUGHT FORWARD		<u>213,632</u>	<u>571,231</u>
RETAINED (LOSS)/PROFIT CARRIED FORWARD		<u>(646,302)</u>	<u>213,632</u>

There were no recognised gains or losses other than the loss for the financial year (1998: £nil). All results arose from continuing operations.

FIFE ENERGY LIMITED

BALANCE SHEET AT 31 DECEMBER 1999

	Note	1999 £	1998 £
FIXED ASSETS			
Intangible assets	8	1,062,949	1,062,949
Tangible assets	9	8,392,028	8,412,028
Investment	10	<u>2</u>	<u>4</u>
		9,454,979	9,474,981
CURRENT ASSETS			
Amounts due from group undertakings		2,327,300	2,327,300
Cash at bank and in hand		<u>27,022</u>	<u>69,006</u>
		2,354,322	2,396,306
CREDITORS (amounts falling due within one year)	11	<u>(12,233,527)</u>	<u>(9,214,425)</u>
NET CURRENT LIABILITIES		<u>(9,879,205)</u>	<u>(6,818,119)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(424,226)	2,656,862
CREDITORS (amounts falling due after more than one year)	12	<u>-</u>	<u>(2,221,154)</u>
NET (LIABILITIES)/ASSETS		<u>(424,226)</u>	<u>435,708</u>
CAPITAL AND RESERVES			
Share capital	13	56,588	56,588
Share premium		165,488	165,488
Profit and loss account		<u>(646,302)</u>	<u>213,632</u>
Shareholders' funds	14	<u>(424,226)</u>	<u>435,708</u>

APPROVED BY THE DIRECTOR ON 12 FEBRUARY 2001



DIRECTOR

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

1 FUNDAMENTAL UNCERTAINTY AND GOING CONCERN

The ultimate parent company has confirmed that it intends to provide sufficient funds to enable the company to discharge its liabilities over the next 12 months.

The 400MW project will be developed by Fife Electric Limited. The director believes that financial closure of the project by Fife Electric Limited will occur in 2001. The closure of this project would enable Fife Electric Limited to exercise an option to purchase the land and relevant generating licence from Fife Energy Limited. This will provide additional funds for the company to meet its liabilities.

The accounts for this company have been prepared on the going concern basis on the assumption that:

- The parent undertaking will provide working capital to meet the liabilities and ongoing expenses of the company.
- Fife Electric Limited will achieve financial closure of the 400 MW project, exercise the option and provide a revenue stream to the company. After resolution of Fife Energy Limited's liabilities, any surplus funds would enable a distribution to be made to shareholders.

Should Fife Electric Limited not achieve financial closure, Fife Energy Limited will not have available reserves to complete a distribution to its parent company in the near future. In addition, the timing and extent of any revenue streams from Fife Power to Fife Energy Limited are not certain at present. The company continues to depend on the parent undertaking to provide working capital to enable the company to meet its liabilities and expenses. In the absence of future revenues from the subsidiaries and ongoing support by the parent undertaking, the company may be unable to continue trading and adjustments to the value of assets to their recoverable amount and provision of further liabilities would have to be made. The accounts do not include any adjustments that would result from the company's inability to meet its liabilities.

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.

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)

2 ACCOUNTING POLICIES (CONTINUED)

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.

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £	1998 £
The loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
- for audit services	5,000	9,000
Management charge	<u>-</u>	<u>375,000</u>

4 EMPLOYEE COSTS

	1999 £	1998 £
Wages and salaries	55,527	351,960
Social security costs	<u>5,700</u>	<u>35,196</u>
	<u>61,227</u>	<u>387,156</u>
Average number of employees during the year	<u>2</u>	<u>12</u>

In addition, the company has incurred costs of £31,838 (1998 : £56,626) in respect of an employee of group companies.

5 DIRECTOR'S EMOLUMENTS

During 1999, the director received emoluments of £nil in respect of services to the company (1998 : £nil).

6 INTEREST PAYABLE

	1999 £	1998 £
Interest on fixed asset creditor	421,128	214,785
Interest on promissory note to El Paso	<u>343,985</u>	<u>89,772</u>
	<u>765,113</u>	<u>304,557</u>

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)

7 TAXATION

	1999 £	1998 £
UK corporation tax	-	(187,777)
Release of prior year tax provision	<u>-</u>	<u>(69,315)</u>
	<u>-</u>	<u>(257,092)</u>

There are no timing differences which would result in a deferred tax liability or asset for the period. In 1999, no provision for deferred taxation was considered necessary due to the availability of tax losses (1998 : £nil); the potential deferred tax asset which would have been provided in 1999 is estimated at £160,000 (1998 : £10,775).

8 INTANGIBLE FIXED ASSETS

During 1992 the company entered into an agreement with a third party whereby it was entitled to make use of certain licensed processes on payment of £1 million. At 31 December 1999, £200,000 has been paid and the remaining balance of £800,000 is contingent on financial closure of the gasification project and test runs being completed satisfactorily.

Also included within intangible fixed assets is £62,949 relating to a payment made 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. The payment is wholly contingent on the commencement of commercial operations following the achievement of financial closure of the gasification project and therefore this additional liability has not, been recorded in these accounts.

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)

9 TANGIBLE FIXED ASSETS

	Assets under development £	Office Equipment £	Total £
Cost			
At 1 January 1999	8,412,028	7,000	8,419,028
Disposals	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
At 31 December 1999	<u>8,392,028</u>	<u>7,000</u>	<u>8,399,028</u>
Depreciation			
At 1 January 1999 and 31 December 1999	<u>-</u>	<u>7,000</u>	<u>7,000</u>
Net Book Amount			
At 31 December 1999	<u>8,392,028</u>	<u>-</u>	<u>8,392,028</u>
At 31 December 1998	<u>8,412,028</u>	<u>-</u>	<u>8,412,028</u>

Assets under development represent costs incurred in relation to the Fife Development Project to develop the integrated gasification combined cycle 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 a third party. 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, £2.3 million has been paid as at 31 December 1999. The remaining £7.7 million, including £800,000 relating to the licences referred to in Note 8, is payable when certain other aspects of the development project are satisfactorily completed.

The principal components of tangible and intangible assets at 31 December 1999 comprise:

	1999 £million	1998 £million
Westfield site	0.79	0.81
Addition for gasification capability	0.85	0.85
Intangible asset payments	0.26	0.26
Liability on Financial Closure		
- intangible asset	0.80	0.80
- assets under development	<u>6.75</u>	<u>6.75</u>
	<u>9.45</u>	<u>9.47</u>

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)

10 INVESTMENT

The group's wholly owned subsidiary undertaking is as follows:

Name	Country of registration	Class of share held
Fife Limited	Scotland	Ordinary

Fife Limited is a holding company with a 50% interest in Fife Power, a company registered in Scotland.

Following the wind up of the wholly owned subsidiary Fife Lease Co in 1998 the investment of £2 has been written off during the year.

11 CREDITORS (amounts falling due within one year)

	1999 £	1998 £
Fixed asset creditor	8,429,088	8,429,088
Amounts owed to group companies	367,582	367,582
Trade creditors	507,764	241,078
Promissory note and interest (note 12)	2,726,988	89,772
Other creditors	52,710	50,004
Other taxes	2,992	18,483
Accruals	<u>146,403</u>	<u>18,418</u>
	<u>12,233,527</u>	<u>9,214,425</u>

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.

12 CREDITORS (amounts falling due after more than one year)

	1999 £	1998 £
Promissory note	<u>—</u>	<u>2,221,154</u>

The loan provided to the company of \$3,696,000 is repayable 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 the company. The exchange difference arising on translation at year end has been recorded in the profit and loss account. At 31 December 1999 this loan is included within creditors (amounts falling due within one year).

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)

13 SHARE CAPITAL

	1999 £	1998 £
Authorised:		
Equity		
Ordinary shares of £1 each	53,192	53,192
Non equity		
Special shares of £0.0001	<u>3,398</u>	<u>3,398</u>
	<u>56,590</u>	<u>56,590</u>
Allotted and fully paid:		
Equity		
Ordinary shares of £1 each	53,192	53,192
Non equity		
Special shares of £0.0001	<u>3,396</u>	<u>3,396</u>
	<u>56,588</u>	<u>56,588</u>

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

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;

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)

13 SHARE CAPITAL (Continued)

- 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 1999 (CONTINUED)

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1999 £	1998 £
Loss for the financial year	<u>(859,934)</u>	<u>(357,599)</u>
Net reduction to shareholders' funds	(859,934)	(357,599)
Opening shareholders' funds	<u>435,708</u>	<u>793,307</u>
Closing shareholders' funds	<u>(424,226)</u>	<u>435,708</u>
Equity shareholders	(427,622)	432,312
Non equity shareholders	<u>3,396</u>	<u>3,396</u>
	<u>(424,226)</u>	<u>435,708</u>

15 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions permitted by FRS 8 not to disclose transactions with group companies.

16 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.

17 CONTINGENT LIABILITIES AND CLAIMS

The company has negotiated an agreement for a technology licence. As highlighted in Note 8, a £62,949 non refundable payment has been made in respect of this licence. The existing agreement is wholly contingent on the commencement of operations following the achievement of financial closure of the gasification project. This additional liability as detailed in Note 8 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.

FIFE ENERGY LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)****18 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.