



VOLUNTEER ENERGY LIMITED

Report and Financial Statements

30 September 1996

**Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN**



**REPORT AND FINANCIAL STATEMENTS 1996****CONTENTS****Page**

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Auditors' report	5
Profit and loss account	7
Balance sheet	8
Notes to the accounts	9
Additional information	15



REPORT AND FINANCIAL STATEMENTS 1996

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J D Ryan
R L Ennis
J D Johnson
A W Bowman

JOINT SECRETARIES

J D Johnson
J D Ryan

REGISTERED OFFICE

Hollinswood House
Stafford Park 1
Telford
Shropshire
TF3 3DD

BANKERS

Barclays Bank PLC
160 Piccadilly
London
W1A 2AB

SOLICITORS

Moss & Poulson
4 Claremont Bank
Shrewsbury
SY1 1RS

Denton Hall
5 Chancery Lane
London
EC4A 1BU

Climaco, Climaco, Seminatore, Leftouritz & Barofoli Co LPA
1226 Euclid Avenue
Cleveland
Ohio 44115
USA

AUDITORS

Deloitte & Touche
Chartered Accountants
Colmore Gate
2 Colmore Gate
Birmingham
B3 2BN

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 1996.

ACTIVITIES

The principal activities of the company are the purchase and supply of natural gas and electricity to industrial and commercial customers.

REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

Results for the fiscal year 1996 saw the company return a small profit while the prior year experienced a small loss. Turnover decreased 7% due to lower natural gas pricing. Margins on natural gas increased during the fiscal year as the cost of natural gas was better matched with sales pricing. The volume of natural gas sold increased back to the level the company had in fiscal year 1994 as fiscal year 1995 volumes were depressed due to a change of gas customers that occurred over the winter season.

The company began providing energy consultation services for a customer's operations in Hungary on a trial basis during the fiscal year. This is the first step toward expansion into the Eastern Europe energy markets. We continue to pursue expansion into the European energy markets as it is being privatised and opened up to competition. James D Ryan has been appointed Director of European Business Development to head up this function. Arthur W Bowman has taken over the Managing Director position replacing Mr Ryan. Additional staff have been hired during the year to maintain the quality of services to our increasing customer base. The result is an increase in Administrative expenses of 15%.

The company while being a shipper/supplier of natural gas continues to emphasise the managing of its customers electricity and gas supplies. This management technique is also the area being emphasised regarding the services to be provided throughout Europe.

As reported last year the company is a party to some gas supply contracts which have take-or-pay provisions. The company continues its efforts to renegotiate those contracts to allow for the changing rules governing the natural gas industry. Provisions to allow the contracts to be more reflective of market conditions are also topics of the renegotiations. The directors recognise that the company has approximately £2 million of potential liability for gas supply contracts which have a current market value at 30 September 1996 of approximately £1.68 million. The resultant difference at 30 September 1996 could potentially become losses to the company. The total £2 million is exposure to loss unless the gas is actually taken prior to 30 September 1997 without renegotiation of the contracts. The directors intend to vigorously contest the fulfilment of the terms of the gas supply contracts in question unless satisfactory negotiations can be concluded to allow for mutual financial and operational agreement between the parties. The parent company supports this viewpoint.

No dividends were declared during the fiscal year. Funding is maintained by a loan from our parent company of £155,000. The company also maintains an overdraft facility with its bankers for temporary financing requirements.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend. The profit for the year of £31,510 (1995 - loss of £18,084) has been transferred to reserves.

FIXED ASSETS

Movements in fixed assets are shown in note 8 to the accounts.

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors, who served throughout the year, are:

J D Ryan
R L Ennis
J D Johnson
A W Bowman

No director has any beneficial interests in the shares of the company.

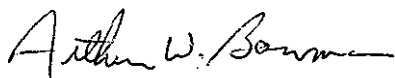
Directors' interests in the common stock of the parent company, Volunteer Energy Corporation, at 30 September 1995 and 30 September 1996 were:

	1996	1995
	Shares	Shares
J D Ryan	36	-
R L Ennis	364	500
J D Johnson	447	583
A W Bowman	-	-

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



A W Bowman

Director

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



Chartered Accountants

Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham B3 2BN

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AUDITORS' REPORT TO THE MEMBERS OF VOLUNTEER ENERGY LIMITED

We have audited the financial statements on pages 7 to 14 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Gas supply contracts

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the accounts concerning the uncertainty as to the eventual outcome of the negotiations regarding certain gas supply contracts. Until these negotiations are completed, it is not possible to estimate, with any reasonable degree of certainty, the maximum final liability that may fall upon the company. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Qualified opinion arising from disagreement about accounting treatment

The company has included take-or-pay gas in stocks and trade creditors at a value of £1,682,000 (1995 - £603,000), which is the net realisable value of the gas, whereas the company has been invoiced for a value of £2,055,000 (1995 - £818,000). Additionally, no provision was made in the prior year for foreseeable future losses relating to these purchase contracts, which amounted to £364,000.

The company is currently in the process of renegotiating its gas purchase contracts and the values recorded in the accounts reflect the directors' estimate of the future conclusion of these negotiations.



**AUDITORS' REPORT TO THE MEMBERS OF****VOLUNTEER ENERGY LIMITED (continued)****Qualified opinion arising from disagreement about accounting treatment (continued)**

Accordingly in our opinion, the amounts shown in the financial statements for trade creditors and provisions are understated by £373,000 (1995 - £215,000) and £Nil (1995 - £364,000) respectively, and the profit and loss reserve is overstated, and loss for the financial year understated, by £373,000 (1995 - £579,000).

Except for the failure to provide for the full value of the purchase invoice and the absence of the provision in the prior year for foreseeable future losses described above, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

13 May 1997


PROFIT AND LOSS ACCOUNT
Year ended 30 September 1996

	Note	1996 £	1995 £
TURNOVER	3	2,884,051	3,102,920
Cost of sales		(2,366,708)	(2,718,182)
Gross profit		517,343	384,738
Administrative expenses		(467,634)	(406,635)
OPERATING PROFIT/(LOSS)	5	49,709	(21,897)
Bank interest receivable		5,791	3,706
Interest payable and similar charges	6	(13,500)	(6,693)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		42,000	(24,884)
Tax on profit/(loss) on ordinary activities	7	(10,490)	6,800
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION BEING PROFIT/(LOSS) FOR THE FINANCIAL YEAR		<u>31,510</u>	<u>(18,084)</u>

STATEMENT OF MOVEMENT ON RESERVES
Year ended 30 September 1996

	Profit and loss account £
Balance at 1 October 1995	4,218
Retained profit for the year	31,510
Balance at 30 September 1996	<u>35,728</u>

All activities derive from continuing operations.

There are no material recognised gains and losses other than the profit for the financial year. Accordingly, no statement of total recognised gains and losses is given.



BALANCE SHEET
30 September 1996

	Note	£	1996 £	£	1995 £
FIXED ASSETS					
Tangible assets	8		118,156		71,263
CURRENT ASSETS					
Stocks	9	1,697,341		619,108	
Debtors	10	973,577		911,561	
Cash at bank and in hand		193,156		120	
			<u>2,864,074</u>	<u>1,530,789</u>	
CREDITORS: amounts falling due within one year	11	<u>(2,801,502)</u>		<u>(1,444,774)</u>	
NET CURRENT ASSETS			<u>62,572</u>		<u>86,015</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>180,728</u>		<u>157,278</u>
CREDITORS: amounts falling due after more than one year	12		<u>-</u>		<u>(8,060)</u>
			<u>180,728</u>		<u>149,218</u>
CAPITAL AND RESERVES					
Called up share capital	13		145,000		145,000
Profit and loss account			35,728		4,218
EQUITY SHAREHOLDERS' FUNDS	14		<u>180,728</u>		<u>149,218</u>

These financial statements were approved by the Board of Directors on *12 May 1997*
Signed on behalf of the Board of Directors

A W Bowman

A W Bowman
Director

**NOTES TO THE ACCOUNTS****Year ended 30 September 1996****1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

Depreciation is provided on the assets in equal annual instalments over their estimated useful lives. The rates of depreciation are as follows:

Leasehold improvements	over the period of the lease
Motor vehicle	25%
Fixtures, fittings and office equipment	25%

Stocks

Stocks, which represent natural gas to be delivered by suppliers, have been valued at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a consistent rate of charge on the remaining balance of the obligation.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

2. BASIS OF PREPARATION

The company is and has been party to gas supply contracts that have take-or-pay terms that allow extended take periods. These contracts have been used to meet the company's winter/heating season peaking gas supply needs. The company has recognised that take-or-pay gas as stock at the time that the contracts designated the gas as a take-or-pay obligation.

The gas market and regulatory conditions that evolved during fiscal year 1995 called certain gas supply contracts into question. Negotiations regarding those contracts were started to reflect undertakings and representations previously made to the company along with performance factors by parties involved with those contracts.

These contracts under their terms at 30 September 1996 and 1995 would oblige the company to take-or-pay gas volumes. It is the company's opinion that the contracts and their terms are contingent upon the negotiation results. The company has recorded these possible take-or-pay obligations at 30 September 1996 and 1995 as stock and trade creditors at the net realisable value of the gas of £1,682,000 (1995 - £603,000), which in the company's opinion represents a reasonable value that reflects the negotiation process.

The total obligations at 30 September 1996 for take-or-pay gas amounts to approximately £2 million for which there will be no right to take the gas after 30 September 1997 according to the terms of the presently questioned supply contracts.



NOTES TO THE ACCOUNTS

Year ended 30 September 1996

2. BASIS OF PREPARATION (continued)

The take-or-pay gas volumes when valued at the cost stipulated in the contracts are potentially in excess of the net realisable value that the company expects it could receive from its customers by approximately £373,000 (1995 - £215,000). In addition, at 30 September 1995, these contracts called for future volume obligations which, when valued at cost, would be in excess of the net realisable value as determined at 30 September 1995 by approximately £364,000, bringing the total potential loss exposure due to these contracts at 30 September 1995 to £579,000.

The company since its inception in 1992 has relied upon its parent company, Volunteer Energy Corporation, to provide financial support in form of guarantees, line-of-credit or other features. The parent company has committed to continue to provide the financial support needed to allow the company to continue functioning as a going concern irrespective of gas supply contracts negotiations. The natural gas marketing business is recognised as cyclical in nature in reference to profitability. The company has recognised this feature of its business and has always looked toward the long-term for its involvement in natural gas marketing.

On this basis the directors consider that it is appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result from the withdrawal of support of the company's parent undertaking.

3. TURNOVER

Turnover represents amounts derived from the company's ordinary activities, excluding value added tax. The turnover and profit are attributable to the principal activities of the company.

	1996 £	1995 £
Geographical analysis of turnover by destination		
United Kingdom	2,854,051	3,102,920
Other European countries	30,000	-
	<u>2,884,051</u>	<u>3,102,920</u>


NOTES TO THE ACCOUNTS
Year ended 30 September 1996
4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1996 £	1995 £
Directors' emoluments		
Fees	-	-
Other emoluments	105,636	105,645
	<u>105,636</u>	<u>105,645</u>
Remuneration of the chairman	-	-
Remuneration of the highest paid director	<u>88,854</u>	<u>66,000</u>
	No	No
Scale of other director's remuneration		
£ 0 - £ 5,000	1	1
£ 15,001 - £ 20,000	1	1
£ 20,001 - £ 25,000	-	1
	<u>-</u>	<u>1</u>
Average number of persons employed (including directors)		
Sales and distribution	5	5
Administration	8	7
	<u>13</u>	<u>12</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	243,208	241,233
Social security costs	25,507	25,412
	<u>268,715</u>	<u>266,645</u>

5. OPERATING PROFIT/(LOSS)

	1996 £	1995 £
The operating profit/(loss) is stated after charging/(crediting):		
Depreciation and amortisation		
Owned assets	24,765	14,177
Assets held under a finance leases	5,612	5,448
(Profit)/loss on disposal of fixed assets	(2,012)	380
Rentals under operating leases		
Equipment	1,732	1,427
Land and buildings	42,560	40,754
Auditors' remuneration		
Audit services	<u>2,900</u>	<u>2,500</u>


NOTES TO THE ACCOUNTS
Year ended 30 September 1996
6. INTEREST PAYABLE AND SIMILAR CHARGES

	1996 £	1995 £
Bank loans, overdrafts and other loans repayable within five years	1,028	2,655
Finance charges - finance leases	1,526	1,671
Other interest	10,946	2,367
	<u>13,500</u>	<u>6,693</u>

7. TAX ON PROFIT OR LOSS ON ORDINARY ACTIVITIES

	1996 £	1995 £
Corporation tax charge/(recoverable) based on the results of the year at 25% (1995 - 33%)	10,490	(6,800)
	<u>10,490</u>	<u>(6,800)</u>

8. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Motor vehicles £	Fixtures, fittings and office equipment £	Total £
Cost				
At 1 October 1995	10,556	33,450	58,858	102,864
Additions	-	30,773	49,003	79,776
Disposals	-	(11,000)	(2,598)	(13,598)
	<u>10,556</u>	<u>53,223</u>	<u>105,263</u>	<u>169,042</u>
At 30 September 1996	10,556	53,223	105,263	169,042
Accumulated depreciation				
At 1 October 1995	991	12,435	18,175	31,601
Charge for the year	2,111	10,697	17,569	30,377
Disposals	-	(9,199)	(1,893)	(11,092)
	<u>3,102</u>	<u>13,933</u>	<u>33,851</u>	<u>50,886</u>
At 30 September 1996	3,102	13,933	33,851	50,886
Net book value				
At 30 September 1996	<u>7,454</u>	<u>39,290</u>	<u>71,412</u>	<u>118,156</u>
At 30 September 1995	<u>9,565</u>	<u>21,015</u>	<u>40,683</u>	<u>71,263</u>

The net book value of fixed assets includes £11,081 (1995 - £16,692) in respect of assets held under finance leases.


NOTES TO THE ACCOUNTS
Year ended 30 September 1996
9. STOCKS

	1996 £	1995 £
Natural gas	1,697,341	619,108

10. DEBTORS

	1996 £	1995 £
Amounts falling due within one year		
Trade debtors	939,518	851,231
Other debtors	24,028	43,520
Prepayments and accrued income	10,031	16,810
	<u>973,577</u>	<u>911,561</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996 £	1995 £
Bank overdraft	-	126,711
Obligations under finance leases	8,060	6,089
Trade creditors	2,569,669	1,132,259
Amounts owed to group undertakings	182,850	157,198
Corporation tax	10,490	-
Other taxes and social security	10,767	8,065
Accruals and deferred income	19,666	14,452
	<u>2,801,502</u>	<u>1,444,774</u>

The bank overdraft facilities are secured by a letter of credit from the parent company, Volunteer Energy Corporation and is repayable on demand.

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1996 £	1995 £
Obligations under finance leases repayable:		
Between one and two years	-	8,060

13. CALLED UP SHARE CAPITAL

	1996 £	1995 £
Authorised		
1,000,000 Ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Called up, allotted and fully paid		
145,000 Ordinary shares of £1 each	<u>145,000</u>	<u>145,000</u>


NOTES TO THE ACCOUNTS
Year ended 30 September 1996
14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996 £	1995 £
Profit/(loss) for the financial year	31,510	(18,084)
Opening shareholders' funds	149,218	167,302
Closing shareholders' funds	<u>180,728</u>	<u>149,218</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts provided in the accounts and the amounts not provided are as follows:

	Provided		Not provided	
	1996 £	1995 £	1996 £	1995 £
Capital allowances in excess of depreciation	-	-	2,425	1,581

The directors do not consider the amounts of unprovided deferred taxation at 30 September 1996 of £2,425 (1995 - £1,581) to be material.

16. FINANCIAL COMMITMENTS

	1996 £	1995 £
Capital commitments		
Contracted for but not provided	-	-

Operating lease commitments

At 30 September 1996 the company was committed to making the following payments during the next year in respect of operating leases.

	Land and buildings £	Other £
Leases which expire:		
Within one year	250	-
Within two to five years	14,189	1,732
	<u>14,439</u>	<u>1,732</u>

17. ULTIMATE PARENT COMPANY

In the opinion of the directors, the company's ultimate parent company is Volunteer Energy Corporation, a company incorporated in the United States of America. Copies of the group accounts may be obtained from Volunteer Energy Corporation, 2602 Oakstone Drive, Columbus, Ohio, U.S.A., 43231.

**ADDITIONAL INFORMATION**

The additional information on page 16 has been prepared from the accounting records of the company. While it does not form part of the statutory financial statements, it should be read in conjunction with them and the auditors' report thereon.


ANALYSIS OF ADMINISTRATIVE EXPENSES
Year ended 30 September 1996

		1996		1995
	£	£	£	£
EMPLOYMENT COSTS				
Salaries	238,608		241,233	
National insurance	25,507		25,412	
Bonus pool	4,600		-	
	<u> </u>	268,715	<u> </u>	266,645
ESTABLISHMENT COSTS				
Rent	42,560		41,252	
Removal costs	5,000		4,354	
Insurances	4,376		3,419	
Utility costs	3,300		1,141	
	<u> </u>	55,236	<u> </u>	50,166
TRAVELLING EXPENSES				
Travel	4,278		9,493	
Subsistence	268		1,029	
Motor expenses	4,928		5,245	
	<u> </u>	9,474	<u> </u>	15,767
SELLING AND PROMOTION EXPENSES				
Advertising	17,046		185	
Promotions	3,718		3,431	
Entertainment	380		796	
	<u> </u>	21,144	<u> </u>	4,412
OFFICE AND ADMINISTRATION EXPENSES				
Office expenses	26,021		23,778	
Telephone	17,750		11,194	
Postage	3,253		1,655	
Subscriptions	7,639		2,435	
Other	10,716		3,762	
Professional charges:				
Legal	7,545		2,285	
Audit and accountancy	2,900		3,600	
Consulting fees	8,876		931	
	<u> </u>	84,700	<u> </u>	49,640
DEPRECIATION				
Motor vehicle	10,697		8,198	
Fixtures, fittings and equipment	17,569		10,436	
Leasehold improvements	2,111		991	
(Profit)/loss on disposal of fixed assets	(2,012)		380	
	<u> </u>	28,365	<u> </u>	20,005
TOTAL		<u>467,634</u>		<u>406,635</u>