

# CALENERGY RESOURCES LIMITED

Registered Number 4508881

Registered Office Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF

## DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2006

This directors' report has been prepared in accordance with the special provisions relating to small companies under section 246(4) of the Companies Act 1985

### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company is, and will continue to be, to act as a holding company for investments in oil and gas assets

The Company has developed a portfolio of gas exploration, construction and producing assets in Australia, Poland and the United Kingdom and, during the year, moved several construction projects towards completion in Australia and Poland. During the year the Company benefited from higher product prices, with limited hedging being undertaken to cover product price risk when considered appropriate

### RESULTS AND DIVIDENDS

The Company made a loss for the year after taxation of £727,783 (2005 loss of £906,874). No dividend was paid during the year. The directors recommend that no final dividend be paid for the year and that the loss of £727,783 be withdrawn from reserves.

### DIRECTORS AND THEIR INTERESTS

The directors who served throughout the year ended 31 December 2006 and since the year end were as follows

G E Abel

P Ainsley

P E Connor

K Linge

M J Sparkes

P R A Youngs

Throughout the year none of the directors were materially interested in any contract in relation to the business of the Company

### FINANCIAL RISK MANAGEMENT

The Company is exposed to risks associated with changes in interest rates. These risks are monitored on an ongoing basis. The Company does not enter into any hedging activity and does not use financial instruments in this regard.

### AUDITORS

The Company has passed an elective resolution in accordance with the Companies Act 1985 to dispense with the annual re-appointment of auditors. Deloitte & Touche LLP will, accordingly, continue in office as auditors of the Company pursuant to section 386 of the Companies Act 1985.



## **CALENERGY RESOURCES LIMITED**

**REGISTERED NUMBER 4508881**

### **DIRECTORS' REPORT (CONTINUED)**

#### STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. However, directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- 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, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 1985. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### AUDIT OF THE ACCOUNTS

Each director, who is a director of the Company as at the date of this report, confirms that

- a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- b) he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

By order of the board



John Elliott  
Company Secretary  
16 July 2007

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAENERGY RESOURCES LIMITED**

We have audited the financial statements of CalEnergy Resources Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CALENERGY RESOURCES LIMITED  
(CONTINUED)**

**Opinion**

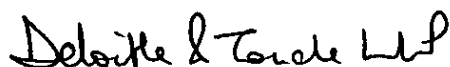
In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

**Separate opinion in relation to IFRS**

As explained in Note 2 to the financial statements, the Company, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board

Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London, United Kingdom

16 July 2007

**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 £	2005 £
Operating expenses		<u>(145,770)</u>	<u>(34,125)</u>
<b>Operating loss</b>	3	(145,770)	(34,125)
Investment income	5	642	1,042
Finance costs	6	<u>(627,978)</u>	<u>(868,112)</u>
<b>Loss before tax</b>		(773,106)	(901,195)
Tax credit/(charge)	7	<u>45,323</u>	<u>(5,679)</u>
<b>Loss for the year</b>	14	<u>(727,783)</u>	<u>(906,874)</u>

All activities relate to continuing operations

**STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2006**

There is no other income or expense other than the losses reported above

**CALENERGY RESOURCES LIMITED**  
**REGISTERED NUMBER 4508881**  
**BALANCE SHEET AS AT 31 DECEMBER 2006**

	Notes	2006 £	2005 £
<b>Non-current assets</b>			
Property, plant and equipment	8	14,767	16,850
Investments	9	<u>14,977,031</u>	<u>14,443,424</u>
		<u>14,991,798</u>	<u>14,460,274</u>
<b>Current assets</b>			
Trade and other receivables	10	17,760	12,518
Cash and cash equivalents	10	<u>7,234,379</u>	<u>7,721,771</u>
		<u>7,252,139</u>	<u>7,734,289</u>
<b>Total assets</b>		<u>22,243,937</u>	<u>22,194,563</u>
<b>Current liabilities</b>			
Trade and other payables	11	(245,515)	(117,069)
Current income tax liabilities	11	(94,926)	(145,177)
Borrowings	12	<u>(8,179,478)</u>	<u>(7,480,516)</u>
		<u>(8,519,919)</u>	<u>(7,742,762)</u>
<b>Net current liabilities</b>		<u>(1,267,780)</u>	<u>(8,473)</u>
<b>Total liabilities</b>		<u>(8,519,918)</u>	<u>(7,742,762)</u>
<b>Net assets</b>		<u>13,724,018</u>	<u>14,451,801</u>
<b>Equity</b>			
Share capital	13	17,317,962	17,317,962
Share premium	14	41,038	41,038
Retained earnings	14	<u>(3,634,982)</u>	<u>(2,907,199)</u>
<b>Total equity</b>	14	<u>13,724,018</u>	<u>14,451,801</u>

The financial statements were approved by the board of directors and authorised for issue on 16 July 2007 and were signed on its behalf by

  
K Linge  
Director

**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 £	2005 £
<b>Net cash used in operating activities</b>	15	<u>12,036</u>	<u>131,000</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment	8	(12,733)	(1,345)
Purchase of investment	9	<u>(533,607)</u>	<u>(540,099)</u>
<b>Net cash used in investing activities</b>		<u>(546,340)</u>	<u>(541,444)</u>
<b>Financing activities</b>			
Interest Paid		(627,978)	(868,112)
Increase in loan from Group undertakings		698,962	612,353
Issue of shares		<u>-</u>	<u>700,000</u>
<b>Net cash from financing activities</b>		<u>70,984</u>	<u>444,241</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(487,392)	33,797
<b>Cash and cash equivalents at beginning of year</b>		<u>7,721,771</u>	<u>7,687,974</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>7,234,379</u></u>	<u><u>7,721,771</u></u>

# **CALENERGY RESOURCES LIMITED**

**REGISTERED NUMBER 4508881**

## **NOTES TO THE ACCOUNTS - 31 DECEMBER 2006**

### **1 GENERAL INFORMATION**

CalEnergy Resources Limited is a company incorporated in England and Wales under the Companies Act 1985. The address of the registered office is Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF.

The nature of the Company's operations and its principal activities are set out in the principal activity and review of the business in the directors' report.

### **2 ACCOUNTING POLICIES**

#### **Basis of preparation**

The financial statements have also been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and therefore comply with Article 4 of the EU IAS Regulation.

The particular policies adopted by the directors are described below. The accounting policies have been applied consistently throughout the year and preceding year.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Where such judgments are made they are indicated within the accounting policies below.

#### **Critical accounting policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Where such judgments are made they are detailed within the accounting policies below.

#### **Accounting convention**

The accounts have been prepared under the historical cost convention. The Company has relied upon Section 228 of the Companies Act 1985 and has presented the accounts for the Company as an individual undertaking only and not as a Group undertaking.

#### **Recently issued accounting pronouncements**

At the date of authorisation of these financial statements, there were a number of International Financial Reporting Standards and Interpretations in issue but not yet effective. The directors consider that none of these Standards and Interpretations will be relevant to the Company in future periods.

#### **Investments**

Investments in subsidiaries are stated at cost less provision for any impairment.

#### **Property, plant and equipment**

Property, plant and equipment, being office equipment, is stated at cost less depreciation. Depreciation is calculated to write down the cost, less the estimated residual value, of those assets on a straight-line basis over their expected useful lives. Depreciation is charged on office equipment at a rate of 33% per annum.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.



**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006****ACCOUNTING POLICIES (CONTINUED)**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or asset realised, based on tax rates and tax legislation enacted or substantially enacted at the balance sheet date.

**Trade receivables and trade payables**

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Trade payables are not interest bearing and are stated at their nominal value.

**Cash and cash equivalents**

Cash and cash equivalents are cash or items readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Pensions**

The Company contributes to the Electricity Supply Pension Scheme ("ESPS"). The ESPS is a defined benefit plan that shares risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company accounts for the scheme as if it were a defined contribution scheme. Contributions to the scheme are charged to the income statement or capitalised as appropriate. The capital cost of ex-gratia and supplementary pensions is normally charged to the income statement in the period in which they are granted.

The Company also participates in a defined contribution scheme. Contributions payable to the scheme are charged to the income statement in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

**Borrowing costs**

Costs of borrowings are recorded in the income statement in the period in which they are incurred.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used. The rental payments under operating leases are substantially included as part of the costs recharged to other group companies.

**Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provision on the instrument.

**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006****ACCOUNTING POLICIES (CONTINUED)****Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

**3 OPERATING LOSS**

Operating loss, which comprises expenses incurred in undertaking the principal activity of the Company, is stated after charging

	2006 £	2005 £
Net staff costs (see note 4)	18,394	26,114
Depreciation	<u>14,816</u>	<u>16,355</u>

Auditors' remuneration was borne by another company in the CE Electric UK Funding Company group (the "CE Group") in the current and preceding financial years. Audit fees relating to the Company amounted to £8,000, (2005 £8,000). There were no fees payable in relation to non-audit services in 2006 or 2005.

**4 DIRECTORS' AND EMPLOYEES REMUNERATION**

	2006 £	2005 £
Directors' (being the key personnel) emoluments for services to the Company		
Short-term employee benefits	133,257	123,542
Post employment benefits	<u>18,952</u>	<u>16,513</u>
	<u>152,209</u>	<u>140,055</u>

At 31 December 2006, 6 directors were members of defined benefit schemes (2005 6)

The Company paid contributions in respect of 2 of the directors in the defined benefit schemes to the end of May 2004, after which the Company only paid for 1 director.

The emoluments of the highest paid director during the year were £133,257 (2005 £123,542) and pension contributions were £18,952 (2005 – £16,513).

	2006 £	2005 £
Employees remuneration		
Wages and salaries (including directors)	643,211	505,864
Social security costs	55,755	58,035
Other pension costs	<u>62,243</u>	<u>57,966</u>
	761,209	621,865
Less amounts recharged to other group companies at cost	<u>(742,815)</u>	<u>(595,751)</u>
	<u>18,394</u>	<u>26,114</u>

The average monthly number of employees (including executive directors) was 6 (2005 8)

**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006****5 INVESTMENT INCOME**

	2006 £	2005 £
Interest receivable	642	1,042

**6 FINANCE COSTS**

	2006 £	2005 £
Bank charges	1,157	676
Interest payable to Group undertakings (Note 16)	626,821	867,436
Total finance costs	627,978	868,112

**7 INCOME TAX CREDIT/(CHARGE)**

	2006 £	2005 £
(a) Analysis of credit/(charge) for the year		
Group relief receivable/(payable)	47,417	(4,695)
Under provision for prior years	(2,094)	(984)
Tax on profit before tax	45,323	(5,679)
(b) Reconciliation of tax credit/(charge) for the year		
Loss before tax	(773,106)	(901,195)
Tax credit on loss before tax at standard rate of corporation tax in United Kingdom of 30%	231,932	270,358
Factors affecting tax charge		
Imputed interest	(182,987)	(272,763)
Movement on unrecognised deferred tax asset	(1,528)	(2,290)
Under provision for prior years	(2,094)	(984)
Tax credit/(charge) for the year	45,323	(5,679)

A deferred tax asset of £4,340 (2005 £2,812) is not recognised in the accounts

**(c) Factors that may affect future tax charge**

The Chancellor of the Exchequer's Budget of March 2007 announced changes to the rate of corporation tax and to capital allowances to take effect between April 2008 and April 2011. The Company will evaluate the effect of these changes as soon as full details are known.

**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****8 PROPERTY, PLANT AND EQUIPMENT**

	Office equipment £
<b>COST</b>	
At 1 January 2005	47,558
Additions	<u>1,345</u>
At 31 December 2005	48,903
Additions	<u>12,733</u>
At 31 December 2006	<u>61,636</u>
<b>ACCUMULATED DEPRECIATION</b>	
At 1 January 2005	15,698
Charge for the year	<u>16,355</u>
At 31 December 2005	32,053
Charge for the year	<u>14,816</u>
At 31 December 2006	<u>46,869</u>
Net book value at 31 December 2006	<u>14,767</u>
Net book value at 31 December 2005	<u>16,850</u>

**9 INVESTMENTS**

	Shares in subsidiary undertakings £
Cost and net book value as at 1 January 2005	13,903,325
Additions	<u>540,099</u>
Cost and net book value as at 31 December 2005	14,443,424
Additions	<u>533,607</u>
Cost and net book value as at 31 December 2006	<u>14,977,031</u>

Details of the investments at 31 December 2006 are as follows

<b>Name of company</b>	<b>Country of incorporation</b>	<b>Holding</b>	<b>Proportion held</b>	<b>Nature of Business</b>
CalEnergy Resources Poland Sp z o o	Poland	34,074 500 pln ordinary shares	100%	Gas exploration and production
CalEnergy Gas (Australia) Limited	Great Britain	9,539,909 £1 ordinary shares	100%	Gas exploration and production
CalEnergy Gas Limited	Great Britain	2,682,373 £1 ordinary shares	100%	Gas exploration and production

**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****10 OTHER FINANCIAL ASSETS****Trade and other receivables**

	2006 £	2005 £
Other receivables	11,347	4,628
Prepayments	<u>6,413</u>	<u>7,890</u>
	<u>17,760</u>	<u>12,518</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value

**Cash and cash equivalents**

Cash and cash equivalents comprise cash held by the Company, short-term bank deposits and deposits with CE Group undertakings with an original maturity of less than three months. The carrying amount of these assets approximates their fair value.

**Credit risk**

The Company's principal financial assets are cash and cash equivalents and trade and other receivables. There is no concentration of credit risk and no amounts are provided against receivables.

**11 OTHER FINANCIAL LIABILITIES**

	2006 £	2005 £
<b>Trade and other payables</b>		
Other payables	<u>245,515</u>	<u>117,069</u>
<b>Current income tax liabilities</b>		
Group relief	<u>94,926</u>	<u>145,177</u>

The directors consider that the carrying amount of other financial liabilities approximates their fair value.

**12 BORROWINGS**

Borrowings represent amounts owed to CE Group undertakings. The amounts owed to CE Group undertakings include £6,409,761, which bears interest at a fixed rate of 11% and is repayable in 2007. The balances of other borrowings do not attract interest and are repayable on demand.

The directors consider that the carrying value of borrowings approximates to their fair value.

**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****13 SHARE CAPITAL**

	2006 £	2005 £
Authorised		
29,996,249 Preference share of £1 each	29,996,249	29,996,249
375,125 Management shares of 1p each	3,751	3,751
	<u>30,000,000</u>	<u>30,000,000</u>
Allotted, called up and fully paid		
Preference share of £1 each	17,314,211	17,314,211
Management shares of 1p each	3,751	3,751
	<u>17,317,962</u>	<u>17,317,962</u>

Preference shares carry an entitlement to a dividend annually if proposed by the directors at a general meeting held by the Company. The voting rights are one vote for every share held. Preference shares have priority over Management shares on winding up. Management shareholders are not entitled to voting rights or dividends. Both classes of shares are equity and non-redeemable.

**14 MOVEMENT ON RESERVES AND RECONCILIATION OF MOVEMENTS IN EQUITY**

	Share Capital £	Share Premium £	Retained Earnings £	Total Equity £
At 1 January 2005	16,617,962	41,038	(2,000,325)	14,658,675
Issue of shares	700,000	-	-	700,000
Loss for the year	-	-	(906,874)	(906,874)
At 31 December 2005	17,317,962	41,038	(2,907,199)	14,451,801
Loss for the year	-	-	(727,783)	(727,783)
At 31 December 2006	<u>17,317,962</u>	<u>41,038</u>	<u>(3,634,982)</u>	<u>13,724,018</u>

**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****15 NET CASH FROM OPERATING ACTIVITIES**

	2006 £	2005 £
Operating loss	(145,770)	(34,125)
Depreciation	14,816	16,355
Operating cash flows before movements in working capital	(130,954)	(17,770)
(Increase)/decrease in receivables	(2,736)	2,690
Increase/(decrease) in payables	125,940	(28,625)
Cash used in operations	(7,750)	(43,705)
Group relief (paid)/received	(4,928)	173,663
Interest received	642	1,042
Net cash used in operating activities	(12,036)	131,000

**16 RELATED PARTY TRANSACTIONS**

The Company has advanced interest free loans to companies in the CE Group. Included within cash and cash equivalents is £7,227,567 as at 31 December 2006 (2005 £7,716,671) in relation to these loans.

The Company has received loans from companies in the CE Group. The total interest included in finance costs in the income statement for the year ended 31 December 2006 was £626,821 (2005 £867,436). Included within borrowings is £8,179,477 as at 31 December 2006 (2005 £7,480,516), of which £6,409,761 (2005 £6,550,796) bears interest at a fixed rate of 11% with the balance of the loans not attracting interest.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

Details of payments made to key management personnel, being the directors, are provided in Note 4.

**17 PENSIONS**

The Company participates in the Northern Electric Group of the ESPS (the "Northern Group"). This is a defined benefit plan that shares risk between various entities under common control, the assets of which are held independently from the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the scheme as if it were a defined contribution scheme.

Contributions to the scheme for the year were £55,755 (2005 £57,966).

The last full actuarial valuation of the Northern Group's share of the ESPS was carried out by Hewitt, Bacon and Woodrow, consulting actuaries, as at 31 March 2004. The projected unit method was used for the valuation. The principal actuarial assumptions were that the investment return would exceed salary increases by 1.6% per annum (inclusive of merit awards) and exceed future pension increases by 2.0% per annum.

The total market value of the assets of the Northern Group at the date of actuarial valuation was £678.8m.

**CALENERGY RESOURCES LIMITED****REGISTERED NUMBER 4508881****NOTES TO THE ACCOUNTS - 31 DECEMBER 2006 (CONTINUED)****17 PENSIONS (CONTINUED)**

For the Northern Group the valuation showed that the actuarial value of the assets represented 85.3% of the actuarial value of the accrued benefits. The accrued benefits include all benefits for pensioners and other former members as well as benefits based on service completed to date for active members. This represented a funding deficiency of £116.6m. Allowing for the effect of future salary increases the actuarial value of the assets was 78.1% of the accrued benefits, representing a deficiency of £190.3m.

The Principal Employer reached agreement during 2005 with the Independent Trustee and Group Trustees to repair the scheme deficit. The agreement comprises monthly cash payments of £1.9m (£23.1m per annum) that started in April 2005.

Full details of the scheme can be found in the accounts of CE Electric UK Funding Company for the year ended 31 December 2006.

**18 OPERATING LEASE ARRANGEMENTS**

	2006 £	2005 £
Minimum lease payments under operating leases recognised in the year	<u>33,982</u>	<u>33,528</u>

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

	2006 £	2005 £
Within one year	33,982	5,605
In the second to fifth year inclusive	<u>22,655</u>	<u>-</u>
	<u>56,637</u>	<u>5,605</u>

Operating lease payments represent rentals payable by the Company for certain of its office properties. The lease has been negotiated until the third quarter of 2008 with a break clause during the first quarter of 2006 which was not exercised. The rental is fixed for this term of the lease.

**19 ULTIMATE HOLDING COMPANY**

The immediate parent undertaking of CalEnergy Resources Limited is CalEnergy Gas (Holdings) Limited. The ultimate controlling party and ultimate parent undertaking of CalEnergy Gas (Holdings) Limited is Berkshire Hathaway, Inc., a company incorporated in the United States of America.

Copies of the group accounts of Berkshire Hathaway, Inc. (the parent undertaking of the largest group preparing group accounts) which include CalEnergy Resources Limited and the group accounts of CE Electric UK Funding Company, the smallest parent undertaking to prepare group accounts in the UK can both be obtained from the Company Secretary, CE Electric UK Funding Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.