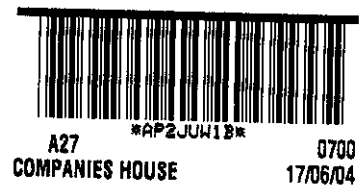


**Company Registration No. 04508881**

**CalEnergy Resources Limited**

**Report and Financial Statements**

**31 December 2003**



# **CalEnergy Resources Limited**

## **Annual report and financial statements 2003**

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# **CalEnergy Resources Limited**

## **Annual report and financial statements 2003**

### **Officers and professional advisers**

#### **Directors**

G E Abel  
P E Connor  
K Linge  
J D Stallmeyer  
M J Sparkes  
P R A Youngs

#### **Secretary**

J Elliott

#### **Registered Office**

Lloyds Court  
78 Grey Court  
Newcastle upon Tyne  
NE1 6AF

#### **Bankers**

Lloyds TSB Bank PLC  
102 Grey Street  
Newcastle upon Tyne  
NE99 1SL

#### **Solicitors**

Herbert Smith  
Exchange House  
Primrose Street  
London  
EC2A 2HS

#### **Auditors**

Deloitte & Touche LLP  
Chartered Accountants  
London

# CalEnergy Resources Limited

## Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2003. The previous accounts were for the period from 12 August 2002 to 31 December 2003.

### Results and dividends

The loss for the year after taxation was £1,132,744 (2002: loss of £317,988). No dividend was paid during the year. The directors recommend that no final dividend be paid for the year and that the loss of £1,132,744 be withdrawn from reserves.

### 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.

### Directors and their interests

The directors who served throughout the year ended 31 December 2003 were as follows:

G E Abel  
P E Connor  
K Linge  
M J Sparkes  
J D Stallmeyer  
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.

The beneficial interests of the directors in the equity share capital of the Company were as follows:

Name of Holder	Number of shares on 1 January 2003	Number of shares on 31 December 2003	Type
P R A Youngs	248,554	248,554	Management 1p
M J Sparkes	126,571	126,571	Management 1p

During the year, no other director held an interest in the share capital of the Company.

During the year, no director held an interest in the share capital of other companies in the CE Electric UK Funding Company group of companies.

The interests of G E Abel in the share capital of MidAmerican Energy Holdings Company, the Company's ultimate parent company, were as follows:

Number of shares on 1 January 2003	Number of shares on 31 December 2003	Number of options held on 1 January 2003	Number of options held on 31 December 2003	Number of options exercised between 1 January 2003 and 31 December 2003	Number of options granted between 1 January 2003 and 31 December 2003
55,940	55,940	649,052	649,052	None	None

During the year, no other director held an interest in the share capital of MidAmerican Energy Holdings Company.

## STATEMENT OF DIRECTORS RESPONSIBILITIES

United Kingdom 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, and
- prepare the financial statements on a 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 1985. They are also responsible for the Company's system of internal financial controls, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditors

An elective resolution is in place dispensing with the need to appoint auditors annually.

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP under the provisions of section 26(5) of the Companies Act 1989. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors.

By order of the board



John Elliott  
Company Secretary

8 June 2004

## **Independent auditors' report to the members of CalEnergy Resources Limited**

We have audited the financial statements of CalEnergy Resources Limited for the year ended 31 December 2003, which comprise the profit and loss account and the balance sheet and the related notes 1 to 15. 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**

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, 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 if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
London

8 June 2004

# CalEnergy Resources Limited

## Profit and loss account

Year ended 31 December 2003

	Note	2003 £	142 days 2002 £
<b>Operating loss</b>		(550,097)	-
Loss on disposal of fixed asset investments		<u>(727,301)</u>	<u>-</u>
<b>Loss on ordinary activities before finance charges and taxation</b>		(1,277,398)	-
Interest receivable and other similar income	4	6,594	107
Interest payable and other similar charges	4	<u>(472)</u>	<u>(348,431)</u>
<b>Loss on ordinary activities before taxation</b>		(1,271,276)	(348,324)
Tax credit on loss on ordinary activities	5	<u>138,532</u>	<u>30,336</u>
<b>Loss on ordinary activities after taxation and retained loss for the financial year</b>	11	<u><u>(1,132,744)</u></u>	<u><u>(317,988)</u></u>

There were no recognised gains or losses other than those set out in the profit and loss account in either the current year or preceding financial period, consequently no statement of total recognised gains and losses is presented.

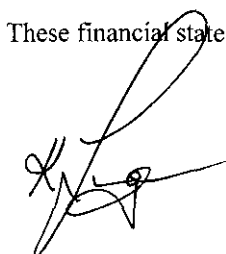
The operating loss has been derived from continuing operations.

# CalEnergy Resources Limited

## Balance sheet 31 December 2003

	Note	2003 £	2002 £
<b>Fixed assets</b>			
Tangible fixed assets	6	7,572	-
Investments	7	13,551,779	14,125,511
		<u>13,559,351</u>	<u>14,125,511</u>
<b>Current assets</b>			
Debtors: amounts due within one year	8	5,306,370	3,482,425
Cash at bank and in hand		393,641	44,896
		<u>5,700,011</u>	<u>3,527,321</u>
<b>Creditors: amounts falling due within one year</b>	9	(4,051,094)	(1,311,820)
<b>Net current assets</b>		<u>1,648,917</u>	<u>2,215,501</u>
<b>Net assets</b>		<u>15,208,268</u>	<u>16,341,012</u>
<b>Capital and reserves</b>			
Called up share capital	10	16,617,962	16,617,962
Share premium	11	41,038	41,038
Profit and loss account	11	(1,450,732)	(317,988)
<b>Shareholders' equity funds</b>	11	<u>15,208,268</u>	<u>16,341,012</u>

These financial statements were approved by the Board of Directors on 8 June 2004 and signed on its behalf by



K Linge  
Director

# **CalEnergy Resources Limited**

## **Notes to the financial statements** **Year ended 31 December 2003**

### **1. Accounting policies**

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the prior period.

#### **Basis of accounting**

The accounts are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards and 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' Statement of Recommended Practice. The information presented is with respect to the single undertaking, not the CalEnergy Resources group. The Company has taken advantage of the exemption from preparing group accounts as it is a 98% owned subsidiary of CE Electric UK Funding Company whose consolidated financial statements include those of CalEnergy Resources Limited and are publicly available.

#### **Investments**

Investments are stated at cost less provision for any impairment.

#### **Fixed Assets**

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

#### **Corporation tax**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

#### **Deferred tax**

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise 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. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are discounted.

#### **Cash flow statement**

In accordance with the terms of FRS 1 (Revised) the company has not prepared a statement of cash flows as the company is a 98% owned subsidiary of CE Electric UK Funding Company whose consolidated financial statements include those of CalEnergy Resources Limited and are publicly available.

#### **Pension costs**

The Company participates in a defined benefit multi-employer scheme, 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. The amounts charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year.

#### **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

# CalEnergy Resources Limited

## Notes to the financial statements Year ended 31 December 2003

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.

### 2. Operating loss

Operating loss is stated after charging:

	2003 £	142 days 2002 £
Depreciation	3,786	-
Operating lease rentals - property rentals	20,565	-

Auditors' remuneration was borne by another group company in the current year and preceding financial period.

### 3. Directors and employees

	2003 £	142 days 2002 £
Directors' emoluments	254,638	-
Directors' employer pension contributions	49,069	-
	No.	No.
Members of defined benefit schemes	4	-

The Company only pays contributions for two of the directors in the defined benefit schemes.

The emoluments of the highest paid director during the year were £156,904 (2002 – nil) and pension contributions of £28,751 (2002 – nil).

Members were transferred from CalEnergy Gas (Holdings) Ltd on 1 January 2003.

	2003 £	142 days 2002 £
Wages and salaries	790,425	-
Social security costs	66,066	-
Other pension costs	75,487	-
	931,978	-

The average number of staff employed during the year was 8 (2002 – 0).

# CalEnergy Resources Limited

## Notes to the financial statements Year ended 31 December 2003

### 4. Finance charges

	2003 £	142 days 2002 £
Interest receivable and other similar income:		
Bank interest receivable	6,587	107
Foreign exchange gain	7	-
	<u>6,594</u>	<u>107</u>
	2003 £	2002 £
Interest payable and other similar charges:		
Interest payable to other group companies	-	(348,431)
Bank charges	(472)	-
	<u>(472)</u>	<u>(348,431)</u>

### 5. Tax credit on loss on ordinary activities

	2003 £	142 days 2002 £
<b>Analysis of tax credit for the year:</b>		
Group relief receivable	138,564	30,336
Over provision for prior period	(32)	-
	<u>138,532</u>	<u>30,336</u>
Taxation credit on loss on ordinary activities		
	138,532	30,336
	<u>138,532</u>	<u>30,336</u>
	2003 £	142 days 2002 £
<b>Reconciliation of current tax credit:</b>		
Loss on ordinary activities before taxation	(1,271,276)	(348,324)
Tax on loss on ordinary activities at 30%	381,383	104,497
Factors affecting the charge:		
Permanent timing differences	(218,190)	-
Expenses not deductible for tax purposes	(24,629)	(74,161)
Under provision for prior period	(32)	-
	<u>138,532</u>	<u>30,336</u>
Current tax credit for the year		
	<u>138,532</u>	<u>30,336</u>

# CalEnergy Resources Limited

## Notes to the financial statements Year ended 31 December 2003

### 5. Tax credit on loss on ordinary activities (continued)

#### Factors that may affect future tax charges:

It is anticipated that in the future the total tax charge will broadly equate to the standard rate of tax on the profit or loss on ordinary activities before taxation.

### 6. Tangible fixed assets

	£
Cost:	
At 1 January 2003	-
Additions	11,358
	<hr/>
At 31 December 2003	11,358
	<hr/>
Depreciation:	
At 1 January 2003	-
Depreciation charge for the year	3,786
	<hr/>
At 31 December 2003	3,786
	<hr/>
Net book value:	
At 31 December 2003	7,572
	<hr/>
As at 31 December 2002	-
	<hr/>

### 7. Investments

	Shares in subsidiary undertakings £
Cost and net book value:	
As at 31 December 2002:	14,125,511
Sale of CalEnergy Gas (Pipelines) Ltd	(1,903,229)
Investment in CalEnergy Resources Poland Sp. z o. o.	1,329,497
	<hr/>
As at 31 December 2003	13,551,779
	<hr/>

# CalEnergy Resources Limited

## Notes to the financial statements Year ended 31 December 2003

### 7 Investments (continued)

Details of the investments (and subsidiaries) at 31 December 2003 were as follows:

Name of Company	Country of incorporation	Holding	Proportion held	Nature of Business
CalEnergy Resources Poland Sp. z o. o.	Poland	16,710 500 pln ordinary shares	100%	Gas Exploration and Production
CalEnergy Gas (Australia) Ltd	England and Wales	9,539,909 £1 ordinary shares	100%	Gas Exploration and Production
CalEnergy Gas Ltd	England and Wales	2,682,373 £1 ordinary shares	100%	Gas Exploration and Production

### 8. Debtors

	2003 £	2002 £
Amounts falling due within one year:		
Amounts receivable from group undertakings	5,192,673	3,452,089
Group relief recoverable	100,165	30,336
Prepayments	6,896	-
Other Debtors	6,636	-
	<u>5,306,370</u>	<u>3,482,425</u>

### 9. Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	175,399	-
Amounts owed to group undertakings	3,875,695	1,311,820
	<u>4,051,094</u>	<u>1,311,820</u>

# CalEnergy Resources Limited

## Notes to the financial statements Year ended 31 December 2003

### 10. Called up share capital

	2003 £	2002 £
Authorised:		
29,996,249 Preference shares 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:		
16,614,211 Preference shares of £1 each	16,614,211	16,614,211
375,125 Management shares of 1p each	3,751	3,751
	<u>16,617,962</u>	<u>16,617,962</u>

Preference shares carry an entitlement to a dividend annually if appropriate and carry voting rights at any general meetings held by the Company. These voting rights are one 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.

### 11. Reconciliation of movement in shareholders' funds and reserves

	Share capital £	Share premium £	Profit and loss account £	Total £
As at 12 August 2002	-	-	-	-
Preference shares issue	16,614,211	-	-	16,614,211
Management shares issue	3,751	41,038	-	44,789
Loss for the period	-	-	(317,988)	(317,988)
At 31 December 2002	<u>16,617,962</u>	<u>41,038</u>	<u>(317,988)</u>	<u>16,341,012</u>
Loss for the year	-	-	(1,132,744)	(1,132,744)
At 31 December 2003	<u>16,617,962</u>	<u>41,038</u>	<u>(1,450,732)</u>	<u>15,208,268</u>

### 12. Related party transactions

The Company has taken advantage of the exemption granted by Financial Reporting Standard No. 8 "Related Party Disclosures" not to disclose transactions with other undertakings within, and related parties of, MidAmerican Energy Holdings Company.

# CalEnergy Resources Limited

## Notes to the financial statements Year ended 31 December 2003

### 13. Pension arrangements

The Company participates in the Northern Electric plc Group of the Electricity Supply Pension Scheme. This is a defined benefit multi-employer scheme, the assets of which are held independently from the group. 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 £49,069 (2002 – nil).

An updated valuation of the scheme at 31 March 2001 indicated that the scheme was 115.1% funded. Full details of the scheme can be found in the accounts of Northern Electric plc for the year ended 31 December 2003.

### 14. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings	
	2003	2002
	£	£
Expiry date		
- between two and five years	20,565	-
	<u>20,565</u>	<u>-</u>

### 15. Ultimate controlling party

The ultimate controlling party and parent company as at 31 December 2003 was MidAmerican Energy Holdings Company, a company incorporated in Iowa, United States of America. The group accounts of this group are available to the public and may be obtained from the Company Secretary, 666 Grand Avenue, PO Box 657, Des Moines, IA 50303-0657, USA.

The immediate parent company is CalEnergy Gas (Holdings) Limited, which is incorporated in Great Britain and registered in England and Wales, and does not prepare consolidated financial statements.

The largest group in which the results of CalEnergy Resources Limited are consolidated is that headed by MidAmerican Energy Holdings Company. The smallest group in which the results of CalEnergy Resources Limited are consolidated is that headed by CE Electric UK Funding Company, which is incorporated in Great Britain and registered in England and Wales. The consolidated accounts of CE Electric UK Funding Company are available to the public and may be obtained from the Company Secretary, CE Electric UK Funding Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.