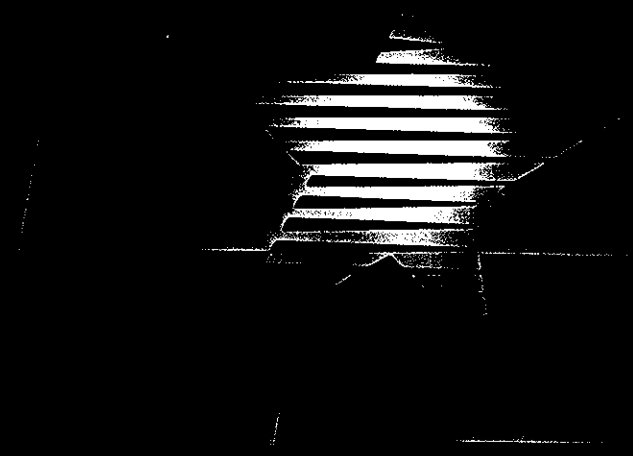


Performance drives success

Change creates opportunity

Growth results from both

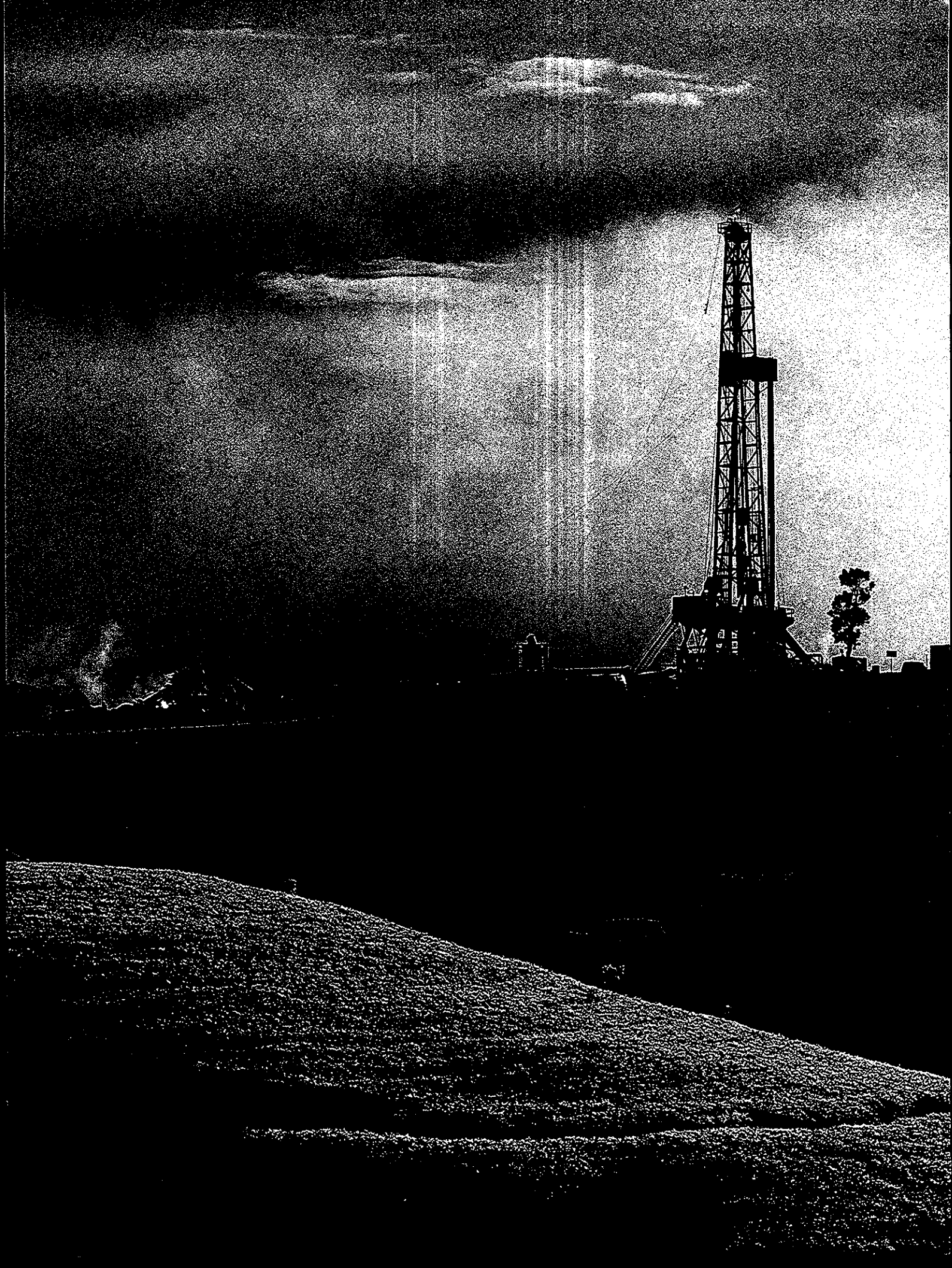
CalEnergy Company, Inc.

1996 Annual Report

As CalEnergy has grown, how has the way you do business – and your definition of success – changed?

At CalEnergy, we are constantly evaluating and improving the way we do business while remaining committed to our mission: "to become a leading global provider of a full range of energy services." We provide energy around the world. We do it with respect for the environment. We do it with resourcefulness, enthusiasm, a commitment to excellence and a focus on the future. That is what we've done in the past and will continue to do in the future—and that is our definition of success.

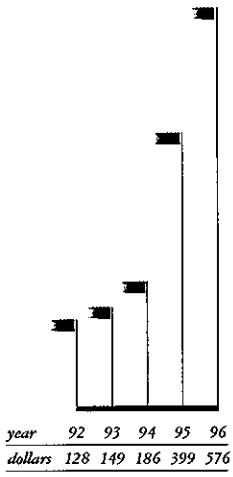
Drilling rig at the Patuha Geothermal Project site in Indonesia.



Financial Highlights

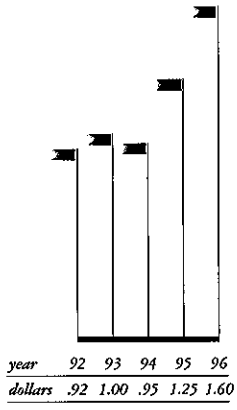
	1996	1995
Revenue	$ 576,195,000	$ 398,723,000
Income Before Taxes	$ 135,713,000	$ 97,051,000
Income[1]	$ 93,892,000	$ 66,420,000
Net Income Available to Common Shareholders	$ 92,461,000	$ 62,335,000
Net Income Per Share	$ 1.60	$ 1.25
Common Stockholders' Equity	$ 880,790,000	$ 543,532,000

[1] *Before minority interest and preferred dividends.*

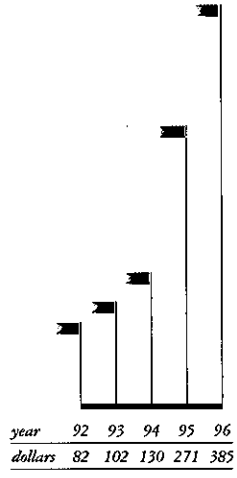


Revenue
Millions

Income[2]
Millions



Net Income Per Share[3]
Dollars



EBITDA[4]
Millions

[2] *Before extraordinary item, minority interest, preferred dividends and change in accounting principle.*

[3] *Before cumulative effect of extraordinary item and change in accounting principle.*

[4] *Earnings before interest, taxes, depreciation and amortization.*

Contents

CalEnergy Company, Inc. stock is traded publicly on the New York Stock Exchange, the Pacific Stock Exchange and the London Stock Exchange under the trading symbol "CE."

Who We Are

Overview

CalEnergy Company, Inc. ("CalEnergy"), established in 1971, is an international provider of energy services. Successfully developing, acquiring, constructing, owning and operating facilities for power generation, related energy activities and the supply and distribution of electricity is the foundation for our planned consistent, disciplined and strategic growth. Known as an innovator and opportunistic acquirer in our industry, we have a history of accomplishment that is demonstrated by our performance.

Performance Drives Success

Less than three years ago, with assets of approximately $700 million and all revenues derived from U.S. activities, the aggregate capacity of our operating projects was 297 net megawatts (MW). One year ago, we reported assets of more than $2.6 billion, revenues of $399 million, and an aggregate net capacity of 575 MW.

Today, an extremely successful year later, we have increased revenue 45 percent and net income has increased 48 percent. Our ownership interest in projects–both in the United States and internationally–has increased to more than 1,300 net MW, a result of the commencement of operation at one new facility in the United States, two in the Philippines and the acquisitions of Falcon Seaboard Resources, Inc. in the United States and Northern Electric plc in the United Kingdom. **With the year-end acquisition of Northern Electric, we have expanded our generation business to include distribution and supply of electricity and related energy activities, a move that we expect will add significantly to our current and future revenues, income and assets.**

Change Creates Opportunity

The Northern Electric acquisition is a significant step toward CalEnergy's goal of becoming a leading global provider of energy services. The landscape of our industry is changing – and we expect the results of that change will be positive for CalEnergy as deregulation and privatization continues throughout the world and additional opportunities present themselves. The experience and knowledge we gain as a result of the Notthern Electric acquisition should position us well to be a leading provider in the global energy market.

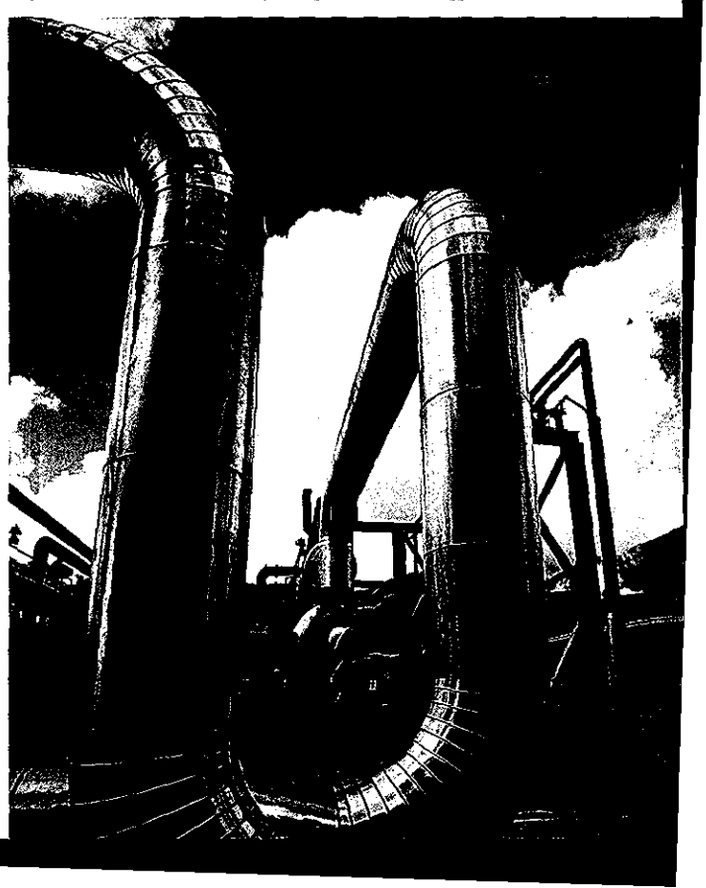
Growth Results from Both

Acquisition is just part of our growth strategy. A large percentage of our growth continues to come from new project development. Our ability to favorably structure financing for our projects allows us enhanced flexibility in development and construction at reduced financial risk. Through achieving operational excellence and cost efficiencies, we are able to bring new facilities on-line, on time and within budget. This results in the reliable, price-competitive delivery of electricity to our customers.

Our success is directly related to our exceptional performance and our ability to identify and capture opportunities in the face of industry change. Our future growth will be the result of our diligent attention to both.

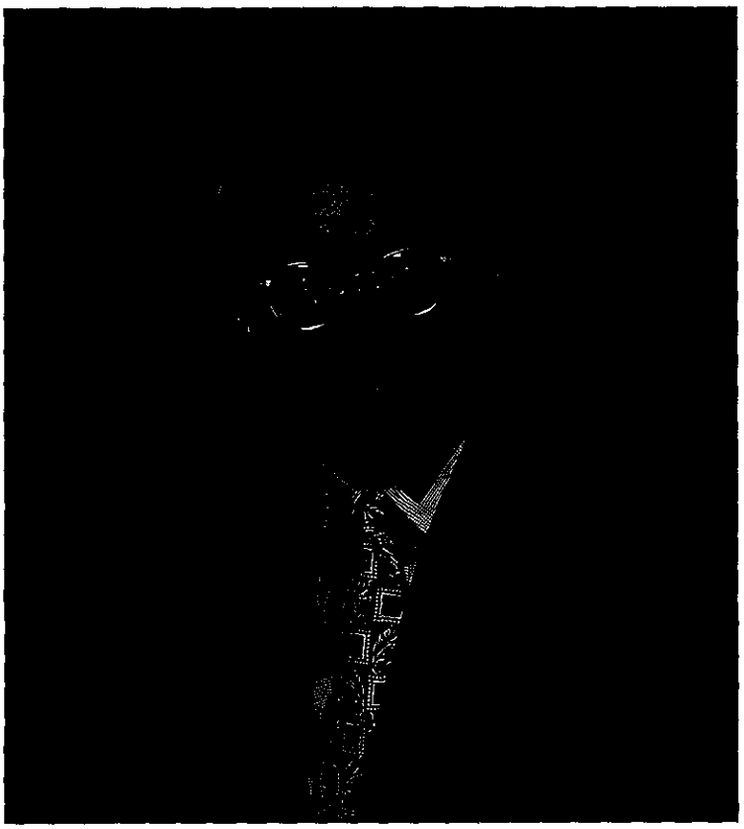
As you read through the pages of our 1996 annual report, we think you will better understand who we are as a company. Above all, CalEnergy is a company driven by achievers and innovators who shate the mission "to become a leading global provider of a full range of energy services."

Plant operator makes routine inspections at the Upper Mahiao Geothermal Project, located on the island of Leyte, Republic of the Philippines.



Message from the Chairman

Nineteen ninety-six was a very impottant year in CalEnetgy's history for thtee primary teasons: fitst, we successfully completed out fitst intetnational ptoject on schedule and within budget; second, we significantly expanded out U.S. natural gas-based electricity ptoduction capabilities with the acquisition of the Falcon Seaboard facilities in New Yotk, Texas and Pennsylvania; and third and most significantly, we matetially expanded our skill base with the successful year-end acquisition of Northetn Electtic plc in the United Kingdom ("U.K.").



David L. Sokol
Chairman of the Board
and Chief Executive Officer
CalEnergy Company, Inc.

These accomplishments ate significant in theit own right; howevet, mote importantly, they expand the plarfotm from which we intend to aggtessively position CalEnergy as we move into the 21st century. Our gtowth, which was fueled primatily by individual ptoject development through the first half of this decade, will increasingly be driven by the ptivatization and detegulatory tidal wave which is impacting the electtic energy industry on a wotldwide scale. With the anticipated bteak-up of the previously monopolized U.S. electriciry industry, CalEnetgy will no longer be limited to domestic electricity generation. In fact, we are witnessing the gtadual exposute to competition of some $800 billion in annual electticiry tevenues worldwide. This figute includes more than $400 billion in annual tevenues in Western Europe and North Ametica alone. As a ptovidet of a full spectrum of electricity services, CalEnetgy is expected to benefit ftom these increased revenue opportunities.

The detegulation and ptivatization of the existing electtic industry presents enotmous opportunities, and when considered along with the incteased electricity demand thtoughout Asia, they are even mote interesting. While it is cleat that the opportunities ate plentiful, it is also appatent that detegulation and privatization will continue to follow an uncleat and highly politicized pattetn. The end tesults of lower ptices and higher quality service may be obvious, however, none of the existing utility suppliers want to lose their monopoly, much less face the full exposure of what that monopoly status costs theit customers. As such, we often see these suppliets vetbally embtacing competition while at the same time utilizing every legal and political tool possible to stop ot delay competition and damage the efftots of any potential competitots. The existence of these countervailing fotces: lowet prices and enhanced customet service versus monopoly conttol by large politically powerful entities can only slow, but not prevent progtess towatds inevitable deregulation.

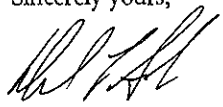
That point made, we believe that deregulation of the electricity industry is an evet more obvious ultimate teality. The benefits being achieved in the various matkets whete competition has been introduced are temarkable. For example, in the U.K., whete competition was fitst introduced through legislation in 1989, we see that electticiry rates have been substantially reduced while customet service has been significantly enhanced. The acquisition of Northern Electtic btings us the experience of this very successful deregulatory process, which in many ways is serving as the framework fot deregulation in many othet countties. This acquisition will allow us to take the skills we acquired in the U.K. and apply them in the United States and other matkets as soon as deregulation occuts.

As part of CalEnetgy's continued growth and expansion of services in the wotldwide enetgy market, we have announced a teotganization of the Company's operations into three geographic regions. These regions–CalEnergy Asia, CalEnergy Europe and CalEnergy Americas–are managed by teams in each region. Corporate planning, development, acquisitions, finance, accounting and legal will continue to operate at our headquarters in the United States. The result: decentralized operations and implementation management with centralized planning and strategic decision making.

The vision and associated strategy we have for CalEnetgy's continued growth is built upon disciplined financial analysis, cautious tisk management and equally importtant, the quality and integtity of every CalEnergy employee. As a tepresentative of the Board of Ditectors and of the management team, I would like to welcome the many individuals who have joined us duting this past yeat from Falcon Seaboard and Northetn Electtic. I would also like to thank out dedicated and talented employees for constantly looking for better ways to do mote, and at a lower cost.

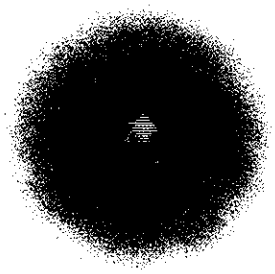
Our Board of Directors is pleased to welcome two new membets to the Boatd–Mt. David Dewhutst, the founder and former principal shareholder of Falcon Seaboard and Mt. David Mottis, the formet chaitman and chief executive of Notthetn Electtic. We are also pleased that Mt. Ben Holt will continue as an emeritus membet of out Board upon the May 1997 completion of his cutrent tetm. Ben has been a valuable asset to our Company, and we salute his contributions as one of the founders of the modern geothermal power industry.

Sincerely yours,



David L. Sokol
Chairman of the Board and Chief Executive Officer

The vision and associated strategy we have for CalEnergy's continued growth is built upon disciplined financial analysis, cautious risk management and equally important, the quality and integrity of every CalEnergy employee.



What does deregulation of the global power market mean to CalEnergy?

Deregulation means positive change and expanded long-term opportunities for CalEnergy. ➢ We will be able to compete for and profit from every segment of the marketplace – generation, supply, and distribution of energy. ➢ We look forward to the deregulation and privatization of electricity; our past actions – as well as our future plans – prepare us to successfully compete in this wide-open market.

Customer service agents offer a single point of contact for all of Northern Electric's distribution network inquiries.


1 CUSTOMER GENERAL INFORMATION
2 CUSTOMER BILLING INFORMATION
3 GENERAL SUPPLIES DATA
4 SELECT PERSONAL QUERY & REPORT SUB-DIRECTORY
5 CONTRACT SALES DATABASE
6 SUPPLY CONTRACT ENQUIRIES
7 NUC SETTLEMENT DATA

What We Plan To Do

How Expected Future Changes Affect the Present

Deregulation: the big picture. As recently as 15 years ago, consumers in the United States purchased their telecommunications products and services from just one company. Long distance service, regional and local service, even the physical telephone itself–offered in just a handful of colors and styles–were supplied by just one company. Ancillary services–voice messaging, call waiting, call forwarding, conference calling–were virtually unavailable to the consumer, and there were no other sources from which to acquire lower-priced service or products.

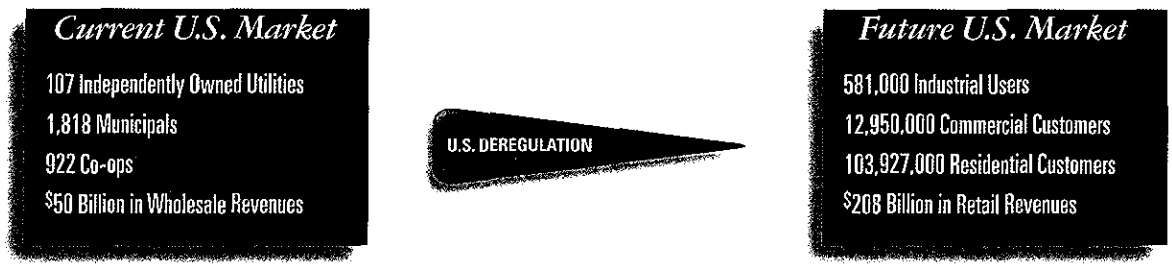
This monopoly approach, while beneficial to the supplier, was a disservice to the consumer. Today however, after telecommunications industry deregulation, consumers have a wide variety of products to choose from and are free to shop for a full range of quality services at the lowest price.

Our industry, just like telecommunications and other industries before us, is fast approaching a new era in the form of deregulation and full competition among those who provide consumer services and products in the U.S. No longer will the U.S. utility standard be vertically integrated monopolies as the sole providers of bundled generation, transmission and distribution services. Utilities will be pressured to provide these services as separate companies and compete for business based on value and price.

No longer will the U.S. utility standard be vertically integrated monopolies as the sole providers of bundled generation, transmission and distribution services.

Where U.S. Deregulation is Headed:

- Although existing generation contracts will be grandfathered until their terms expire, generation will become a more price-competitive business, and consumers will have the option to continue to buy electricity from their local utility or from other suppliers–companies like CalEnergy.
- In some states a power exchange will be created to operate as a wholesale power pool, with both independent production facilities and utilities required to sell the power they generate into the pool.
- This exchange will set the market price based on market forces and all electricity providers will purchase power from the exchange at that price.
- Many utility companies will choose to, or be pressured to, sell or retire some of their generation assets, creating additional opportunities for power generators.
- It is anticipated that the transmission segment of the industry will remain regulated, but utilities will be forced to provide open access to their transmission systems to ensure standardized pricing and competitive flows of electricity.
- Consumers will continue to have electricity delivered via a local distribution company. Utilities will be obligated to supply electricity to customers in their franchise areas but they also may supply it to customers in other markets. This arrangement benefits the customer in that supply is assured while preserving competitive choice. Competition to engage in the supply and marketing of electricity may come from surprisingly diverse participants such as supermarkets, insurance companies, oil and gas companies–any company with the desire and ability to compete for and win electricity consumers.
- Regional utility companies and independent power producers will be able to compete for customers' other electricity needs, including the sales of energy services such as energy use information and management, and more.



Source: Energy Information Administration, Resource Data International, Inc. and Edison Electric Institute

Competition requires flexibility. Deregulation will serve to draw a line in the sand between those companies who continue to do business as they have in the past and those with a focused strategy on competing to meet the future needs of consumers. Our past actions have allowed us to gain experience in complementary segments of the industry, and CalEnergy has positioned itself well to benefit from the opportunities presented by deregulation.

How the Present Affects the Future:

- Because the lack of competition has not provided incentives for upgrades, many utility companies are operating older, technologically outdated power plants at a relatively high cost. CalEnergy has continuously invested in new, advanced facilities and technological improvements to existing facilities, allowing us to generate electricity at a lower, more competitive price.
- Our experience in countries that already have undergone privatization prepares us to do business in other markets where private power is just beginning. Both the Philippines and Indonesia have felt the effects of privatization as foreign companies, such as CalEnergy, have competed for and won a share of the rapidly expanding Asian energy market. Being in on the 'ground floor' in these countries will provide opportunities to make use of our expanded capabilities in generation, supply and distribution.
- Our acquisition of three natural gas-fired cogeneration plants in New York, Texas and Pennsylvania, along with the construction of our gas-fired Viking facility in the U.K. and our hydroelectric plant in the Philippines (in addition to the construction of new geothermal plants in Asia), continues CalEnergy's geographic and fuel diversification efforts and provides low-cost, strategically located assets that will help us compete in the deregulated electric industry of the future.
- The acquisition of Northern Electric in the U.K. provides 'hands-on' experience in a largely deregulated environment and an additional distribution and supply skill base that we can utilize in the U.S., Europe, Asia and elsewhere. Northern Electric and other regional electric distribution and supply companies in the U.K. purchase almost all of their electricity from other generating concerns. Revenue comes from the retail sale of power to consumers and from fees collected from the distribution of electricity across the wires for other suppliers.

Generation will become a more price-competitive business, and consumers will have the option to continue to buy electricity from their local utility or from other suppliers—companies like CalEnergy.

- The new regional decenttalized structute of our organizarion will provide both large and small-company benefits. With regional headquarters at three strategic locations–in the United States, Europe and Asia–each division has operating tesponsibility for all aspects of our business in that region including facility management, new business development and related functions. We believe this reorganization is exttemely important in rhat it allows us to sttingently supervise activities at all of our growing number of wotldwide locations, yet enables us to teact quickly ro challenges and opportunities.

How does deregulation affect the consumer?

The potential benefits of deregulation worldwide can be illustrated by data ptovided by the Electticity Association of the United Kingdom about the effects of detegulation in their country from 1990 through 1996:

Electricity Prices and Domestic Customers in the U.K.

Domestic customers are considered to be home and light industry users–those who typically use less than 100 kW of electricity.

- Since 1990, the price of electricity has fallen by 11 percent, after allowing for inflation.
- Keeping price increases below inflation has enabled customers to save a total of £1.6 billion ($2.56 billion USD) on their electricity bills since 1989–nearly £70 ($112 USD) per household.
- Electricity now represents under 2.5 percent of average household expenditure.
- In 1998, full competition in supply will enable U.K. household customers to choose the electricity company they prefer.
- Latest comparisons show U.K. electricity prices for home consumers are 30 percent less than in France, 27 percent less than in Spain and 33 percent less than in Germany.

Electricity Prices and Industrial Customers in the U.K.

Industtial customers are businesses and other organizations that typically use more than 100 kW of electricity.

- 55,000 industrial customers can choose their electticity supplier, and in 1998 this will extend to all customers.
- U.K. industrial electricity is now the fifth least-expensive in Europe, less expensive than in Germany, Spain, Italy and France.
- Prices to those industrial customers who can now choose their supplier have fallen by as much as 16 percent since January 1994, after allowing for inflation.
- Industrial customers have been able to save a total of £3.6 billion ($5.8 billion USD) on bills since 1989.

The Industry

- Since ptivatization, the industry has invesred £16 billion ($25.6 billion USD) in improving the U.K. electricity system–£5 billion ($8 billion USD) on the distribution network alone.
- Multi-utility companies have developed, providing total energy and broader utility services by offering gas, electricity, water and telecommunications services.

Sources: U.K. Electricity Association, 1996. UNIPEDE to 89/90, EUROSTAT 91/2-94/5 (Series linked using 'Energy Trends' data). Index for 95/6 estimated using EA's Non-Franchise Prices Survey 10 MW 60 percent load factor.

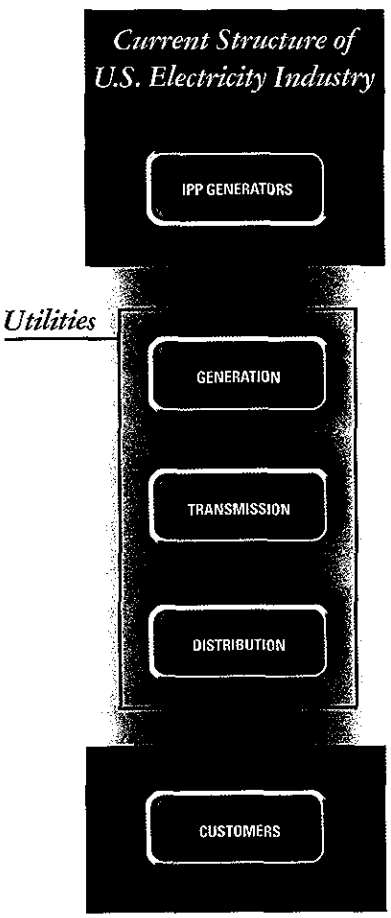
In Conclusion

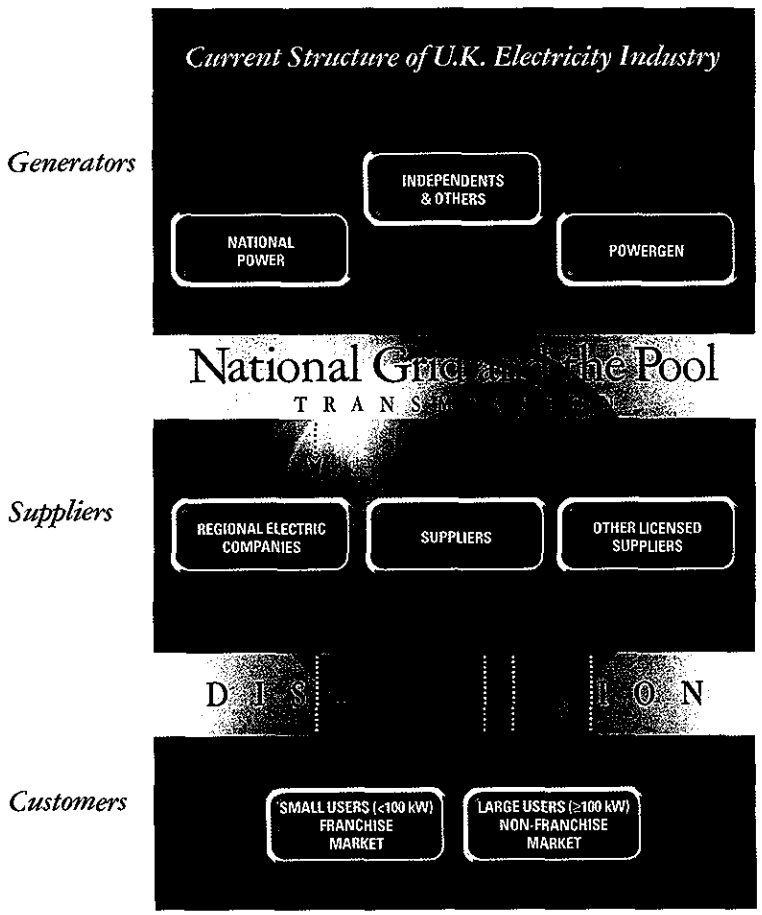
As the global electricity industry is deregulated and privatized, opportunities will abound for astute energy generators, suppliers and marketers.

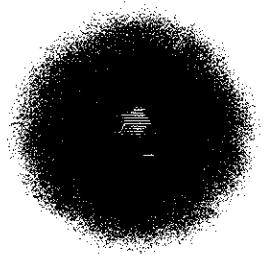
The graph on the left below indicates the current structure of the electricity industry in the United States. The vertical configuration provides limited market opportunity for independent power producers and multiple layers of cost markups for the consumer. This model is particularly favorable to utility companies because they control the supply and distribution of electricity to consumers.

The graph on the right below indicates the current structure of the deregulated electricity industry in the United Kingdom. It is anticipated that post deregulation, the U.S. market will be similarly structured. In this model, all generating entities–independent power producers, utilities and government-owned generators–sell power into a national pool for equitable resale to suppliers who in turn, sell directly to consumers on a value- and price-competitive basis.

Consumers will purchase electricity in much the same manner in which they now purchase telephone services. They may buy a total solution of services from one supplier, or they make pick and choose from a variety of suppliers, depending upon which is able to provide the best, customized solution for their specific needs. In either case, electricity will be provided at a competitive rate and at a significant cost saving to the consumer over prices currently paid.







How has CalEnergy prepared for deregulation?

We have strategically positioned CalEnergy to provide a full range of energy services. ➢ We have diversified our fuel sources and lowered our generation costs. ➢ Existing projects and acquisitions have further diversified and strengthened our skill base, providing the experience and financial strength we need to successfully compete in deregulated markets worldwide.

Desert Peak Geothermal Project, located near Reno, Nevada, U.S.A.

What Occurred

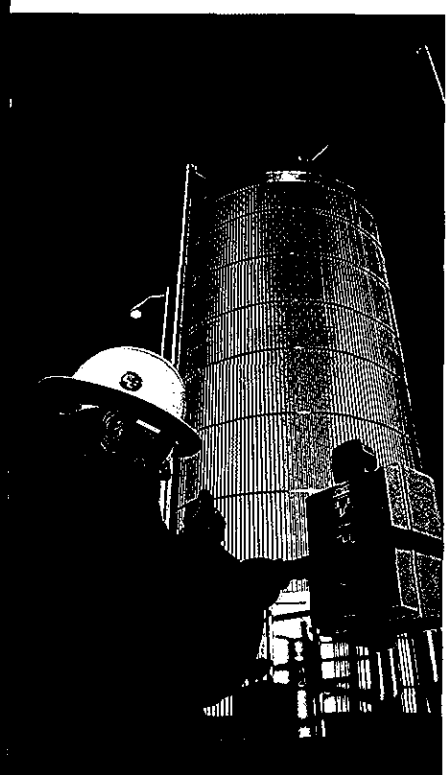
Significant Events of 1996

A Year of Strategic Transition. During 1996, we continued to execute our clearly defined strategy for growth. In addition to maintaining our high operational and efficiency standards and achieving our financial goals, we continued to focus on growth through acquisition and geographic and fuel source diversification. Much of our determination to fulfill this strategy is the result of changes within both the U.S. and international energy markets.

In the United States—Growing consumer pressure, combined with increased political interest, is pushing the electric industry in the United States toward a more competitive environment. In order to compete with international counterparts, industrial customers are demanding lower prices and more specialized services. Corporations and governmental organizations are petitioning legislative bodies to allow for the competitive supply of electricity.

According to some experts, increased competition in the electric industry would save U.S. ratepayers an estimated $80-$100 billion annually. As has occurred in other industries – notably the telecommunications and natural gas industries – economic considerations will motivate change and deregulation in the electric industry.

As deregulation occurs, consumers will be able to purchase energy services from electricity suppliers primarily on the basis of price and value. Utility companies, power producers and distributors who focus on delivering the highest quality service at the lowest possible price will see increased demand for their product.



One of Yuma's plant operators tests equipment at the Gas-Fired Cogeneration Project, located in Yuma, Arizona, U.S.A.

A surveyor carefully inspects the ground elevation at the Dieng Unit I construction site, located on the island of Java, Indonesia.

We believe that such a market will provide many opportunities for CalEnergy. Independent power producers who utilize efficient, low-cost energy alternatives will have the competitive edge in a price-sensitive marketplace. Our experience and expertise in geothermal, gas and hydroelectric fuel sources has us well-positioned to successfully compete. Our recent acquisition of Northern Electric will enable us to provide additional expertise in distribution and supply, and the necessary experience to aggressively compete for leadership in the deregulated U.S. market.

Internationally—We continue to pursue our initiatives with existing and prospective customers internationally where there is a strong demand for power and the need for supporting infrastructure is tremendous, especially in emerging industrial countries. To compete successfully in these markets, it is necessary to be prepared with well-planned financing strategies for individual projects and to carefully evaluate timing and risk parameters. As a result of our international projects, we have valuable experience in private sector power generation, energy-related infrastructure and innovative financing techniques that will benefit us in the rapidly approaching competitive U.S. marketplace.

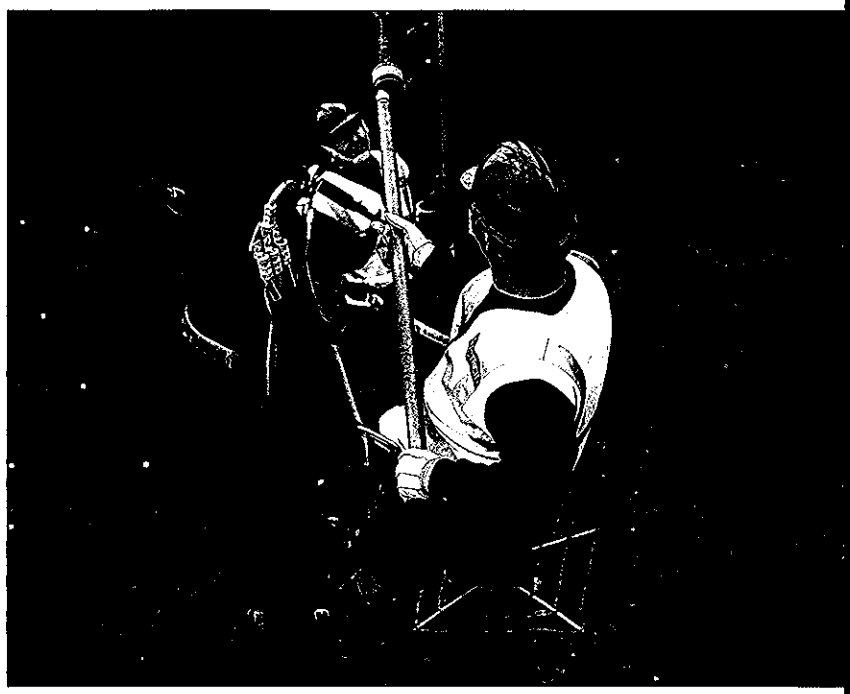
We are especially pleased with the progress of our projects in the Philippines and Indonesia. We completed construction and commenced commercial operation on two projects in the Philippines and commenced construction on another in Indonesia. We are aggressively seeking opportunities in other international locations, in both power production and supply and distribution markets. Our purchase of Northern Electric, marking our entry into Europe and the distribution and supply segment of the industry, is another step toward our goal of being a leading energy services provider in the global power market.

The Acquisition of Northern Electric. The most pivotal event at CalEnergy during 1996 was the acquisition of Northern Electric plc, a regional electricity distribution and supply company, with headquarters in Newcastle upon Tyne, U.K. Our success in and knowledge of power generation, combined with Northern Electric's successful experience with distribution, supply, and ancillary services provides tremendous opportunities for our company.

Created as a result of the restructuring and subsequent privatization of the electric industry in the United Kingdom in 1990, Northern Electric has a significant performance record and a reputation as a dependable energy supplier with excellent distribution assets and abilities. Through its subsidiary companies, the company efficiently and competitively delivers electricity to consumers and offers a diverse menu of complementary energy services that provide customers with reliable, quality service and low energy bills.

Northern Electric Distribution encompasses the company's distribution network and is responsible for reliability, customer service, system operation, construction and maintenance. Commonly known as the "wires" business, Northern Electric Distribution provides 1.5 million customers with reliable, cost-effective distribution services.

Northern Electric Supply is one of northeast England's largest suppliers in the competitive and open electricity market, with customers in all 15 public electricity supply areas of the U.K. Also responsible for the company's gas supply business, Northern Electric Supply has a license to supply domestic gas to customers in southwest England.

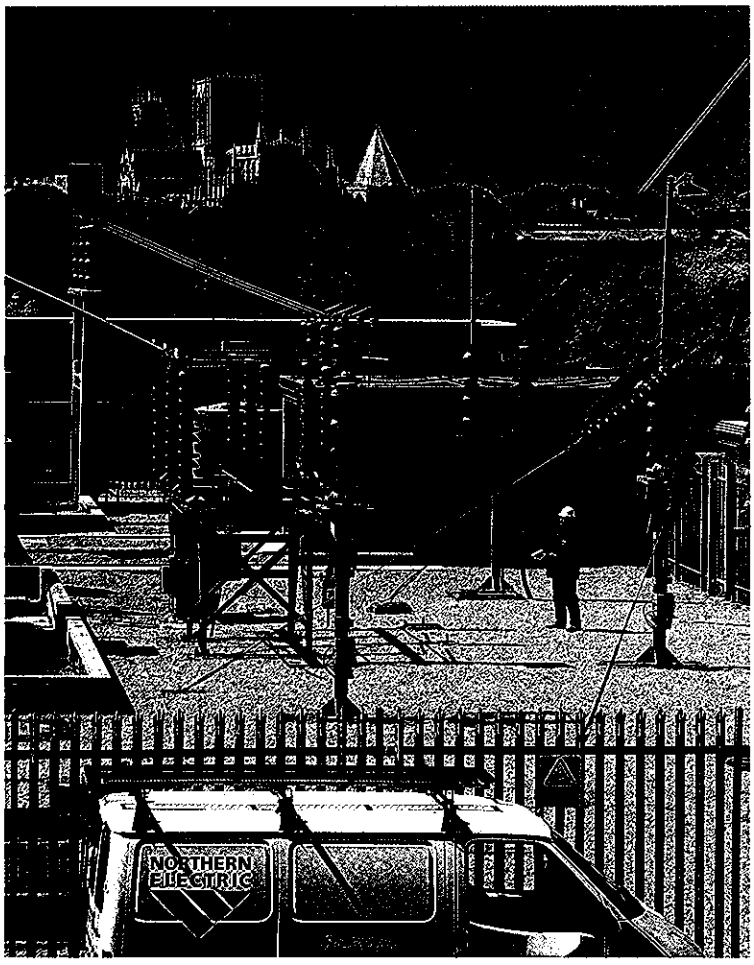


Northern Utility Services' staff are responsible for adapting, maintaining and restoring Northern Electric's distribution network in the United Kingdom.

Northern Electric Retail sells electrical and gas appliances and provides account collection and customer service throughout Northern Electric's service area. The company operates retail "superstores" to satisfy customer demand for products and offers service and maintenance contracts.

Northern Electric Generation operates a 5 MW diesel power generating plant in Northallerton, North Yorkshire, and recently began construction on the Viking Power 50 net MW natural gas-fired power station at Seal Sands on Teesside. The Viking plant will be developed, owned and operated on a 50/50 basis by Northern Electric Generation and Rolls-Royce Power Ventures. The company also has a 15.4 percent ownership interest in Teesside Power Limited, which operates a 1,875 MW combined cycle gas-fired power station at Wilton.

Northern Utility Services is the company's engineering division tasked with maintaining and adapting Northern Electric's distribution network and providing related services to third party markets. Through implementation of advanced technology and innovative diagnostic equipment, the company has decreased operating costs by reducing the need for intrusive maintenance.



Northern Electric Distribution Ltd. monitors Grid substations in their region of the United Kingdom.

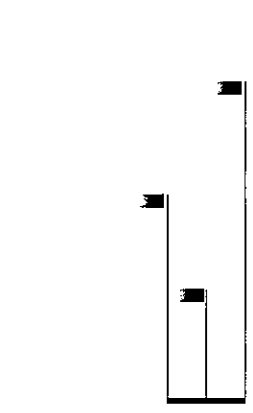
Northern Metering Services supplies, installs, refurbishes and certifies meters, and provides meter operator services and data collection. The company has developed and implemented an energy profiling system to help businesses reduce costs through more efficient use of fuels.

Sovereign Exploration is Northern Electric's gas exploration and production company with a portfolio of gas interests in the southern basin of the U.K. sector of the North Sea.

Additionally, Northern Electric has established a number of service companies which provide customers with insurance, real estate, transportation, training, telecommunications and information systems services:

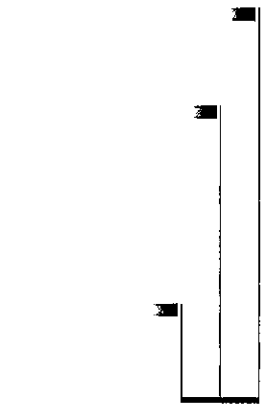
Northern Electric Insurance Services
Northern Electric Properties
Northern Electric Telecom
Northern Electric Training
Northern Electric Transport
Northern Information Systems

Besides enhancing CalEnergy's abilities to efficiently deliver electricity to consumers in a competitive marketplace, the Northern Electric acquisition will significantly increase the size of our company as shown in the asset and revenue figures below:



dollars	
CalEnergy	*3.7*
Northern	*2.0*
Total	*5.7*

Comparative Assets
Billions



dollars	
CalEnergy	*537*
Northern	*1,600*
Total	*2,137*

Comparative Revenues
Millions

As a direct result of our growth strategy, many other significant events occurred in 1996 that will contribute to the future success of CalEnergy.

April We acquired from Edison Mission Energy the remaining 50 percent of the four geothermal facilities in the Imperial Valley–Vulcan, Hoch, Leathers and Elmore– which were obtained by CalEnergy as part of the acquisition of Magma Power Company in 1995.

CalEnergy Capital Trust offered and completed the private placement of $100 million convertible preferred securities (TIDES). Proceeds of the offering are largely being used to fund future projects and acquisition opportunities, and for general corporate purposes. We received credit rating upgrades on our senior unsecured debt from Moody's Investor Service, Inc.

May Noting that "CalEnergy will continue to experience success in completing its projects currently under construction and that the equity distributions from these and existing projects will continue to reduce the company's leveraged position," Standard and Poor's upgraded the credit rating on our senior debt, subordinated debentures and convertible preferred securities.

June We completed the sale of $135 million in Senior Secured Notes and Bonds issued through our Salton Sea Funding Corporation. We completed construction and began commercial operation of the Salton Sea Unit IV expansion project in the Imperial Valley, bringing an additional 40 net MW on-line. In the Philippines, we completed construction and commenced commercial operation of the Upper Mahiao 119 net MW project.

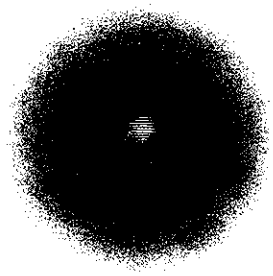
July We completed construction of our 72 net MW Malitbog Unit I geothermal project in the Philippines.

August CalEnergy acquired Falcon Seaboard Resources, Inc. and its significant ownership interests in three operating gas-fired cogeneration plants and a related natural gas pipeline. The plants are located in Texas, Pennsylvania and New York, and total 520 net MW in capacity.

September We completed a private institutional offering of $225 million worth of Senior Notes. Proceeds will be used to make investments in future projects, fund future acquisitions, repay debt and for other general corporate purposes.

October We closed $120 million financing on the Dieng Unit I project in Indonesia, a 55 net MW project which constitutes the first phase of a planned geothermal development effort in Indonesia of more than 1,000 MW.

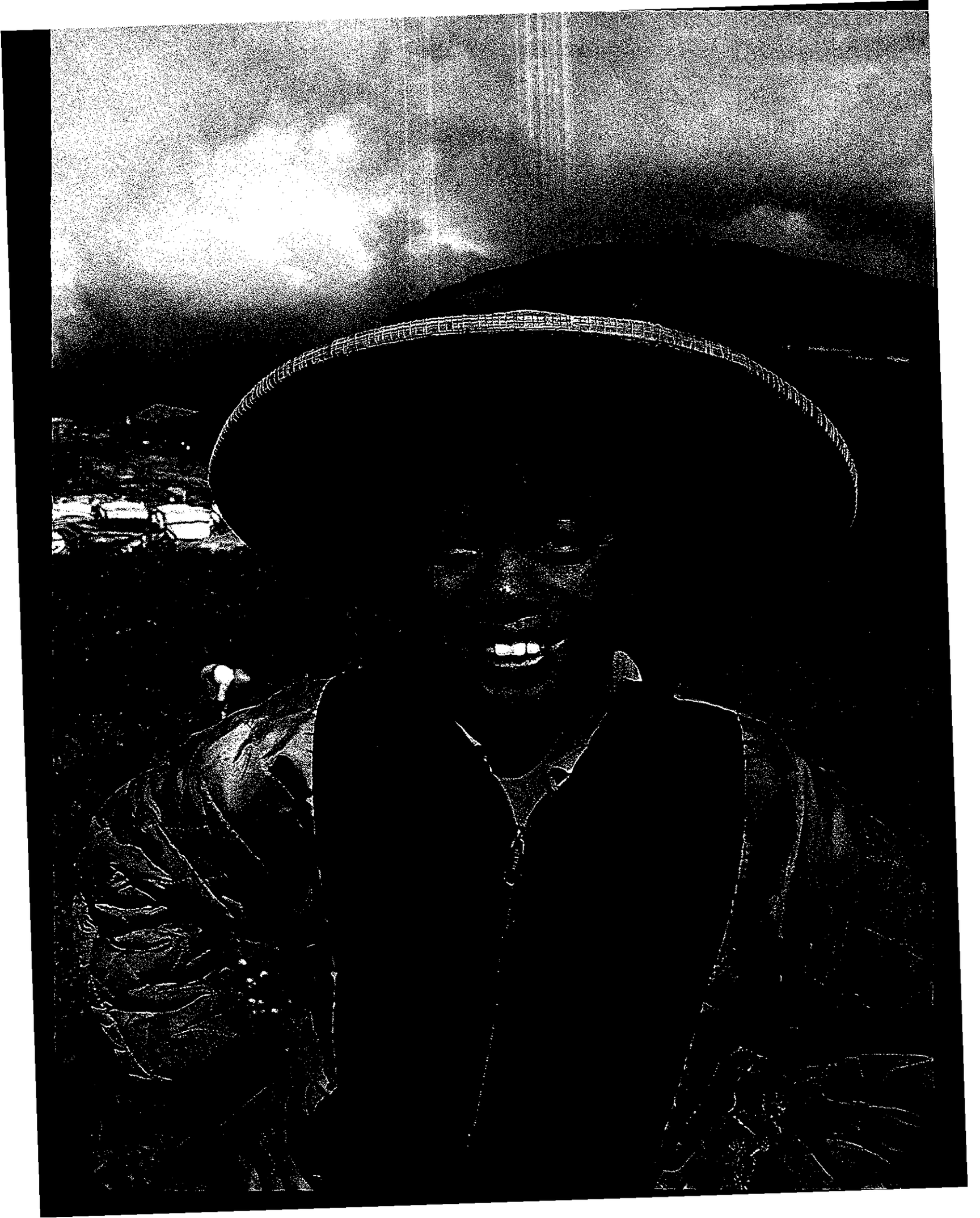
December We acquired majority ownership of Northern Electric plc, a regional electricity distribution and supply company in the United Kingdom.



Is CalEnergy concerned about environmental and social responsibility?

We strongly believe that our responsibility to the communities and cultures in which we live and work is vitally important – and that includes environmental stewardship and dedication to conservation efforts. – Our customers, neighbors and employees deserve a high quality of life and we are pleased to be able to actively assist in those efforts.

A child watches eagerly as DiengUnit I Geothermal Project is being constructed in Indonesia.



What We Do

Our Commitment

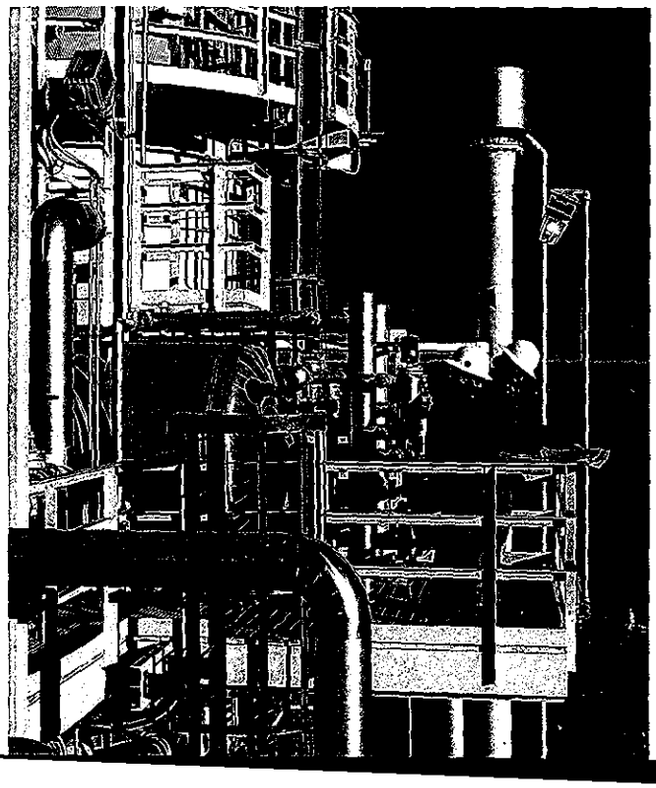
At CalEnergy, we recognize our many commitments. First and foremost, we are committed to our customers because without them, there would be no reason for our existence. Secondly, we are committed to being a low-cost provider of energy services and achieving an optimum rate of return for our shareholders. Finally, we are committed to our employees because it is their dedication that drives our success. No matter how large or small the challenge, no matter how trivial or complex the task, our employees understand that our company's success is a direct result of their knowledge, experience and, most of all, their commitment.

Our Commitment to Our Customers, Shareholders and Employees

We are Committed to . . .

- *sustaining excellent operational performance and efficiencies.*
- *maintaining strict adherence to financial performance standards.*
- *conducting business with uncompromising honesty, integrity, dedication and professionalism.*
- *preserving environmental responsibility in all aspects of our business.*
- *maintaining the highest levels of safety.*

Plant operators discuss maintenance schedule at Yuma's Gas-Fired Cogeneration Project, located in Yuma, Arizona, U.S.A.



It is because of these unwavering commitments that we have earned our reputation for excellence–of promising what we can deliver and delivering what we promise.

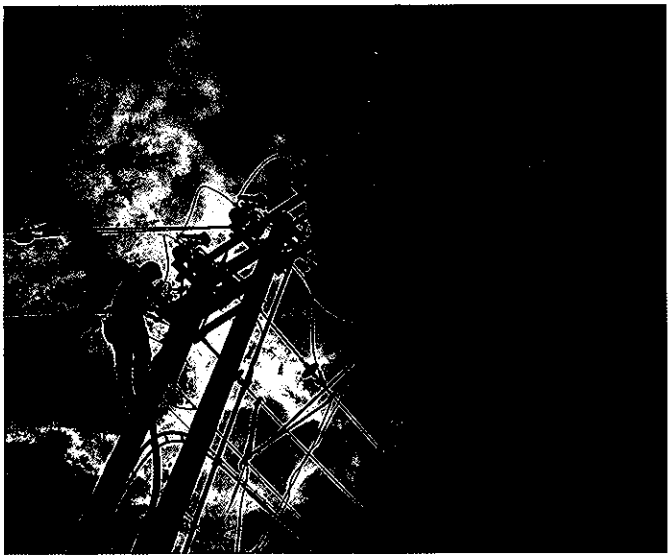
Our Commitment to Financial Excellence

CalEnergy has an outstanding record of financial growth and success. Long-term contracts and assets of more than $5.7 billion provide a base for our future growth as well as our capacity to structure capital investments for acquisitions, development and construction of power facilities.

Smart Project Financing

We believe our financial achievements are clearly demonstrated by our recent impressive growth and economic performance. CalEnergy is known for its ability to assemble innovative financing packages in a fashion that enables us to reduce risk–we have obtained more than $5 billion of project financing since 1991. In addition to financings based on our long-term power sales contracts in the United States, we have completed project financings for several major international projects utilizing a variety of sources including the Overseas Privare Investment Corporation (OPIC) and Export-Import Bank of the U.S.(EXIM).

Our abilities in this area allow us to decrease operating costs and implement projects quickly–creating benefits that we pass along to our customers in the form of lower energy costs. Yet, before the process ever begins, we take the time to do our research. We want to know all the details before any decisions are made. That is how we have proven our abilities to lenders and earned our reputation for excellence in project financing.



By maintaining and restoring Northern Electric's distribution network, Northern Utility Services ensures that thousands of homes, shops, offices, schools, hospitals and businesses receive the power they depend on.

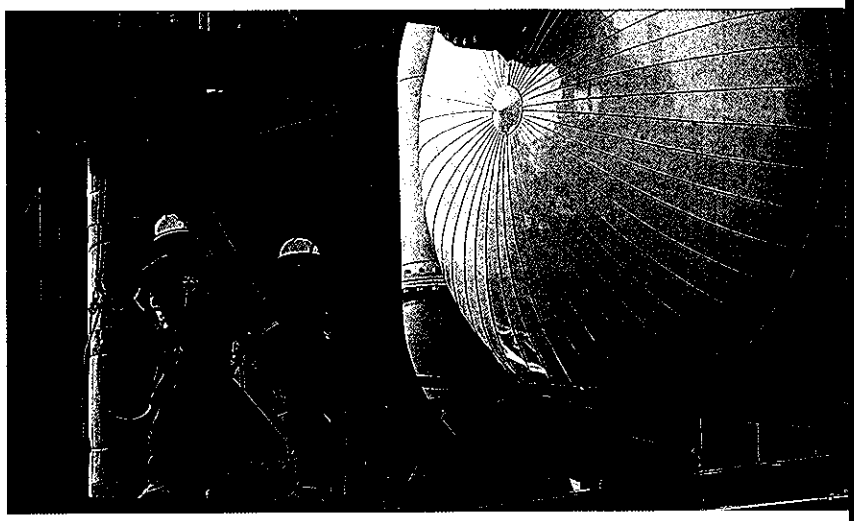
Our Commitment to the Environment

Our company began as a geothermal energy developer with a focus on providing clean, renewable energy and, during the past 25 years, we have steadily evolved to become a full service energy provider with expertise in many fuel sources. Through it all, we have maintained our commitment to environmental responsibility. As world population grows and the demand for electricity increases, attention to preserving our natural resources will become even more important. We are committed to do our part by implementing environmentally responsible technology, and utilizing fuel sources that are reliable and economical.

Our Commitment to Operational Excellence

As one of the lowest-cost independent power providers, CalEnergy generates attractive rates of return on its invested capital through optimal use of technology and a focus on operational excellence. Every day, our plant and field employees strive to maintain safety records, increase power generating performance and develop new, innovative cost-cutting measures and services that allow our company to grow and prosper.

Time and again, we have proven our capabilities by arranging project financing, completing projects on schedule and on budget while maintaining strict adherence to operational and environmental standards. In its November 18, 1996 issue, Engineering News Record magazine ranked us fourth in its "Top Firms With Construction in Progress" report and 21st on its "Top Owners" list – no small feat considering the size and years of service of the companies to which we were compared.



Engineering and maintenance staff ensures safety mechanisms are in place at the Salton Sea Unit IV expansion project in the Imperial Valley, located near Calipatria, California, U.S.A.

Geothermal

CalEnergy's geothermal facilities produce electricity from naturally occurring geothermal steam. Geothermal production wells tap into superheated water reservoirs thousands of feet beneath the earth's surface to release tremendous pressure caused by the hot water. At the surface, steam is separated from the fluids and used to drive turbines to generate electricity. Geothermal steam is one of the world's most preferred energy sources because it is reliable, renewable, clean, indigenous and economical.

Natural Gas

Our cogeneration facilities use plentiful natural gas–economical, highly efficient and one of the cleanest fossil fuel sources in the world–to fuel the turbines that efficiently produce energy in both electric and thermal (steam) forms. Exhaust from the gas turbine–waste heat that would otherwise dissipate into the atmosphere–is recycled into a heat recovery steam generator (boiler) where high-pressure steam is produced to drive the steam turbine generator. Then, a portion of the steam is extracted and delivered to an industrial company located near the power plant that uses the steam for process or cooling. This method of utilizing steam that has already performed useful work increases the efficiency of the plant and optimizes fuel use.

Hydroelectric

Hydroelectric power–to be employed at our Casecnan project in the Philippines–is produced from the energy of flowing water. The amount of electricity produced depends on the volume of water which passes through hydraulic turbines that drive the electricity-producing generators.

Our Commitment to Our Communities

As our company grows, we believe it is important to share our success with our neighbors and associates in the communities where we live and do business. In the United States, we support the arts and community charities, and are active in educational organizations, community safety programs and environmental activities.

In the United Kingdom, Northern Electric similarly supports the arts, sporting events, environmental and educational programs. The company provides employees to staff community activities such as business/education partnerships and educational exhibitions, and it has developed its own campaign–Envirocare 2000–to promote awareness of environmental issues, particularly in the context of improving energy efficiency.

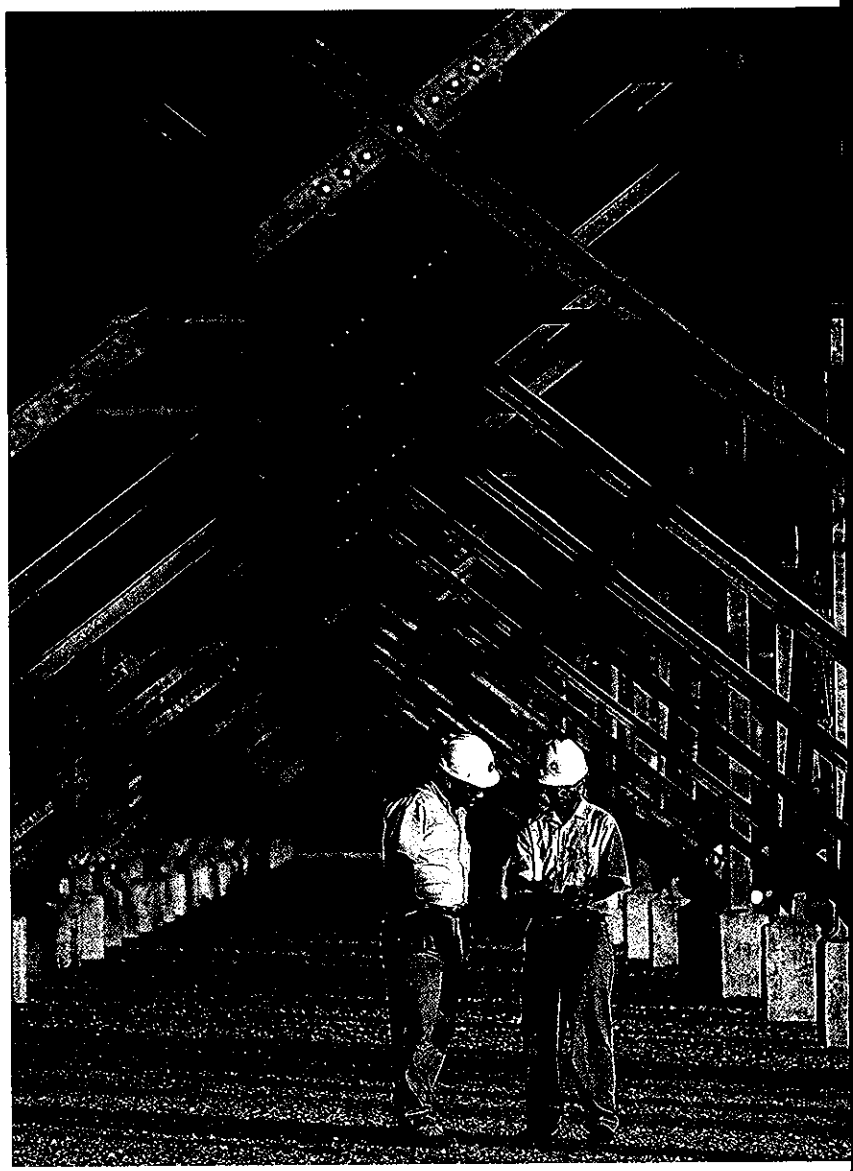
Saranac Gas-Fired Cogeneration Project, located in Plattsburgh, New York.

Additionally, many of our projects are located in emerging countries where there is a need for more non-traditional assistance. We feel a responsibility to hire from the local workforce and provide medical, nutritional, and educational assistance as well as other aid. Activities include providing food to indigent families and villages, building roads, providing potable water and much-needed medical supplies and equipment.

In the Philippines, we have been very involved with the Bugkalots, an indigenous tribe living near our Casecnan project. During the past year, we established a Civic Action Plan which provided for the building of a mountain road that enables travel from their home to a nearby village in three hours—a trip that was previously a two-day hike. Additionally, we provided the Bugkalots with a bus that now is used for shuttle service, and equipment such as hand tractors, mini rice threshers and rice micro mills that will enable inhabitants to increase rice production. Most importantly, educational programs and university scholarship programs have been established to provide training in a variety of subjects.

On the island of Bali in Indonesia, we have implemented the "Hearts and Mind" Program, which provides for the donation of equipment and building improvements to four local grade schools. CalEnergy employees enjoy working with students and community members to provide information about environmental responsibility and nature conservation. This is done in conjunction with waste removal projects. Additionally, we have supported improvements to national park grounds, provided road improvements, village temple repairs and participated in tree planting and lake management programs.

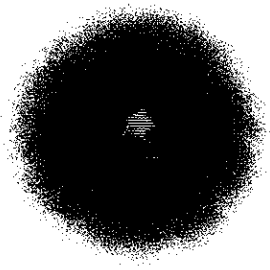
In Dieng, on the island of Java, Indonesia, CalEnergy assists with the identification and resolution of agricultural problems, bringing qualified experts from the United States to share their expertise and provide assistance to local farmers.



Plant operators analyze data retrieved from the Upper Mahiao Geothermal Project, located on the island of Leyte, Republic of the Philippines.

In both the Philippines and Indonesia, CalEnergy is collaborating with the Conservation Breeding Specialist Group to protect rare indigenous plant and animal species such as Indonesia's Javan Hawk-Eagle and a wild Asian buffalo called the Tamaraw, which is found in the Philippines.

CalEnergy is a responsible business partner, committed to making positive contributions in the communities we serve.



How will CalEnergy benefit from a regionally decentralized structure?

We have given responsibility for daily operating performance to divisions within each region of the world where we do business – the Americas, Europe and Asia. > This allows us more control over activities in those regions and enables us to react quickly to opportunities that will arise as deregulation and privatization continues to occur. > The responsibility for overall company performance remains at our company's headquarters in Omaha, Nebraska, in the United States.

Plant operator makes his rounds at the Saranac Gas-Fired Cogeneration Project.

Where We Do It

Our Global Strategy

Americas Region

Corporate Headquarters:
Omaha, Nebraska, United States

Overall, performance of our U.S. facilities in 1996 was outstanding. Several facilities produced at record levels and, as always, our safety record was excellent–among the best of any industry. In 1996, with the addition of Saranac, Power Resources and NorCon to our team and the completion of Salton Sea IV, we increased our production capacity in the U.S. by more than 97 percent.

Coso's Navy I Geothermal Project, located near Ridgecrest, California, U.S.A.

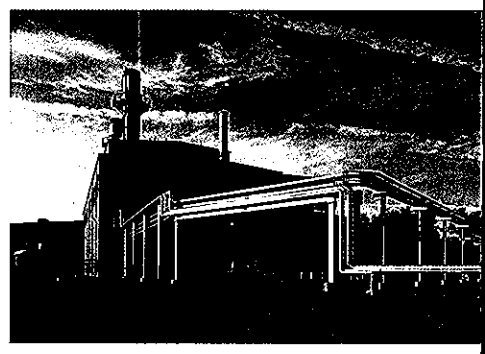
As the U.S. market moves toward deregulation, continued operational excellence and cost-containment processes already in place at CalEnergy will work to our advantage as our power production facilities in the United States are some of the strongest performing, most reliable facilities found anywhere in the world.

Geothermal Projects:

Coso

The Coso project is the result of a long-term contract with the U.S. Department of the Navy, providing for the development of up to 5,000 acres of geothermal property at the Naval Air Weapons Station in the Mojave Desert at China Lake, California.

The project consists of three facilities–Navy I, Navy II and BLM–each producing 88 net MW of electricity from naturally occurring geothermal steam. Long-term contracts provide for 100 percent of the Coso project's 264 net MW capacity to be sold to Southern California Edison Company.

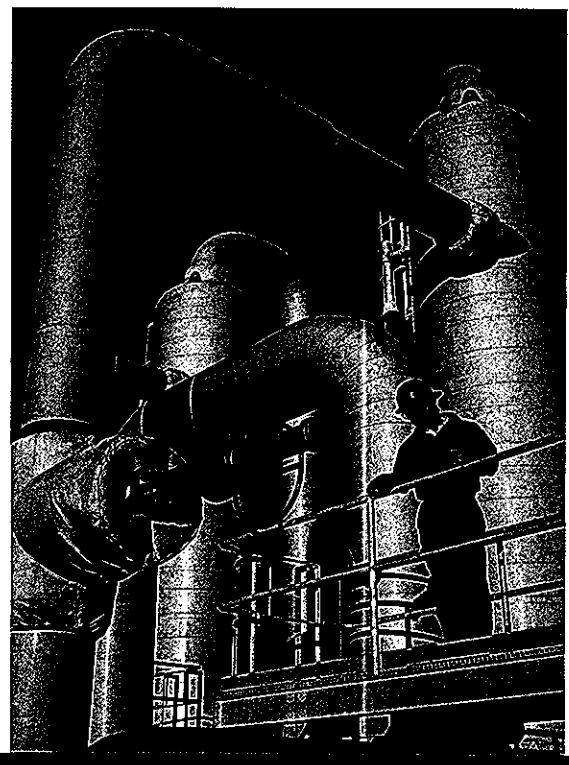


NorCon Gas-Fired Cogeneration Project, located in North East, Pennsylvania, U.S.A.

A top-performer, the Coso project has an outstanding lifetime safety record, completing 1996 without a lost time injury. Achieving record production levels each year since 1991, the three facilities at Coso ran at full capacity in 1996.

Additional accomplishments of the Coso project during 1996 include:

- Delivered a record 2,323,000 megawatt hours (MWh) of energy to Southern California Edison, an average of 264.5 net MW of power sales.
- Completed construction and began operation of the new Navy II H_2S abatement system that safely converts hydrogen sulfide gas to an elemental sulfur that is then used as an agricultural fertilizer.
- Completed drilling of two new wells.
- Completed the Unit 2 and Unit 3 turbine overhauls on schedule and within budget.



Imperial Valley

The Imperial Valley project consists of eight facilities in the Salton Sea Known Geothermal Resource Area in Southern California's Imperial Valley, producing electricity solely from naturally occurring geothermal steam.

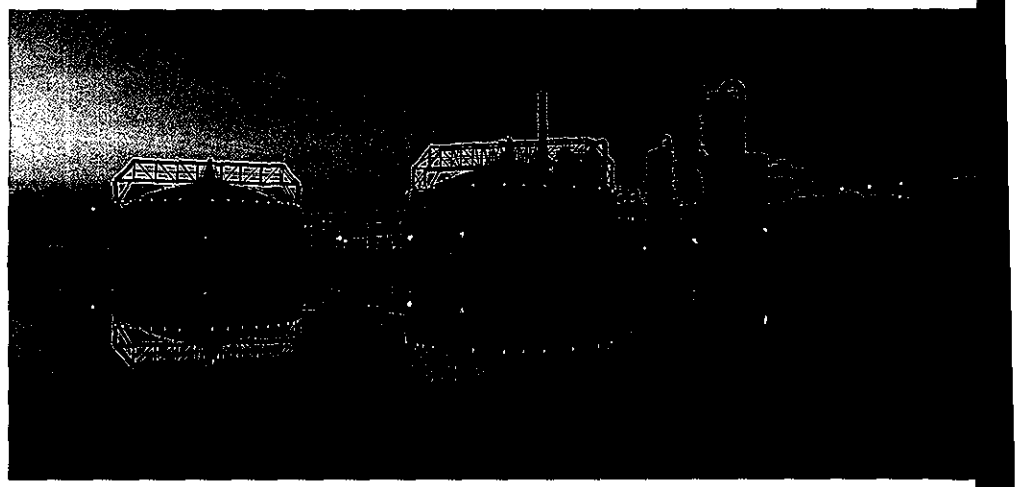
Four of the Imperial Valley facilities–Vulcan, Hoch, Elmore and Leathers–are under contract to sell power to Southern California Edison Company ("Edison") under long-term power purchase agreements. The other four power plants–Salton Sea I, II, III and IV–also sell energy to Edison under long-term power purchase agreements and produce steam for electricity generation.

In the summer of 1996, construction work was completed on budget and on schedule on Salton Sea Unit IV, an expansion facility with 40 net MW of new capacity. This expansion effort increased the total output of the Imperial Valley project by 17.5 percent to a combined capacity of 268 net MW.

Consistently operating at near full capacity, the Imperial Valley project ran at a combined capacity factor of 98.9 percent in 1996. Total net production was approximately 2,179,200 million kilowatt hours (kWh), yielding an average 248.1 net MW.

Additional significant accomplishments of the Imperial Valley project during 1996 include:

- Significantly decreased maintenance costs as a result of the installation of more than 4,000 feet of 24-inch diameter cement-lined pipe at the Leathers facility, which is used to transport production brine from the wells to the plant.
- Began development of Region I process and control consolidation, improvements to extend H_2S Biofilter capacity, replacement of brine pipelines in Region III and continued to enhance reliability and reduce costs at all facilities.
- Achieved an outstanding safety milestone in January, 1997–operating for the past two years without a lost time accident–more than one million man-hours.
- Set a single-day generation record on November 25, 1996 of 284.3 MW.



J.M. Leathers Geothermal Project in the Imperial Valley, located near Calipatria, California, U.S.A.

Desert Peak

The Desert Peak facility, located near Reno, Nevada, produces electricity from naturally occurring geothermal steam. The 10 net MW facility is 100 percent owned and operated by CalEnergy and we hold rights to an additional 6,000 acres at the site–which offers tremendous geothermal development potential. In operation since 1985, Desert Peak has operated ten out of those eleven years without a lost time accident.

Desert Peak has consistently operated at or near capacity and in 1996, CalEnergy operated on a short-term power sales arrangement with Sierra Pacific Power Company (SPPCo) to deliver energy at SPPCo's short-run avoided cost. In preparation for this development, we implemented significant cost cutting measures at Desert Peak, which led the way in 1996 as one of the industry's lowest-cost energy producers.

Roosevelt Hot Springs
Operational since 1983, Roosevelt Hot Springs is located on the first Known Geothermal Resource Area approved by the Department of the Interior, 170 miles southwest of Salt Lake City–an area encompassing one of the United States' most abundant geothermal reserves. CalEnergy owns a 70 percent interest in and operates the well field at this site while the power plant is owned by Utah Power and Light Company.

Roosevelt Hot Springs, a 23 net MW facility, has performed remarkably well during its 13 years of operation, and has never experienced a lost time accident. In 1996, the facility produced 212,400 MWh of energy.

Glass Mountain
Development acrivities for the Newberry project have been transferred to Glass Mountain in Northern California after reaching an agreement with Bonneville Power Administration (BPA). CalEnergy, BPA, Bureau of Land Management, U.S. Forest Service and Siskiyou County, CA, are working together to complete an Environmental Impact Study (EIS) for the development of the Glass Mountain resource.

Natural Gas/Cogeneration:
In August, 1996, CalEnergy completed the purchase of three operating gas-fired cogeneration plants and a related natural gas pipeline from Falcon Seaboard Resources, Inc. The facilities include Saranac, Power Resources and NorCon, located in New York, Texas and Pennsylvania respectively, and provide a total combined capacity of 520 net MW.

The acquisition of these facilities continues CalEnergy's geographic, customer and fuel diversification efforts and provides additional low-cost, high efficiency assets that will help prepare the company for competition in the deregulated U.S. electric industry of the future.

In 1996, the three facilities, together with the Yuma facility, performed at a combined capacity factor of 93.2 percent, yielding an average 480.1 MW. Total net production was approximately 4,216,800 MWh.

Saranac
The Saranac cogeneration plant utilizes low-cost, highly efficient natural gas–one of the cleanest fossil fuel sources in the world–as its fuel source. The 240 net MW facility, located in Plattsburgh, New York, has an agreement to sell electricity to New York State Electric & Gas Corporation and steam to Georgia-Pacific Corporation and Tenneco Packaging.

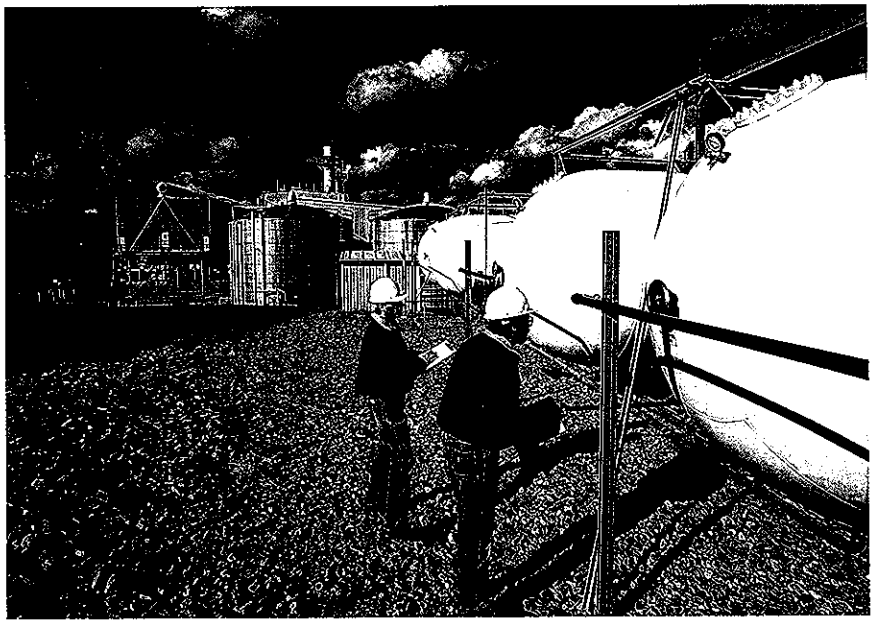
Since commencing commercial operation in 1994, the Saranac facility has demonstrated an availability in excess of 95 percent. The plant is strategically connected via the 22-mile North Country Gas Pipeline to TransCanada's gas transportation network, providing access to some of the least expensive natural gas available in North America.

Power Resources, Inc. Gas-Fired Cogeneration Project, located in Big Spring, Texas, U.S.A.

Power Resources
The Power Resources facility is a 200 net MW natural gas-fired cogeneration project located near Big Spring, Texas–and close to some of the largest gas fields in the United States and the country's lowest gas prices. Power Resources, which has demonstrated an availability factor of greater than 95 percent since commencing commercial operation in 1987, has an agreement to sell electricity to Texas Utilities Electric Company and steam to Fina Oil and Chemical Company.

NorCon

The 80 net MW NorCon natural gas-fired cogeneration facility is located in North East, Pennsylvania. Having achieved an availability rating of over 93 percent since commencing operation in 1992, the facility established an all-time production record in 1996 of 664,600 MWh. No service interruptions were experienced, and the facility has been able to increase its delivery of thermal energy to its steam host. The facility sells electricity under an agreement with Niagara Mohawk Power Corporation and sells steam for process and cooling to Welch Foods, Inc.



NorCon plant operators check gas supplies at the cogeneration facility located in North East, Pennsylvania, U.S.A.

Yuma

The highly efficient Yuma cogeneration facility uses natural gas as the fuel for its turbine and efficiently produces energy in two forms—electric and thermal (steam). In 1996, the Yuma facility, 100 percent owned by CalEnergy, met or exceeded all goals, producing 383,400 MWh of electricity with an average on-line availability factor of 98.7 percent.

Since beginning operation in 1994, the Yuma facility has diligently complied with all safety and environmental requirements. The Yuma cogeneration facility provides 50 net MW to San Diego Gas & Electric Company under a 30-year power purchase agreement. Thermal steam produced by the plant is sold to a neighboring carpet manufacturer, Queen Carpet, for process and cooling.

Europe Region

Headquarters:
Newcastle upon Tyne, United Kingdom

Our recent acquisition of Northern Electric included ownership interests in two power generation facilities, adding a combined net capacity of 205 MW. These facilities provide electricity to customers in Northern England. Construction has begun on a third facility, and it is expected that development will commence soon at two additional sites.

Teesside

Northern Electric has a 15.4 percent ownership interest in Teesside Power Limited, which operates a 1,875 MW combined cycle gas-fired power station at Wilton. To provide customers with electricity, Northern Electric purchases 400 MW of electricity from the plant under a 15-year contract.

Northallerton

In Northallerton, North Yorkshire, Northern Electric owns and operates a 5 MW diesel power generating plant in which the Company has a 3 MW net ownership interest.

Viking

Construction work recently began at our 50 net MW natural gas-fired power station at Seal Sands on Teesside. The facility, a joint venture of Northern Electric and Rolls-Royce Power Ventures, Ltd., will be developed, owned and operated by both companies. The facility will supply gas to the adjacent power station which will be connected within Northern Electric's distribution system, avoiding National Grid transmission costs. The facility is expected to go on-line by the end of 1997.

Upper Mahiao plant operator ensures that the plant's systems are working smoothly both day and night.

Asia Region

Headquarters:
Jakarta, Indonesia

The Philippines

To satisfy increasing demands and help stabilize energy costs in the Philippines, it is extremely important that electricity be developed from sources that are reliable, renewable, clean, indigenous and economical. CalEnergy's projects reflect this goal, utilizing a variety of environmentally responsible technologies and fuel sources, including geothermal and hydroelectric energy.

In addition to recognizing the long-term importance of environmental responsibility, the Philippine government is diligently working to provide the country with electricity and other commodities necessary to strengthen the standard of living and the country's economic position in the global market. We appreciate these efforts along with the efforts and hard work of our Filipino employees. They have been instrumental in helping us integrate our company into the business community and culture of the Philippines.

Our projects in the Philippines represent a total investment of more than $1.3 billion. Structured as Build-Own-Operate-Transfer (BOOT) projects, ownership of the projects will transfer from CalEnergy and its partners to the Philippine government after an agreed upon period of time ranging from 10 to 20 years.

Upper Mahiao

In June of 1996, construction was completed on the Upper Mahiao project, a 119 net MW geothermal power plant in the Tongonan Geothermal Reservation on the island of Leyte. The facility, which features a hybrid geothermal cycle in which steam exhausted from conventional backpressure turbines provides heat to binary bottoming cycle equipment, went on-line in September.

Upper Mahiao Geothermal Project, located on the island of Leyte, Republic of the Philippines.

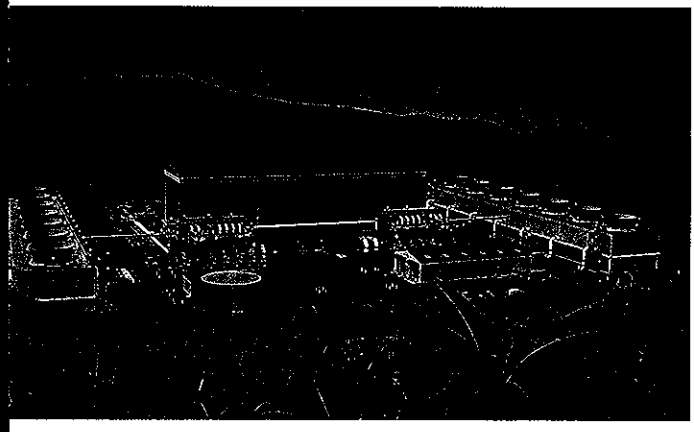
The Upper Mahiao project is owned and operated by CE Cebu Geothermal Power Company, Inc., a Philippine corporation that is indirectly owned by CalEnergy. CE Cebu will operate the BOOT project until ownership is transferred to the Philippine government after a ten-year cooperation period.

The Upper Mahiao project provides an energy conversion service and 100 percent of the plant's capacity is dedicated to the PNOC-Energy Development Corporation (PNOC-EDC). The energy delivered from Upper Mahiao is sold by PNOC-EDC to the National Power Corporation (NPC) for distribution and consumption on the island of Cebu, 40 miles west of Leyte, via an underwater transmission cable.

Malitbog

Construction was completed on the first unit (72 net MW) of the Malitbog project, a three-unit, 216 net MW geothermal facility engineered and constructed by Sumitomo Corporation in the Tongonan Geothermal Reservation on the island of Leyte, in June of 1996. The unit was operating at up to 30 net MW by the end of July. Generation was limited by the Philippine government as their construction of transmission lines necessary to link the facility to locations where the power will be used is not yet complete. As required by contract, PNOC-EDC is paying for the contracted capacity amount. Construction of the second and third units is essentially complete and they are expected to go on-line by mid-1997.

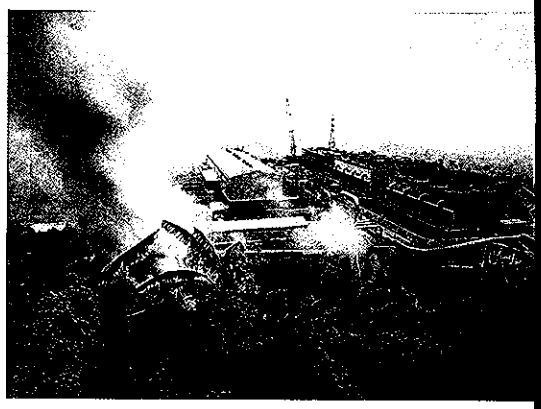
The Malitbog project is owned, being built and will be operated by Visayas Geothermal Power Company (VGPC), a Philippine partnership wholly-owned by CalEnergy. VGPC provides an energy conversion service and all plant capacity is dedicated to PNOC-EDC. PNOC-EDC resells one third of the energy from Malitbog to NPC for distribution on Cebu and two thirds for distribution on the island of Luzon.



Mahanagdong (Site A) Geothermal Project, located on the island of Leyte, Republic of the Philippines.

Mahanagdong

Scheduled to go on-line in mid-1997, the Mahanagdong project is a 165 net MW geothermal facility on the Philippine island of Leyte. Overall construction remained on budget and on schedule at the end of 1996. The project is being built, and will be owned and operated by CE Luzon Geothermal Power Company, Inc., a Philippine corporation that currently is owned 50 percent by CalEnergy and 50 percent by Kiewit Energy Company, a subsidiary of Peter Kiewit Sons', Inc.



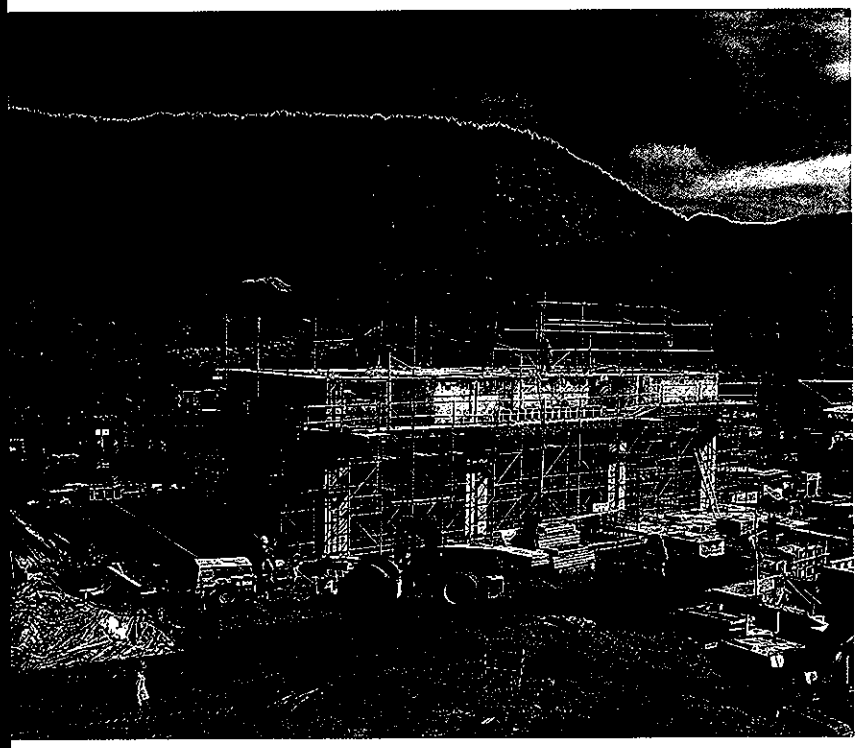
Malitbog Geothermal Project, located on the island of Leyte, Republic of the Philippines.

CE Luzon provides an energy conversion service with all plant capacity dedicated to PNOC-EDC. PNOC-EDC resells the energy delivered from the Mahanagdong project to NPC for distribution on the island of Luzon and to the Philippine capital city of Manila.

Casecnan

Construction is progressing at the Casecnan project, the result of an agreement between CalEnergy and the Philippine National Irrigation Administration (NIA) to develop a combined irrigation and hydroelectric power generation project. The ptoject will divert excess water from the Casecnan and Denip Rivers in Northern Luzon through a 23-kilometer tunnel to the generating plant. The project will provide up to 150 net MW of new hydroelectric capaciry to the important Luzon electrical grid, as well as much-needed water for agricultural use in the Luzon Valley.

Mahanagdong (Site B) Geothermal Project, located on the island of Leyte, Republic of the Philippines.



Construction is proceeding on schedule at the Dieng Unit I Geothermal Project, located on the island of Java, Indonesia.

Energy from the Casecnan project will be produced by nonpolluting, renewable, indigenous hydroelectric sources. It is projected that the project will significantly augment the annual harvests of farmers by irrigating an additional 50,000 hectares of agricultural land in the province.

The project was the first multipurpose BOOT project in the Philippines and the first involving NIA and the Philippine Department of Agriculture. CalEnergy will have a minimum 35 percent equity interest in, and will manage, the joint venture project. Ownership will transfer to NIA at the end of a 20-year cooperation period.

Indonesia

Energy produced by CalEnergy at its three current projects in Indonesia will be from naturally occurring geothermal steam, a preferred energy source because it is reliable, renewable, clean, indigenous and economical. Geothermal development is especially valuable in areas like Java and Bali where resources are plentiful.

It has been gratifying to begin to share our knowledge and abilities in Indonesia where our efforts have been enhanced by those of our Indonesian associates and employees. They have become true partners in our endeavors to efficiently and cost-effectively develop and construct our power facilities. We look forward to continuing these successful associations.

As in the Philippines, our projects in Indonesia are structured as Build-Own-Operate-Transfer (BOOT) projects whereby, after an agreed upon period of time, ownership will transfer from CalEnergy and its partners to the Indonesian government. Our combined contracts in Indonesia permit a planned geothermal development project of more than 1,000 net MW and it is estimated that our total investment in the country will be in excess of $2 billion.

Dieng

CalEnergy plans to build several geothermal steam field and power facilities with an aggregate capacity of up to 400 net MW at the Dieng geothermal field in Central Java, one of the few explored and commercially proven geothermal fields in Indonesia. In 1996, we closed financing and began construction at the Dieng Unit I site, a 55 net MW facility that is expected to go on-line in late 1997.

Field development at the Bali Geothermal Project site, located on the island of Bali, Indonesia.

CalEnergy Projects

In Operation, Construction and Development

An affiliate of CalEnergy has a joint operation contract with Pertamina, the Indonesian national oil company, for the development of the Dieng project. A "take or pay" energy sales contract with both Pertamina and PLN, the Indonesian national electric utility, provides for the purchase of electricity generated there. After an agreed-upon time, ownership of the BOOT project will transfer from affiliates of CalEnergy and its partners to Pertamina.

Patuha

Well drilling and development activities continue at a 400 net MW project site at the Patuha geothermal field, located on the west side of Java, less than 100 miles from the capital of Jakarta and near two existing geothermal development projects. Land acquisition and permitting efforts are ongoing while planned exploratory corehole drilling has been completed and production well drilling has begun. Unit I of the Patuha project is scheduled to begin construction in late 1997.

An affiliate of CalEnergy and its partners have a joint operation contract with Pertamina and a "take or pay" energy sales contract with both Pertamina and PLN.

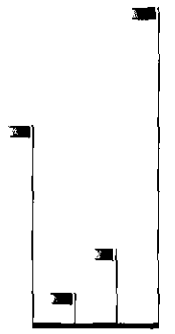
Bali

Along with our joint venture partners, we plan to construct several geothermal production facilities in phases on the Indonesian island of Bali with an output of up to 400 net MW. Field development, permitting and land acquisition are underway, and corehole drilling has begun at the site.

CalEnergy will serve as managing partner of the venture. As with the Dieng and Patuha projects, an affiliate of CalEnergy has signed a joint operation contract with Pertamina and the "take or pay" energy sales contract with Pertamina and PLN.

	Net MW	Net MW Owned
Americas Region:		
United States:		
OPERATIONS:		
Arizona:		
Yuma	50	50
California:		
Coso	264	127
Navy I, Navy II, BLM		
Imperial Valley	268	268
Salton Sea I, II, III, IV,		
Vulcan, Hoch, Elmore, Leathers		
Nevada:		
Desert Peak	10	10
New York:		
Saranac	240	180
Pennsylvania:		
NorCon	80	64
Texas:		
Power Resources	200	200
Utah:		
Roosevelt Hot Springs	23	17
DEVELOPMENT:		
California:		
Glass Mountain	30	30
Minerals Extraction	15	15
TOTAL AMERICAS	1,180	961
Europe Region:		
United Kingdom:		
OPERATIONS:		
Teesside	1,875	202
CONSTRUCTION:		
Viking	50	18
TOTAL EUROPE	1,925	220
Asia Region:		
Philippines:		
OPERATIONS:		
Uppet Mahiao	119	119
Malitbog Unit I	72	72
CONSTRUCTION:		
Malitbog Units II & III	144	144
Mahanagdong	165	74
Casecnan	150	52
DEVELOPMENT:		
Alto Peak	70	70
Indonesia:		
CONSTRUCTION:		
Dieng Unit I	55	26
DEVELOPMENT:		
Dieng Phase II	345	162
Patuha	400	176
Bali	400	120
TOTAL ASIA	1,920	1,015
	Net MW	**Net MW owned**
TOTAL	5,025	2,196

Note: The Company operates all such projects other than Teesside. This chart does not include 47 small scale combined heat and power facilities that an indirect Northern Electric plc subsidiary operates and a 5 MW diesel unit at Northallerton that a Northern Electric plc subsidiary operates (in which the Company has a 3 MW net ownership interest), nor does it include the BRPU projects, which are subject to pending CPUC contract buy-out proceedings.

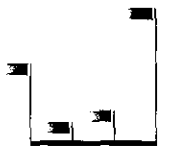


Net Megawatts

3,201 564 1,260 5,025

Operations
Construction
Development
Total

CalEnergy Net MW



Net Megawatts Owned

1,309 314 573 2,196

Operations
Construction
Development
Total

CalEnergy Net MW Owned

In Conclusion

It's been a very successful year for CalEnergy. By adhering to our focused strategy, we achieved several milestones that enable us to maintain our leadership position in the global power industry. We successfully acquired additional assets that have allowed us to diversify our fuel sources and gain valuable expertise in complementary segments of the industry. This experience will serve us well as worldwide privatization unfolds.

Performance Drives Success

This is a statement we have found to be resoundingly true. In 1996, the operational performance and safety standards of our facilities continued to be excellent. Construction and development activities progressed on schedule and within budget. We gratefully acknowledge the dedication of CalEnergy employees to these efforts, as well as applaud their continued environmental stewardship.

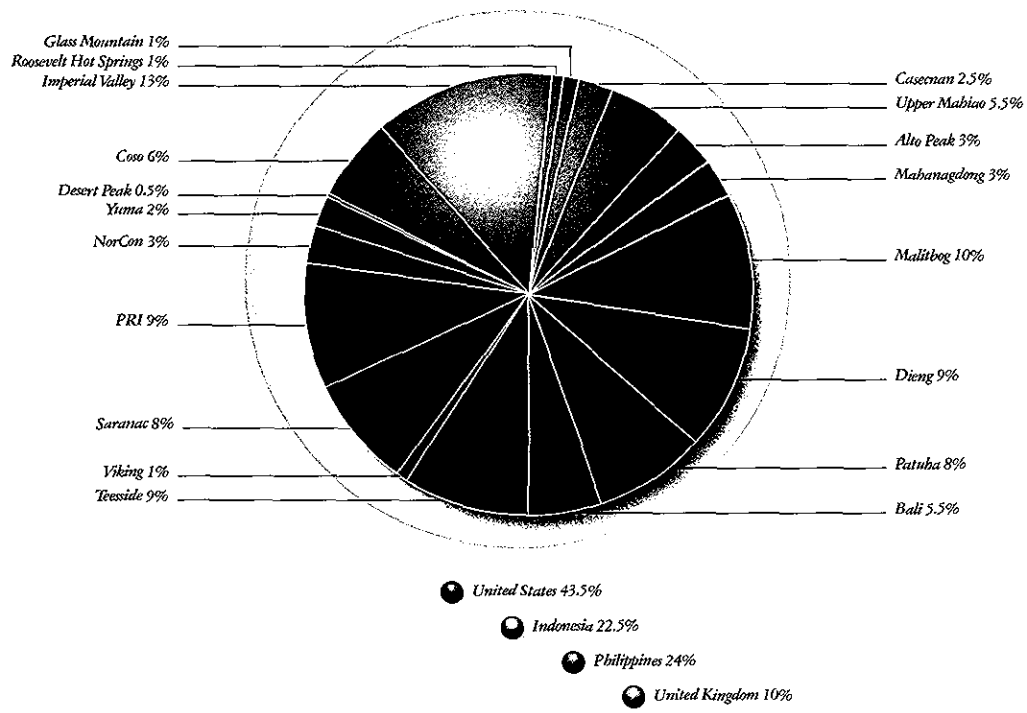
Change Creates Opportunity

By intentionally expanding our knowledge and experience base, CalEnergy is well equipped to quickly react to and profit from the changing environment of the power industry. We look forward to the many opportunities that will accompany the impending deregulation and privatization of global energy markets.

Growth Results from Both

We believe that CalEnergy's growth and success are the result of our dedication to premium performance and our ability to recognize and act on the opportunities presented by a rapidly transitioning marketplace. 1996 was a year of historic growth. Acquisitions and continued executional excellence contributed to our bottom line growth—with total assets and revenues increasing exponentially. As we continue our course, we remain mindful of the factors that contribute to our success.

Continued Portfolio Diversification
Planned Generation in Operation in the Year 2000



CalEnergy Company, Inc. 1996 Financial Report

Contents

Financial Summary

Over the last three years ended December 31, 1996, CalEnergy Company, Inc. (the "Company") has experienced significant growth. The market capitalization of the Company has risen at a compound annual rate of 48% from approximately $656 million in 1993 to approximately $2,140 million in 1996, the revenues of the Company have risen at a compound annual rate of 57% from approximately $149 million in 1993 to approximately $576 million in 1996 and net income available to common stockholders has risen at a compound annual rate of 29% from approximately $43 million in 1993 to approximately $92 million in 1996. This significant growth has been achieved through: (i) acquisitions that complement and diversify the Company's existing business, broaden the geographic locations of its assets and enhance its competitive capabilities; (ii) enhancement of the financial and technical performance of existing and acquired projects; and (iii) development and construction of new plants.

On December 24, 1996, CE Electric UK plc, which is 70% owned indirectly by the Company and 30% owned indirectly by Peter Kiewit Sons', Inc. ("PKS"), acquired majority ownership of the outstanding ordinary share capital of Northern Electric plc ("Northern") pursuant to a tender offer. The total amount expected to be paid for all of Northern's ordinary and preference shares is approximately $1.3 billion.

In the last two years, the Company has consummated three other significant acquisitions, in addition to the acquisition of Northern. In January 1995, the Company acquired Magma Power Company ("Magma"), a publicly-traded United States independent power producer with 228 megawatts ("MW") of aggregate net operating capacity and 154 MW of aggregate net ownership capacity, for approximately $958 million. The Magma acquisition, combined with the Company's previously existing assets, made the Company the largest independent geothermal power producer in the world today (based on the Company's estimate of aggregate MW of electric generating capacity in operation and under construction). In April 1996, the Company completed the buy-out for approximately $70 million of its partner's interests ("Partnership Interest") in four electric generating plants in Southern California, resulting in sole ownership of the Imperial Valley Project. In August 1996, the Company acquired Falcon Seaboard Resources, Inc. ("Falcon Seaboard") for approximately $226 million, thereby acquiring significant ownership in 520 MW of natural gas-fired electric production facilities located in New York, Texas and Pennsylvania and a related gas transmission pipeline.

Through its subsidiaries and joint ventures, the Company presently operates 19 projects with an aggregate net capacity of 1,326 MW, in which it has a net ownership interest of 1,107 MW of electric generating capacity. This includes an aggregate net ownership interest of 916 MW in facilities located in the United States (which facilities have an aggregate net capacity of 1,135 MW, of which 570 MW are fueled with natural gas and 565 MW are geothermal). The remaining 191 MW are supplied by two geothermal power production facilities owned and operated by the Company in the Philippines. These numbers do not reflect 47 small scale combined heat and power facilities and a diesel fired power production facility in England that an indirect Northern subsidiary operates. Finally, the Company owns, but does not operate, 202 net MW from the 1,875 MW Teesside Project in England.

With respect to power generation projects that are financed and under construction, the Company has an aggregate net ownership interest of 270 MW of electric generating capacity in two geothermal power projects and one hydroelectric project in the Philippines, which collectively have an aggregate net capacity of 459 MW. The Company is also currently constructing a 55 net MW geothermal project in Indonesia, in which the Company has an aggregate net ownership interest of 26 MW of electric generating capacity, as the first phase of the Company's planned Indonesian geothermal project development of approximately 1,000 MW under contract. The Company has commenced construction of a 50 MW gas fired power project in England in which the Company has net

ownership interest of 18 MW. The Company expects that it will operate all of these projects.

The Company is also currently developing six additional projects with executed or awarded power sales contracts in the Philippines, Indonesia and the United States. The Company is expected to have an approximate net ownership interest of 573 MW in these development projects (which represent an aggregate net capacity of 1,260 MW of additional potential electric generating capacity). Substantial contingencies exist with respect to development projects, including, without limitation, the need to obtain financing, permits and licenses and the satisfactory completion of construction. The Company expects that it will operate all of these projects.

The Company's operations have historically been seasonal in nature, with a disproportionate percentage of income earned in the third quarter. As a result of the acquisition of Northern, the Company's historical results could differ significantly from the Company's actual results in the future.

Selected Financial Data

Dollars in Thousands Except Per Share Amounts

	Year Ended December 31,				
	1996[1]	1995[2]	1994	1993	1992
Sales of electricity and steam	$ 518,934	$ 335,630	$ 154,562	$ 132,059	$ 117,342
Total revenue	576,195	398,723	185,854	149,253	127,529
Expenses	440,482	301,672	130,018	87,995	76,797
Income before provision for income taxes	135,713	97,051	55,836	61,258	50,732
Income before change in accounting principle and extraordinary item	93,892	66,420	38,834	43,074	38,810
Cumulative effect of change in accounting principle	—	—	—	4,100	—
Minority interest	1,431	3,005	—	—	—
Extraordinary item	—	—	(2,007)	—	(4,991)
Net income before preferred dividends	92,461	63,415	36,827	47,174	33,819
Preferred dividends	—	1,080	5,010	4,630	4,275
Income per share before change in accounting principle and extraordinary item	1.60	1.25	.95	1.00	.92
Cumulative effect of change in accounting principle per share	—	—	—	.11	—
Extraordinary item per share	—	—	(.06)	—	(.13)
Net income per share - primary	1.60	1.25	.89	1.11	.79
Total assets	5,712,907	2,654,038	1,131,145	715,984	580,550
Total liabilities	4,263,803	2,084,474	867,703	425,393	336,272
Company-obligated mandatorily redeemable convertible preferred securities of subsidiary trust holding solely convertible debentures	103,930	—	—	—	—
Preferred securities of subsidiary	136,065	—	—	—	—
Minority interest	299,252	—	—	—	—
Redeemable preferred stock	—	—	63,600	58,800	54,350
Stockholders' equity	880,790	543,532	179,991	211,503	168,764

1 Reflects acquisitions of Northern, Falcon Seaboard and the Partnership Interest owned for part of the year. See Note 3 to the financial statements.

2 Reflects acquisition of Magma owned for part of the year. See Note 3 to the financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Dollars in Thousands Except Per Share Amounts

The following is management's discussion and analysis of certain significant factors which have affected the Company's financial condition and results of operations during the periods included in the accompanying statements of operations. As a result of the acquisition of Northern Electric plc ("Northern"), the Company's historical results could differ significantly from the Company's actual results in the future.

Acquisitions

On December 24, 1996, CE Electric UK plc ("CE Electric"), which is 70% owned indirectly by the Company and 30% owned indirectly by Peter Kiewit Sons', Inc. ("PKS"), acquired majority ownership of the outstanding ordinary share capital of Northern pursuant to a tender offer (the "Tender Offer"). Through January 31, 1997, CE Electric had purchased more than 90% of Northern's ordinary shares. Under United Kingdom statutory powers available to compulsorily acquire shares not purchased in the Tender Offer, CE Electric expects to acquire the remaining Northern shares by April 30, 1997.

Northern's revenue and profit before tax were approximately $1,412,200 and $236,100 respectively, for its fiscal year ended March 31, 1996.

In April 1996, the Company completed the buy-out for approximately $70,000 of its partner's interests ("Partnership Interest") in four electric generating plants in Southern California, resulting in sole ownership of the Imperial Valley Project. In August 1996, the Company acquired Falcon Seaboard Resources, Inc. ("Falcon Seaboard") for approximately $226,000, thereby acquiring significant ownership in 520 MW of natural gas-fired electric production facilities located in New York, Texas and Pennsylvania and a related gas transmission pipeline.

Power Generation Projects

For purposes of consistency in financial presentation, plant capacity factors for Navy I, Navy II, and BLM plants (collectively the "Coso Project"), are based upon a capacity amount of 80 net MW for each plant. Plant capacity factors for Vulcan, Hoch (Del Ranch), Elmore, Leathers plants (collectively the "Partnership Project"), are based on nominal capacity amounts of 34, 38, 38, and 38 net MW respectively, and for Salton Sea I, Salton Sea II, Salton Sea III and Salton Sea IV plants (collectively the "Salton Sea Project"), are based on nominal capacity amounts of 10, 20, 49.8 and 39.6 net MW, respectively (the Partnership Project and the Salton Sea Project are collectively referred to as the "Imperial Valley Project"). Plant capacity factors for Saranac, Power Resources, NorCon and Yuma plants (collectively the "Gas Plants") are based on capacity amounts of 240, 200, 80 and 50 net MW, respectively. Each plant possesses an operating margin which allows for production in excess of the amount listed above. Utilization of this operating margin is based upon a variety of factors and can be expected to vary throughout the year under normal operating conditions.

See Note 4 to the financial statements for a discussion of the Company's significant operating contracts.

Results of Operations Three Years Ended December 31, 1996, 1995 and 1994

Sales of electricity and steam increased to $518,934 in the year ended December 31, 1996 from $335,630 in the year ended December 31, 1995, a 54.6% increase. This improvement was primarily due to the acquisitions of the Partnership Interest, Falcon Seaboard and Northern, the deemed completion of the Upper Mahiao Project and Unit I of the Malitbog Project in the Philippines, the completion of the Salton Sea IV Project and an increase in the Coso Project's electricity revenues.

The increase in sales of electricity and steam in 1995 to $335,630 from $154,562 in 1994 was primarily due to the addition of production from the Imperial Valley Project as a result of the acquisition of Magma in the first quarter of 1995, an increase in the Coso Project's electricity revenues and an increase in revenue received from the Yuma Project which commenced operation in May 1994.

The following operating data represents the aggregate capacity and electricity production of the Coso Project:

	1996	1995	1994
Overall capacity factor	110.2%	110.3%	106.5%
kWh produced (in thousands)	2,323,000	2,318,400	2,238,600
Capacity NMW (average)	240	240	240

The Coso Project capacity factor was 111.0% in the fourth quarter of 1996 compared to 111.5%, 109.5% and 108.7% for the third, second and first quarters of 1996, respectively. A steam transfer agreement was signed and the interties were constructed in the third quarter of 1995, providing for increased production, primarily at the BLM Project.

The following operating data represents the aggregate capacity and electricity production of the Partnership Project:

	1996	1995	1994
Overall capacity factor	104.8%	105.9%	103.8%
kWh produced (in thousands)	1,361,800	1,373,310	1,346,000
Capacity NMW (average)	148	148	148

The Partnership Project capacity factor was 105.7% in the fourth quarter of 1996 compared to 106.4%, 109.2%, and 97.6% for the third, second, and first quarters of 1996, respectively. The decreased production in 1996 is a result of scheduled overhauls at Leathers and Elmore. The increased production in 1995 is a result of minimizing unscheduled downtime at the plants.

The following operating data represents the aggregate capacity and electricity production of the Salton Sea Project:

	1996	1995	1994
Overall capacity factor	90.4%	86.5%	90.8%
kWh produced (in thousands)	817,400	604,300	634,890
Capacity NMW (average)	103.0	79.8	79.8

The overall Salton Sea Project capacity factor was 92.4% in the fourth quarter of 1996 compared to 97.9%, 78.6% and 89.6% for the third, second and first quarters of 1996, respectively. The Salton Sea Project capacity factor has increased in 1996 from 1995 due to the commencement of operations at the Salton Sea IV Project. The decrease in 1995 from 1994 is due to the scheduled Salton Sea III Project overhaul in the second quarter of 1995 and the conversion of that unit to the pH Mod technology in the fourth quarter of 1995.

The following operating data represents the aggregate capacity and electricity production of the Gas Plants:

	1996	1995	1994
Overall capacity factor	84.2%	88.8%	80.6%
kWh produced (in thousands)	4,216,800	4,433,900	3,144,700
Installed capacity NMW	570	570	445.5

The capacity factor of the Gas Plants reflects the effect of certain contractual curtailments. The capacity factors adjusted for these contractual curtailments are 93.2%, 96.8% and 90.6% for 1996, 1995 and 1994, respectively.

Electric sale price per kWh for the Coso Project, Partnership Project and Salton Sea Project varies seasonally in accordance with the rate schedule included in the SO4 agreements and power purchase agreements. The Coso Project's, Partnership Project's and Salton Sea Project's average electricity prices per kWh in 1996, 1995 and 1994 were comprised of (in cents):

Coso Project	Energy	Capacity & Bonus	Total
Average fiscal 1996	12.61	1.82	14.43
Average fiscal 1995	11.81	1.82	13.63
Average fiscal 1994	10.91	1.90	12.81
Partnership Project	**Energy**	**Capacity & Bonus**	**Total**
Average fiscal 1996	10.02	2.12	12.14
Average fiscal 1995	11.14	2.10	13.24
Average fiscal 1994	10.29	2.16	12.45
Salton Sea Project	**Energy**	**Capacity & Bonus**	**Total**
Average fiscal 1996	8.84	2.29	11.13
Average fiscal 1995	9.50	2.33	11.83
Average fiscal 1994	10.07	1.67	11.74

Income on equity investments reflects the Company's share of equity income primarily from the Saranac Project and Northern.

Royalty income decreased in 1996 to $6,846 from $19,482 in 1995, a 64.9% decrease. This decrease is a result of the Company no longer recognizing royalty income received from the Partnership Project as the Partnership Project is now owned 100% by the Company due to the Partnership Interest acquisition. The Company continues to receive royalty income from other projects not owned by the Company. Royalty income in 1995 of $19,482 is a result of the acquisition of Magma which received royalties from the Partnership Project, and from other projects not owned by the Company.

Interest and other income marginally increased in 1996 to $44,281 from $43,611 in 1995, a 1.5% increase. This increase is primarily a result of operator fees received from the Saranac Project and NorCon Project partially offset by the fact the Company is no longer recognizing management services income received from the Partnership Project as the Partnership Project is now owned 100% by the Company due to the Partnership Interest acquisition. Interest and other income increased in 1995 to $43,611 from $31,292 in 1994. The increase primarily reflects management services income received from the Partnership Project.

Overall, the Company's expenses increased in 1996 due to the acquisitions of Northern, Falcon Seaboard and the Partnership Interest, the commencement of operations of the Salton Sea IV Project and the deemed completion of the Upper Mahiao Project and Unit I of the Malitbog Project.

Plant operations increased to $108,962 in 1996 from $79,294 in 1995, an increase of 37.4%. The increase is a result of the Falcon Seaboard and the Partnership Interest acquisitions, and the commencement of operations of the Salton Sea IV Project. Operating expense increased to $79,294 in 1995 from $33,015 in 1994, an increase of 140.2% as a result of the cost of plant operations at the Imperial Valley Project and the full year of operations at the Yuma Project.

The cost of sales of $31,840 are a result of the acquisition of Northern and represent costs of electricity sales during the period of the Company's controlling interest from December 24, 1996 through December 31, 1996.

General and administration costs decteased to $21,451 in 1996 from $23,376 in 1995, a decrease of 8.2%. This decrease is a result of the Company's continued efforts to reduce costs and reflects the elimination of redundant functions subsequent to the acquisition of Magma. General and administration costs increased to $23,376 in 1995 compared to $13,012 in 1994, a 79.6% increase primarily attributable to the Magma acquisition.

Royalty costs marginally decreased to $23,693 in 1996 from $24,308 in 1995, a 2.5% decrease. This decrease is primarily due to decreased royalty costs at the Desert Peak Project due to revenue reductions. Royalty cost increased to $24,308 in 1995 from $9,888 in 1994, a 145.8% increase. The 1995 increase was due to the addition of the Imperial Valley Project, increased revenue from the plants the Company owned in 1994 and scheduled royalty increases associated with such plants.

Depreciation and amortization increased in 1996 to $118,586 from $72,249 in 1995, a 64.1% increase. This increase is primarily due to the depreciation and amortization of the allocated purchase price and goodwill related to the Magma, Partnership Interest and Falcon Seaboard acquisitions, the Philippine projects and the commencement of operations at the Salton Sea IV Project. Depreciation and amortization increased to $72,249 in 1995 from $21,197 in 1994, a 240.8% increase. The increase was due to depreciation and amortization of the allocated purchase price and goodwill from the Magma acquisition.

Loss on equity investment in the Casecnan Project reflects the Company's share of interest expense in excess of capitalized interest and interest income at the Casecnan Project, which is currently in construction.

Interest expense, less amounts capitalized, increased in 1996 to $126,038 from $102,083 in 1995, a 23.5% increase, and increased to $102,083 in 1995 from $52,906 in 1994, a 93.0% increase. Higher interest expense is primarily due to a larger portfolio of facilities and their associated debt partially offset by the increase in capitalized interest on the Company's international and domestic projects.

The provision for income taxes increased to $41,821 in 1996 from $30,631 in 1995, and increased to $30,631 in 1995 from $17,002 in 1994. The effective tax rate was 30.8%, 31.6% and 30.5% in 1996, 1995, and 1994, respectively.

Income before the provision for income taxes increased to $135,713 in 1996 from $97,051 in 1995, a 39.8% increase. Minority interest in 1996 reflects the Company's partial ownership in Northern for the period from December 24, 1996 through December 31, 1996. Minority interest in 1995 reflects the Company's partial ownership in Magma for the period from January 10, 1995 to February 24, 1995. Net income available to common shareholders increased to $92,461 or $1.60 per common share in 1996 compared to $62,335 or $1.25 per common share in 1995 and $31,817 or $.89 per common share in 1994. Net income for the year ended December 31, 1994 was reduced by $2,007 or $.06 per share due to an extraordinary item.

Liquidity and Capital Resources

Cash and short-term investments were $429,421 at December 31, 1996 as compared to $106,304 at December 31, 1995. In addition, the Company's share of joint venture cash and investments retained in project control accounts was $48,083 and $77,590 at December 31, 1996 and 1995, respectively. Distributions out of the project control accounts are made monthly to the Company for operation and maintenance and capital costs and semiannually to each Coso Project partner for profit sharing under a prescribed calculation subject to mutual agreement by the partners. In addition, the Company recorded separately restricted cash of $107,143 and $149,227 at December 31, 1996 and 1995, respectively. The restricted cash balances are comprised primarily of amounts deposited in restricted accounts from which the Company will provide its equity contribution requirements relating to the Mahanagdong Project, fund certain capital improvements at the Imperial Valley Project and the Company's proportionate share of the Coso Project, the Power Resources Project, the Upper Mahiao Project and the Malitbog Project cash reserves for the debt service reserve funds.

Accounts receivable normally represents two months of revenues, and fluctuates with both production and distribution and supply of electricity.

The balance due from the joint ventures relates to operations, maintenance, and management fees for managing the Coso Project as well as advances and deferred revenue on the international projects. This amount fluctuates based on the timing of billings and incutrence of costs.

The Company repurchased 472 common shares during 1996 for the aggregate amount of $12,008. The Company repurchased 102 shares of common stock in 1995 at an aggregate amount of $1,590. As of December 31, 1996 the Company holds 299 shares of treasury stock at a cost of $8,787 to provide shares for issuance under the Company's employee stock option and share purchase plan and other outstanding convertible securities. The repurchase plan attempts to minimize the dilutive effect of the additional shares issued under these plans.

On February 26, 1997 CalEnergy Capital Trust II, a special purpose Delaware business trust organized by the Company (the "Trust II"), pursuant to the Amended and Restated Declaration of Trust (the "Declaration") dated as of February 26, 1997, completed a private placement (with certain shelf registration rights) of 6 ¼%, $150,000 aggregate amount of Trust Convertible Preferred Securities ("Trust Securities"). In addition, an option to purchase an additional 600 Trust Securities, or $30,000 aggregate amount, was exercised by the initial purchasers to cover over-allotments in connection with the placement. Each Trust Security has a liquidation preference of fifty dollars and is convertible at any time at the option of the holder into 1.1655 shares of Company Common Stock (equivalent to a conversion price of $42.90 per common share) subject to adjustments in certain circumstances.

On December 24, 1996 CE Electric, which is 70% owned indirectly by the Company and 30% owned indirectly by PKS, acquired majority ownership of the outstanding ordinary share capital of Northern pursuant to the Tender Offer commenced in the United Kingdom by CE Electric on November 5, 1996. Through January 31, 1997, CE Electric had purchased more than 90% of Northern's ordinary shares. Under United Kingdom statutory powers available to compulsorily acquire shares not purchased in the Tender Offer, CE Electric expects to acquire the remaining Northern shares by April 30, 1997.

As of December 31, 1996, the Company had contributed to CE Electric approximately $410,000 of the approximately $1,300,000 required to acquire all of Northern's ordinary and preference shares in connection with the Tender Offer. The Company obtained such funds from cash on hand, short-term borrowings, and borrowings of approximately $100,000 under a $100,000 Credit Agreement entered into with Credit Suisse on October 28, 1996 (the "CalEnergy Credit Facility"). As of February 27, 1997, the Company had repaid the entire CalEnergy Credit Facility through the use of proceeds of the $150,000 Trust Securities offering. The remaining funds necessary to consummate the Tender Offer

will be provided from a £560,000 ($958,888) Term Loan and Revolving Facility Agreement, dated as of October 28, 1996 (the "U.K. Credit Facility") with CE Electric. The Company has not guaranteed, nor is it otherwise subject to recourse for, amounts borrowed under the U.K. Credit Facility. As of January 31, 1997, CE Electric had borrowed approximately £321,000 ($549,648) under the U.K. Credit Facility to pay for Northern ordinary and preference shares purchased to date.

On October 4, 1996 the Company closed the $120,000 project financing for the Dieng Unit I 55 net MW geothermal project located in Indonesia. Dieng Unit I is already under construction and is currently expected to begin commercial operation by late 1997.

On September 20, 1996 the Company completed a sale to institutional investors of $225,000 aggregate principal amount of its 9 1/2% Senior Notes due 2006.

Also on September 20, 1996 the Company converted the $64,850 convertible debt and associated accrued interest into 3,620 common shares at a conversion price of $18.375 per share. In September and October, the Company converted substantially all of the convertible subordinated debentures into 4,443 common shares at a conversion price of $22.50 per share.

On July 8, 1996 the Company obtained a $100,000 three year revolving credit facility of which the Company had drawn $95,000 as of December 31, 1996. Subsequent to year end, the Company had repaid the entire outstanding balance. The facility is unsecured and is available to fund genetal operating capital requirements and finance future business opportunities.

On June 20, 1996 the Salton Sea Funding Corporation, a wholly owned indirect subsidiary of the Company (the "Funding Corporation"), completed a sale to institutional investors of $135,000 aggregate amount of Senior Secured Notes and Bonds ("the Notes and Bonds") which are nonrecourse to the Company. The Funding Corporation Notes and Bonds which mature in May 2000 and May 2011 respectively, bear an interest rate of 7.02% and 8.30% respectively. The proceeds of the offering were used by Funding Corporation to refinance $96,584 of existing project level indebtedness at the Partnership Project, to fund a portion of the Partnership Interest acquisition and for certain capital improvements at the Imperial Valley Project.

On April 12, 1996 CalEnergy Capital Trust, a special purpose Delaware business trust organized by the Company (the "Trust"), completed a private placement (with certain shelf registration rights) of $100,000 trust preferred convertible securities, referred to as Company-obligated mandatorily redeemable convertible preferred securities of subsidiary trust holding solely convertible debentures ("TIDES"). In addition, an option to purchase an additional 78.6 TIDES, or $3,930, was exercised by the initial purchasers to cover over-allotments in connection with the placement.

In 1996, the Company signed an agreement with an international mining company which provides for the extraction of minerals by the mining company at the Imperial Valley Project and among other things, for the Company, at its option, to deliver power for the mineral extraction process. The initial phase of the project would require at least 15 MW. A pilot plant has successfully produced zinc at the Imperial Valley Project. Due to a failure to reach agreement with the mining company on a satisfactory partnership and development agreement for construction of a larger extraction plant, the Company has determined to pursue the mineral extraction project on its own or with other partners. If successfully developed, the mineral extraction process will provide an environmentally compatible and low cost minerals recovery methodology.

In November 1995 the Company closed the financing and commenced construction of the Casecnan Project, a combined irrigation and 150 net MW hydroelectric power generation project (the "Casecnan Project") located in the central part of the island of Luzon in the Republic of the Philippines.

CE Casecnan Water and Energy Company, Inc., a Philippine corporation ("CE Casecnan") which is presently indirectly owned as to approximately 35% of its equity by the Company and approximately 35% by PKS, is developing the Casecnan Project under the terms of the Project Agreement ("Project Agreement") between CE Casecnan and the National Irrigation Administration ("NIA"). Under the Project Agreement, CE Casecnan will develop, finance and construct the Casecnan Project over an estimated four-year construction period, and thereafter own and operate the Casecnan Project for 20 years (the "Casecnan Cooperation Period"). During the Casecnan Cooperation Period, NIA is obligated to accept all deliveries of water and energy, and so long as the Casecnan Project is physically capable of operating and delivering in accordance with agreed levels set forth in the Project Agreement, NIA will pay CE Casecnan a guaranteed fee for the delivery of water and a guaranteed fee for the delivery of electricity, regardless of the amount of water or electricity actually delivered. In addition, NIA will pay a fee for all electricity delivered in excess of a threshold amount up to a specified amount. NIA will sell the electric energy it purchases to the National Power Corporation of the Philippines ("NPC"), although NIA's obligations to CE Casecnan under the Project Agreement are not dependent on the purchase of the electricity from NIA by NPC. All fees to be paid by NIA to CE Casecnan are payable in U.S. dollars. The guaranteed fees for the delivery of water and energy are expected to provide approximately 70% of CE Casecnan's revenues.

The Project Agreement provides for additional compensation to CE Casecnan upon the occurrence of certain events, including increases in Philippine taxes and adverse changes in Philippine law. Upon the occurrence and during the continuance of certain force majeure events, including those associated with Philippines political action, NIA may be obligated to buy the Casecnan Project from CE Casecnan at a buy out price expected ro be in excess of the aggregate principal amount of the outstanding CE Casecnan debt securities, together with accrued but unpaid interest. At the end of the Casecnan Cooperation Period, the Casecnan Project will be transferred to NIA and NPC for no additional consideration on an "as is" basis.

The Republic of the Philippines has provided a Performance Undertaking under which NIA's obligations under the Project Agreement are guaranteed by the full faith and credit of the Republic of the Philippines. The Project Agreement and the Performance Undertaking provide for the resolution of disputes by binding arbitration in Singapore under international arbitration rules.

The Casecnan Project is being constructed on a joint and several basis by Hanbo Corporation and Hanbo Engineering & Construction Co. Ltd. (formerly known as You One Engineering & Construction Co., Ltd., and herein referred to as "HECC"), both of which are South Korean corporations, pursuant to a fixed-price, date-certain, turnkey construction contract (the "Turnkey Construction Contract"). Hanbo Corporation and HECC (sometimes collectively referred to as the "Contractor") are under common ownership control. Hanbo Corporation is an international construction company. HECC, which recently emerged from a court-administered receivership, is a contractor with over 25 years experience in tunnel construction, using both the drill-and-blast and tunnel boring machine ("TBM") methods.

The Contractor's obligations under the Turnkey Construction Contract are guaranteed by Hanbo Iron & Steel Company, Ltd. ("Hanbo Steel"), a large South Korean steel company. In addition, the Contractor's obligations under the Turnkey Construction Contract are secured by an unconditional, irrevocable standby letter of credit issued by Korea First Bank ("KFB") in the approximate amount of $118,000. The total cost of the Casecnan Project, including development, construction, testing and startup, is estimated to be approximately $495,000. The current capital structure consists of term loans of $371,500 and $123,836 in equity contributions. The Company's portion of the contributed equity is $61,918.

In late January 1997, the Company was advised that Hanbo Corporation and Hanbo Steel had each filed to seek court receivership protection in Korea. At the present time, all of the construction work on the Casecnan Project is being performed by the second contractor which is party to the Turnkey Construction Contract, HECC. Although HECC, Hanbo Corporation and Hanbo Steel are under common ownership control, HECC has not filed for receivership protection and is believed to be solvent. However, no assurances can be given that HECC will not file for receivership due to the foregoing developments or that it will remain solvent and able to perform fully its obligations under the Turnkey Construction Contract.

The work on the Casecnan Project, which commenced in 1995, is presently continuing on schedule and within the budget. CE Casecnan is presently reviewing its rights, obligations and potential remedies in respect of the recent developments regarding the co-Contractor and the guarantor and is presently unable to speculate as to the ultimate effect of such developments on CE Casecnan. However, CE Casecnan has recently received confirmation from HECC that it intends to fully perform its obligations under the Turnkey Construction Contract and complete the Casecnan Project on schedule and within the budget. Additionally, it has been reported that the South Korean government has informed the Philippine government that the South Korean government will take appropriate actions to suppott HECC's completion of the Casecnan Project.

KFB has recently reconfirmed to CE Casecnan that it will honor its obligations under the Casecnan Project letter of credit and also has stated its support for the successful completion of the Casecnan Project. However, Moody's Investors Service has recently issued a warning for a possible ratings downgrade for KFB because of the possible impact of the Hanbo Steel receivership on the substantial loans KFB previously made to Hanbo Steel. In a related development, the South Korean government has recently announced that it would provide some funding to assist Hanbo Steel's creditor banks (including KFB) and its subcontractors.

CE Casecnan financed a portion of the costs of the Casecnan Project through the issuance of $125,000 of its 11.45% Senior Secured Series A Notes due 2005 and $171,500 of its 11.95% Senior Secured Series B Notes due 2010 pursuant to an indenture dated November 27, 1995, as amended to date (the "Casecnan Indenture"). Although no default has occurred under the Casecnan Indenture as a result of the announced receivership of Hanbo Corporation, CE Casecnan will continue to closely monitor the Hanbo group and KFB developments and project construction status and develop appropriate contingency plans.

If HECC were to materially fail to perform its obligations under the Turnkey Construction Contract and if KFB were to fail to honor its obligations under the Casecnan letter of credit, such actions could have a material adverse effect on the Casecnan Project and CE Casecnan. However, based on the information presently available to it, CE Casecnan does not presently expect that either such event will occur.

In August 1994, the Company closed the financing for the 165 net MW Mahanagdong Project located in the Philippines (the "Mahanagdong Project"). The total project cost for the facility is approximately $320,000. The capital structure consists of a term loan of $240,000 and approximately $80,000 in equity contributions. The Overseas Private Investment Corporation ("OPIC") and a consortium of international commercial lenders are providing the construction debt financing facility. The debt provided by the commercial lenders is insured against political risk by the Export-Import Bank of the United States ("Ex-Im Bank"). Ten year term debt financing (which will replace the construction debt) will be provided by Ex-Im Bank and by OPIC. As of December 31, 1996, the Company's proportionate share of draws on the construction loan totaled $76,503 and equity investments made by a subsidiary of the Company totaled $35,586. OPIC is providing political risk insurance on the equity. The Mahanagdong Project is targeted for service in July 1997. The Mahanagdong Project is structured as a ten year build-own-operate-transfer project ("BOOT"), in which the Company will be responsible for implementing construction of the geothermal power plant and, as owner, for providing operations and maintenance for the ten year BOOT period. After a ten year cooperation period, and the recovery by the Company of its capital investment plus incremental return, the plant will be transferred to PNOC-Energy Development Corporation ("PNOC-EDC") at no cost. The Mahanagdong Project will be built, owned and operated by CE Luzon Geothermal Power Company, Inc., a Philippine corporation, that is expected to be owned post-completion as follows: 45% by the Company, 45% by PKS, and up to 10% by another industrial company. The turnkey contractor consortium consists of Kiewit Construction Group, Inc. (with an 80% interest) and CE Holt Company, a wholly owned subsidiary of the Company (with a 20% interest). The electricity generated by the Mahanagdong Project will be sold to PNOC-EDC, on a "take or pay" basis, which is also responsible for supplying the facility with the geothermal steam. The terms of the Mahanagdong Energy Conversion Agreement ("ECA") are substantially similar to those of the Upper Mahiao ECA described in Note 4 to the financial statements. All of PNOC-EDC's obligations under the Mahangdong Energy Conversion Agreement ("ECA") are supported by the Government of the Philippines through a performance undertaking. The capacity fees are expected to be approximately 97% of total revenues at the design capacity levels and the energy fees are expected to be approximately 3% of such total revenues.

In 1994, the Company closed the financing and commenced construction of the Malitbog Project, a 216 net MW geothermal project, to be constructed in two phases, 72 net MW in 1996 and 144 net MW in 1997, located on the island of Leyte (the "Malitbog Project"). The Malitbog Project is being built, and will be owned and operated by Visayas Geothermal Power Company ("VGPC"), a Philippine general partnership that is wholly owned, indirectly, by the Company. Unit I of the Malitbog Project was "deemed complete" by PNOC-EDC as of July 25, 1996, meaning that construction of the first 72 net MW unit was completed on time but the required transmission line was not completed and provided to VGPC. During deemed completion, PNOC-EDC is required to pay, and has in fact been paying (with respect to Unit I which has been deemed completed), all capacity fees under the take or pay provisions of the Malitbog ECA. VGPC is selling 100% of its capacity to PNOC-EDC, which will in turn sell the power to the NPC.

The Malitbog Project has a total project cost of approximately $280,000, including interest during construction and project contingency costs. A consortium of international banks and OPIC have provided a total of $210,000 of construction and term loan facilities, the $135,000 international bank portion of which is supported by political risk insurance from OPIC. As of December 31, 1996, draws on the construction loan totaled $137,881 and equity investments made by subsidiaries of the Company totaled $70,000. The Company's equity participation is covered by political risk insurance from OPIC. The Malitbog Project is structured as a BOOT, in which the Company will be responsible for implementing construction of the geothermal power plant and, as owner, for providing operations and maintenance for the ten year BOOT period.

Units II and III of the Malitbog Project are being constructed by Sumitomo Corporation pursuant to a fixed-price, date-certain, turnkey supply and construction contract. Commercial operation of Units II and III are scheduled to commence prior to July 25, 1997.

The Malitbog Project is located on land provided by PNOC-EDC at no cost. The electrical energy produced by the facility will be sold to PNOC-EDC on a take-or-pay basis. Specifically, PNOC-EDC is obligated to make payments (the "Capacity Payments") to VGPC based upon the available capacity of the Malitbog Project. The Capacity Payments equal approximately 100% of total revenues. The Capacity Payments will be payable so long as the Malitbog Project is available to produce electricity, even if the Malitbog Project is not operating due to scheduled maintenance, because PNOC-EDC fails to supply steam to the Malitbog Project as required or because NPC is unable (or unwilling) to accept delivery of electricity from the Malitbog Project. In addition, PNOC-EDC must continue to make the Capacity Payments if there is a force majeure event (e.g., war, nationalization, etc.) that affects the operation of the Malitbog Project and that is within the reasonable control of PNOC-EDC or the Government of the Philippines or any agency or authority thereof. The Capacity Payments are designed to cover, under expected operating conditions, the Malitbog Project's operating and maintenance expenses and VGPC's debt service and to provide a return on investment to the partners in VGPC. A substantial majority of the Capacity Payments are required to be made by PNOC-EDC in U.S. dollars. The portion of Capacity Payments payable by PNOC-EDC in pesos is expected to vary over the term of the Malitbog ECA from 10% of VGPC's revenues in the early years of the 10 year cooperation period to 23% of VGPC's revenues at the end of the cooperation period. Payments made in pesos will generally be made to a peso-denominated account and will be used to pay peso-denominated operation and maintenance expenses with respect to the Malitbog Project and Philippine withholding taxes, if any, on the Malitbog Project's debt service. The Government of the Philippines has entered into a performance undertaking, which provides that all of PNOC-EDC's obligations pursuant to the Malitbog ECA carry the full faith and credit of, and are affirmed and guaranteed by, the Government of the Philippines.

The Malitbog ECA cooperation period will expire ten years after the date of commencement of commercial operation of Unit III. At the end of the cooperation period, the facility will be transferred to PNOC-EDC at no cost, on an "as is" basis.

On October 4, 1996 the Company closed the $120,000 project financing for the Dieng Unit I 55 net MW geothermal project located in Indonesia (the "Dieng Unit I Project"). The loan carries a variable interest rate (weighted average of 7.19% at December 31, 1996) and has scheduled project term repayments through 2002. Dieng Unit I is under construction and is currently expected to begin commercial operation by late 1997. The Dieng Unit I Project has drawn $12,442 as of December 31, 1996.

Magma sought new long-term final SO4 power purchase agreements in the Salton Sea area through the bidding process adopted by the CPUC under its 1992 Biennial Resource Plan Update ("BRPU"). In its BRPU, the California Public Utilities Commission ("CPUC") cited the need for an additional 9,600 MW of power production through 1999 among California's three investor-owned utilities, Southern California Edison Company ("Edison"), San Diego Gas and Electric ("SDG&E") and Pacific Gas and Electric Company. Of this amount, 275 MW was set aside for bidding by independent power producers (such as Magma) utilizing renewable resources. Pursuant to an order of the CPUC dated June 22, 1994 (confirmed on December 21, 1994), Magma was awarded 163 net MW for sale to Edison and SDG&E, with in-service dates in 1997 and 1998. On February 23, 1995 the Federal Energy Regulatory Commission ("FERC") issued an order finding that the CPUC's BRPU program violated the Public Utilities Regulatory Policies Act ("PURPA") and FERC's implementing regulations and recommended negotiated settlements. In response, the CPUC issued an Assigned Commissioners Ruling encouraging settlements between the final winning bidders and the utilities. The utilities are expected to continue to challenge the BRPU and, in light of the regulatory uncertainty, there can be no assurance that power sales contracts will be executed or that any such projects will be completed. In light of these developments, the Company agreed to execute an agreement with Edison on March 16, 1995 providing that in certain circumstances it would withdraw its Edison BRPU bid in consideration for the payment of certain sums. In December, 1996, the Company entered into a confidential cash buyout agreement with SDG&E. These agreements are subject to CPUC approval.

The Company is actively seeking to develop, construct, own and operate new power projects utilizing geothermal and other technologies, both domestically and internationally, the completion of any of which is subject to substantial risk. The Company has in development or under construction, projects representing an aggregate generating capacity in excess of the generating capacity of those currently in operation. Development can require the Company to expend significant sums for preliminary engineering, permitting, fuel supply, resource exploration, legal and other expenses in preparation for competitive bids which the Company may not win or before it can be determined whether a project is feasible, economically attractive or capable of being financed. Successful development and construction is contingent upon, among other things, negotiation on terms satisfactory to the Company of engineering, construction, fuel supply and power sales contracts with other project participants, receipt of required governmental permits and consents and timely implementation of construction. Further, there can be no assurance that the Company, which is substantially leveraged, will obtain access to the substantial debt and equity capital required to continue to develop and construct electric power projects or to refinance projects. The Company's future growth is dependent, in large part, upon the demand for significant amounts of additional electrical generating capacity and its ability to obtain contracts to supply portions of this capacity. There can be no assurance that development efforts on any particular project, or the Company's efforts generally, will be successful.

The Company believes that the international independent power market holds the majority of new opportunities for financially attractive private power development in the next several years. The financing, construction and development of projects outside the United States entail significant political and financial risks (including, without limitation, uncertainties associated with first time privatization efforts in the countries involved, currency exchange rate fluctuations, currency repatriation restrictions, political instability, civil unrest and expropriation) and other structuring issues that have the potential to cause substantial delays or material impairment of value to the project being developed, which the Company may not be fully capable of insuring against. The uncertainty of the legal environment in certain foreign countries in which the Company may develop or acquire projects could make it more difficult for the Company to enforce its rights under agreements relating to such projects. In addition, the laws and regulations of certain countries may limit the ability of the Company to hold a majority interest in some of the projects that it may develop or acquire. The Company's international projects may, in certain cases, be terminated by a government. Projects in operation, construction and development are subject to a number of uncertainties, more specifically described in the Company's Form 8-K dated February 25, 1997, filed with the Securities and Exchange Commission.

Inflation has not had a substantial impact on the Company's operating revenues and costs; energy payments for electricity for the Coso Project, Partnership Project, Salton Sea II Project and Salton Sea III Project will continue to be based upon scheduled rates and are not adjusted for inflation through the initial ten year period of each power purchase agreement.

Consolidated Balance Sheets

As of December 31, 1996 and 1995
Dollars and Shares in Thousands Except Per Share Amounts

Assets	*1996*	*1995*
Cash and cash equivalents	$ 424,500	$ 72,114
Joint venture cash and investments	48,083	77,590
Restricted cash	107,143	149,227
Short-term investments	4,921	34,190
Accounts receivable	342,307	57,909
Due from joint ventures	17,556	27,273
Properties, plants, contracts and equipment, net	3,348,583	1,781,255
Excess of cost over fair value of net assets acquired, net	790,920	302,288
Equity investments	196,535	60,815
Deferred charges and other assets	432,359	91,377
Total assets	$ 5,712,907	$ 2,654,038
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 218,182	$ 6,638
Other accrued liabilities	674,842	87,892
Parent company debt	1,146,685	842,205
Subsidiary and project debt	1,754,895	921,219
Deferred income taxes	469,199	226,520
Total liabilities	4,263,803	2,084,474
Deferred income	29,067	26,032
Commitments and contingencies (Notes 3, 17, 18, 19 and 20)		
Company–obligated mandatorily redeemable convertible preferred securities of subsidiary trust holding solely convertible debentures	103,930	—
Preferred securities of subsidiary	136,065	—
Minority interest	299,252	—
Stockholders' equity:		
Preferred stock–authorized 2,000 shares, no par value	—	—
Common stock–par value $.0675 per share, authorized 80,000 shares, issued 63,747 and 50,680 shares, outstanding 63,448 and 50,593 shares, respectively	4,303	3,421
Additional paid in capital	563,567	343,406
Retained earnings	297,520	205,059
Cumulative effect of foreign currency translation adjustment	29,658	—
Treasury stock–299 and 87 common shares at cost	(8,787)	(1,348)
Unearned compensation–restricted stock	(5,471)	(7,006)
Total stockholders' equity	880,790	543,532
Total liabilities and stockholders' equity	$ 5,712,907	$ 2,654,038

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Operation

For the Three Years Ended December 31, 1996
Dollars and Shares in Thousands Except Per Share Amounts

	1996	1995	1994
Revenue:			
Sales of electricity and steam	$ 518,934	$ 335,630	$ 154,562
Income on equity investments	6,134	—	—
Royalty income	6,846	19,482	—
Interest and other income	44,281	43,611	31,292
Total revenues	576,195	398,723	185,854
Cost and expenses:			
Operating expense	108,962	79,294	33,015
Cost of sales	31,840	—	—
General and administration	21,451	23,376	13,012
Royalty expense	23,693	24,308	9,888
Depreciation and amortization	118,586	72,249	21,197
Loss on equity investment in Casecnan	5,221	362	—
Interest expense	165,900	134,637	62,837
Less interest capitalized	(39,862)	(32,554)	(9,931)
Dividends on convertible preferred securities of subsidiary trust	4,691	—	—
Total expenses	440,482	301,672	130,018
Income before provision for income taxes	135,713	97,051	55,836
Provision for income taxes	41,821	30,631	17,002
Income before extraordinary item	93,892	66,420	38,834
Extraordinary item	—	—	(2,007)
Income before minority interest and preferred dividends	93,892	66,420	36,827
Minority interest	1,431	3,005	—
Net income	92,461	63,415	36,827
Preferred dividends	—	1,080	5,010
Net income available to common stockholders	$ 92,461	$ 62,335	$ 31,817
Income per share before extraordinary item	$ 1.60	$ 1.25	$ .95
Extraordinary item	—	—	(.06)
Net income per share–primary	$ 1.60	$ 1.25	$ .89
Net income per share–fully diluted	$ 1.50	$ 1.18	$ .88
Average number of shares outstanding–primary	57,870	49,971	35,721
Fully diluted shares	67,164	57,742	40,166

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Stockholders' Equity

For the Three Years Ended December 31, 1996
Dollars and Shares in Thousands

	Outstanding Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Foreign Currency Adjust.	Treasury Stock	Unearned Compensation	Total
Balance December 31, 1993	35,446	$ 2,404	$ 100,965	$ 111,031	$ —	$ (2,897)	$ —	$ 211,503
Exercise of stock options	46	3	379	—	—	—	—	382
Purchase of treasury stock	(3,765)	—	—	—	—	(65,119)	—	(65,119)
Exercise of stock options from treasury stock	96	—	(1,473)	—	—	1,772	—	299
Employee stock purchase plan issues from treasury stock	26	—	(122)	—	—	470	—	348
Preferred stock dividends, Series C, including cash distribution of $121	—	—	—	(4,921)	—	—	—	(4,921)
Tax benefit from stock plan	—	—	672	—	—	—	—	672
Net income before preferred dividends	—	—	—	36,827	—	—	—	36,827
Balance December 31, 1994	31,849	2,407	100,421	142,937	—	(65,774)	—	179,991
Equity offering	18,170	1,004	240,825	—	—	56,801	—	298,630
Exercise of stock options	102	7	303	—	—	—	—	310
Restricted stock	500	—	848	—	—	8,652	(9,500)	—
Amortization of unearned compensation	—	—	—	—	—	—	2,494	2,494
Employee stock purchase plan issues	41	3	559	—	—	—	—	562
Exercise of stock options from treasury stock	33	—	(416)	—	—	563	—	147
Purchase of treasury stock	(102)	—	—	—	—	(1,590)	—	(1,590)
Preferred stock dividends, Series C, including cash distribution of $43	—	—	—	(1,293)	—	—	—	(1,293)
Tax benefit from stock plan	—	—	866	—	—	—	—	866
Net income before preferred dividends	—	—	—	63,415	—	—	—	63,415
Balance December 31, 1995	50,593	3,421	343,406	205,059	—	(1,348)	(7,006)	543,532
Exercise of stock options and other equity transactions	4,971	335	57,190	—	—	1	—	57,526
Amortization of unearned compensation	—	—	—	—	—	—	1,535	1,535
Employee stock purchase plan issues	60	2	547	—	—	588	—	1,137
Exercise of stock options from treasury stock	232	—	(4,707)	—	—	3,980	—	(727)
Purchase of treasury stock	(472)	—	—	—	—	(12,008)	—	(12,008)
Conversion of debt	8,064	545	164,912	—	—	—	—	165,457
Tax benefit from stock plan	—	—	2,219	—	—	—	—	2,219
Foreign currency translation adjustment	—	—	—	—	29,658	—	—	29,658
Net income	—	—	—	92,461	—	—	—	92,461
Balance December 31, 1996	63,448	$ 4,303	$ 563,567	$ 297,520	$ 29,658	$ (8,787)	$ (5,471)	$ 880,790

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the Three Years Ended December 31, 1996
Dollars in Thousands

	1996	1995	1994
Cash flows from operating activities:			
Net income	$ 92,461	$ 63,415	$ 36,827
Adjustments to reconcile net cash flow from operating activities:			
Depreciation and amortization	109,447	65,244	21,197
Amortization of excess of cost over fair value of net assets acquired	9,139	7,005	—
Amortization of original issue discount	50,194	45,409	31,946
Amortization of deferred financing costs	9,677	8,979	1,885
Amortization of unearned compensation	1,535	2,494	—
Provision for defetred income taxes	12,252	13,983	8,258
Loss (income) on equity investments	(910)	362	—
Income applicable to minority interest	1,431	3,005	—
Changes in other items:			
Accounts receivable	(13,936)	213	(6,614)
Accounts payable and other accrued liabilities	(942)	5,922	19,364
Deferred income	3,035	6,181	(437)
Net cash flows ftom operating activities	273,383	222,212	112,426
Cash flows from investing activities:			
Purchase of Northern, Falcon Seaboard, Pattnetship Interest and Magma, net of cash acquired	(474,443)	(907,614)	(3,043)
Distributions ftom equity investments	8,222	—	—
Capital expenditures relating to operating projects	(24,821)	(27,120)	(38,078)
Philippine construction	(167,160)	(289,655)	(69,997)
Indonesian and other development	(81,068)	(8,973)	(2,445)
Salton Sea IV construction	(63,772)	(62,430)	—
Pacific Northwest, Nevada, and Utah exploration costs	(4,885)	(10,445)	(8,493)
Decrease (increase) in short-term investments	33,998	80,565	(50,000)
Decrease (increase) in restricted cash	63,175	(17,452)	(83,670)
Other	(2,591)	11,514	1,847
Investment in Casecnan	—	(61,177)	—
Net cash flows from investing activities	(713,345)	(1,292,787)	(253,879)
Cash flows from financing activities:			
Proceeds from sale of common and tteasury stock and exercise of stock options	54,935	299,649	1,580
Proceeds from convertible prefetted securities of subsidiary trust	103,930	—	—
Proceeds from issuance of parent company debt	324,136	200,000	400,000
Net proceeds from revolver	95,000	—	—
Proceeds from subsidiary and project debt	428,134	654,695	31,503
Repayments of subsidiary and project debt	(210,892)	(176,664)	(13,800)
Deferted charges relating to debt financing	(36,010)	(34,733)	(11,905)
Decrease (increase) in amounts due from joint ventures	10,756	(29,169)	316
Purchase of treasury stock	(12,008)	(1,590)	(65,119)
Proceeds from merger facility	—	500,000	—
Recapitalization of merger facilitry	—	(500,000)	—
Defeasance of 12% senior notes	—	—	(35,730)
Net cash flows from financing activities	757,981	912,188	306,845
Effect of exchange rate changes	4,860	—	—
Net increase (decrease) in cash and investments	322,879	(158,387)	165,392
Cash and cash equivalents at beginning of period	149,704	308,091	142,699
Cash and cash equivalents at end of petiod	$ 472,583	$ 149,704	$ 308,091
Supplemental Disclosures:			
Interest paid (net of amounts capitalized)	$ 92,829	$ 50,840	$ 12,624
Income taxes paid	$ 23,211	$ 14,812	$ 4,926

See note 6 regarding conversion of debt to equity.
The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

For the Three Years Ended December 31, 1996
Dollars and Shares in Thousands, Except Per Share Amounts

1. Business

CalEnergy Company, Inc. (the "Company") is a United States-based global power company which generates, distributes and supplies electricity to utilities, government entities, retail customers and other customers located throughout the world. The Company was founded in 1971 and through its subsidiaries is primarily engaged in the development, ownership and operation of environmentally responsible independent power production facilities worldwide utilizing geothermal resources, natural gas and hydroelectric or other energy sources, such as oil and coal. In addition, through its recently acquired subsidiary, Northern, the Company is engaged in the distribution and supply of electricity to approximately 1.5 million customers primarily in northeast England as well as the generation and supply of electricity (together with other related business activities) throughout England and Wales.

The Company has organized several partnerships and joint ventures (herein referred to as the "Coso Joint Ventures") in order to develop geothermal energy at the China Lake Naval Air Weapons Station, Coso Hot Springs, China Lake, California. Collectively, the projects undertaken by these Coso Joint Ventures are referred to as the Coso Project. In 1992, the Company entered into the natural gas-fired electrical generation market through the purchase of a development opportunity in Yuma, Arizona which commenced commercial operation in May 1994. In 1993, the Company started developing a number of international power project opportunities where private power generating programs have been initiated, including the Philippines and Indonesia. In 1995, the Company acquired Magma Power Company ("Magma"). Magma's operating assets included four projects referred to as the Partnership Project in which Magma had a 50% interest, and three projects referred to as the Salton Sea Project of which Magma owned 100%. A fourth project included in the Salton Sea Project was constructed after the acquisition of Magma and commenced operations in June 1996. In addition, in April 1996, the Company acquired the remaining 50% interest in the Partnership Project. In August 1996, the Company acquired Falcon Seaboard Resources, Inc. ("Falcon Seaboard") which includes significant interests in three operating gas-fired cogeneration facilities and a related natural gas pipeline. On December 24, 1996, CE Electric UK plc ("CE Electric"), which is 70% owned indirectly by the Company and 30% owned indirectly by Peter Kiewit Sons', Inc. ("PKS"), acquired majority ownership of the outstanding ordinary share capital of Northern pursuant to a tender offer ("Tender Offer"). The total amount expected to be paid for all of Northern's ordinary and preference shares is approximately $1.3 billion.

Northern is one of the twelve regional electric companies ("RECs") which came into existence as a result of the restructuring and subsequent privatization of the electricity industry in the United Kingdom in 1990. Northern is primarily engaged in the distribution and supply of electricity. Northern was granted a Public Electricity Supply ("PES") license under the Electricity Act to distribute and supply electricity in Northern's Authorized Area ("Authorized Area"). Northern's Authorized Area covers approximately 14,400 square kilometers with a population of approximately 3.2 million people and includes the counties of Northumberland, Tyne and Wear, Durham, Cleveland and North Yorkshire. Northern distributes and supplies electricity outside its Authorized Area pursuant to second tier PES licenses. Northern also is involved in non-regulated activities, including the generation of electricity, electrical appliance retailing and gas exploration and production.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and its proportionate share of the partnerships and joint ventures in which it has an undivided interest in the assets and is proportionally liable for its share of liabilities. Other investments and corporate joint ventures where the Company has the ability to exercise significant influence are

accounted for under the equity method of accounting. Investments, where the Company's ability to influence is limited, are accounted for under the cost method of accounting. All significant inter-enterprise transactions and accounts have been eliminated. The results of operations of the Company include the Company's proportionate share of results of operations of entities acquired as of the date of each acquisition.

Investments and Restricted Cash
Investments other than restricted cash are primarily commercial paper and money market securities. The restricted cash balance includes such securities and mortgage backed securities, and is mainly composed of amounts deposited in restricted accounts from which the Company will source its equity contributions and debt service reserve requirements relating to the projects. These funds are restricted by their respective project debt agreements to be used only for the related project.

At December 31, 1996, all of the Company's investments are classified as held-to-maturity and are accounted for at their amortized cost basis. The carrying amount of the investments approximates the fair value based on quoted market prices as provided by the financial institution which holds the investments.

Well, Resource Development and Exploration Costs
The Company follows the full cost method of accounting for costs incurred in connection with the exploration and development of geothermal resources. All such costs, which include dry hole costs and the cost of drilling and equipping production wells and directly attributable administrative and interest costs, are capitalized and amortized over their estimated useful lives when production commences. The estimated useful lives of production wells are ten to twenty years depending on the characteristics of the underlying resource; exploration costs and development costs, other than production wells, are generally amortized over the weighted average remaining term of the Company's power and steam purchase contracts.

Deferred Well and Rework Costs
Well rework costs are deferred and amortized over the estimated period between reworks. These deferred costs, net of accumulated amortization, are $8,371 and $7,086 at December 31, 1996 and 1995, respectively, and are included in other assets.

Properties, Plants, Contracts, Equipment and Depreciation
The cost of major additions and betterments are capitalized, while replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed.

Depreciation of the operating power plant costs, net of salvage value, is computed on the straight-line method over the estimated useful lives, between 10 and 30 years. Depreciation of furniture, fixtures and equipment, which are recorded at cost, is computed on the straight line method over the estimated useful lives of the related assets, which range from three to ten years.

The Northern, Falcon Seaboard, Partnership Interest and Magma acquisitions by the Company have been accounted for as purchase business combinations. All identifiable assets acquired and liabilities assumed were assigned a portion of the cost of acquiring the respective companies equal to their fair values at the date of the acquisition and include the following:

Property and equipment of Northern is depreciated using a systematic method, which approximates the straight line method, over the estimated useful lives of the related assets which range from 1-40 years.

Northern's investment in Teesside Power Limited is being amortized over the remaining contract life of 11 years using a straight line method.

Power sales agreements are amortized separately over (1) the remaining portion of the scheduled price periods of the power sales agreements and (2) for the Partnership Interest and Magma acquisitions the 20 year avoided cost periods of the power sales agreements using the straight line method.

Mineral reserves are amortized on the units of production method.

Excess of Cost over Fair Value
Total acquisition costs in excess of the fair values assigned to the net assets acquired are amortized over a 40 year period for the Northern and Magma acquisitions and a 25 year period for the Falcon Seaboard acquisition, both using the straight line method.

Capitalization of Interest and Deferred Financing Costs
Prior to the commencement of operations, interest is capitalized on the costs of the plants and geothermal resource development to the extent incurred. Capitalized interest and other deferred charges are amortized over the lives of the related assets.

Deferred financing costs are amortized over the term of the related financing using the implicit interest method.

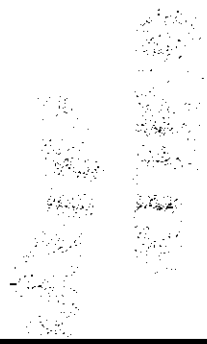
Revenue Recognition
Revenues are recorded based upon service rendered and electricity and steam delivered to the end of the month. Royalties earned from providing geothermal resources to power plants operated by other geothermal power producers are recorded on an accrual basis.

Deferred Income Taxes
The Company recognizes deferred tax assets and liabilities based on the difference between the financial statement and tax bases of assets and liabilities using estimated tax rates in effect for the year in which the differences are expected to reverse. The Company intends to repatriate earnings of foreign subsidiaries in the foreseeable future. As a result, deferred income taxes are provided for retained earnings of international subsidiaries and corporate joint ventures which are intended to be remitted.

Fair Values of Financial Instruments
The following methods and assumptions were used by the Company in estimating fair values of financial instruments as discussed herein. Fair values have been estimated based on quoted market prices for debt issues listed on exchanges. Fair values of financial instruments that are not actively traded are based on market prices of similar instruments and/or valuation techniques using market assumptions.

The Company assumes that the carrying amount of short-term financial instruments approximates their fair value. For these purposes, short-term is defined as any item that matures, reprices, or represents a cash transaction between willing parties within six months or less of the measurement date.

Net Income per Common Share
Primary and fully diluted earnings per common share are based on the weighted average number of common and dilutive common equivalent shares outstanding during the period computed using the treasury stock method. Fully diluted earnings per common share also assumes the conversion at the beginning of the year of the convertible debt into 3,529 common shares at a conversion price of $18.375 per share, the conversion at the beginning of the year of the convertible subordinated debentures into 4,444 common shares at a conversion price of $22.50 per share, the convertible preferred securities of subsidiary into 3,477 common shares at a conversion price of $29.89 per share and the exercise of all dilutive stock options outstanding at their option prices, with the option exercise proceeds used to repurchase shares of common stock at the ending market price for fully diluted earnings per share. For primary earnings per share, shares of common stock are assumed to be repurchased at the average price for the period.



Cash Equivalents
The Company considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Restricted cash is not considered a cash equivalent.

Impairment of Long-Lived Assets
On January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" which requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of SFAS 121 did not have a material effect on the Company's financial statements.

Reclassification
Certain amounts in the fiscal 1995 and 1994 financial statements and supporting footnote disclosures have been reclassified to conform to the fiscal 1996 presentation. Such reclassification did not impact previously reported net income or retained earnings.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. *Acquisitions*

Northern
On December 24, 1996, CE Electric, which is 70% owned indirectly by the Company and 30% owned indirectly by PKS, acquired majority ownership of the outstanding ordinary share capital of Northern pursuant to the Tender Offer. Through January 31, 1997, CE Electric had purchased more than 90% of Northern's ordinary shares. Under United Kingdom statutory procedures available to compulsorily acquire shares not purchased in the Tender Offer, CE Electric expects to acquire the remaining Northern ordinary shares by April 30, 1997.

As of December 31, 1996, the Company and PKS had contributed to CE Electric approximately $410,000 and $176,000 respectively, of the approximately $1,300,000 required to acquire all of Northern's ordinary and preference shares in connection with the Tender Offer. The Company obtained such funds from cash on hand, short-term borrowings, and borrowings of approximately $100,000 under a Credit Agreement entered into with Credit Suisse on October 28, 1996 (the "CalEnergy Credit Facility"). The remaining funds necessary to consummate the Tender Offer will be provided from a £560,000 ($958,888) Term Loan and Revolving Facility Agreement, dated October 28, 1996 (the "U.K. Credit Facility").

The Northern acquisition has been accounted for as a purchase business combination. All identifiable assets acquired and liabilities assumed were assigned a portion of the cost of acquiring Northern, equal to their fair values at the date of the acquisition. Minority interest is recorded at historical cost. The total cost of the acquisition through December 31, 1996 was allocated as follows:

Cash	$ 200,399
Properties, plants and equipment	1,101,860
Other assets	541,554
Northern project debt	(447,119)
Accounts payable	(213,710)
Accrued liabilities	(606,525)
Minority interest	(297,821)
Preferred securities	(136,065)
Excess of cost over fair value of net assets acquired, net of deferred taxes of $129,493	267,648
	$ 410,221

In 1993, Northern entered into a contract relating to the purchase of 400 MW of capacity from a 15.4% owned related party, Teesside Power Limited ("Teesside"), for a period of 15 years beginning April 1, 1993. The contract sets escalating purchase prices at predetermined levels. Currently the escalating contract prices exceed those paid by the Company to the electricity pool (the "Pool") which is operated by the National Grid Group. However, under current price cap regulation expected to expire March 31, 1998 the Company is able to recover these costs. For the period after March 31, 1998, the Company has established a liability for the estimated loss as a result of this contract.

Northern utilizes contracts for differences ("CFDs") to mitigate its exposure to volatility in the prices of electricity purchased through the Pool. Such contracts allow the Company to effectively convert the majority of its anticipated Pool purchases from market to fixed prices. As of December 31, 1996, CFDs were in place to hedge a portion of electricity purchases of approximately 55,000 GWh through the year 2008.

The Labour Party has asserted that, if they are elected at the next General Election, which must be held no later than May 22, 1997, they will seek to introduce a "windfall" assessment to be levied on the privatized utilities including Northern. The Company has established a liability for such an assessment as part of its purchase accounting reserves.

The preferred securities reflect the fair value of the outstanding preferred stock of Northern.

Falcon Seaboard

On August 7, 1996 the Company completed the acquisition of Falcon Seaboard for a cash price of $229,500 including acquisition costs. Through the acquisition, the Company indirectly acquired significant ownership interests in three operating gas-fired cogeneration facilities and a related natural-gas pipeline. The plants are located in Texas, Pennsylvania and New York and total 520 MW in capacity.

The Falcon Seaboard acquisition has been accounted for as a purchase business combination. All identifiable assets acquired and liabilities assumed were assigned a portion of the cost of acquiring Falcon Seaboard, equal to their fair values at the date of the acquisition. The total cost of the acquisition was allocated as follows:

Cash	$ 22,923
Operating facilities	141,176
Power sales agreements	23,282
Equity investments	144,656
Other assets	27,229
Project loans	(119,478)
Other liabilities	(15,527)
Excess of cost over fair value of net assets acquired, net of deferred taxes of $93,279	5,239
	$ 229,500

Edison Mission Energy's Partnership Interest

On April 17, 1996 the Company completed the acquisition of Edison Mission Energy's Partnership Interests in four geothermal operating facilities in California for a cash purchase price of $71,000 including acquisition costs. The four projects, Vulcan, Hoch (Del Ranch), Leathers and Elmore, are located in the Imperial Valley of California. Prior to this transaction, the Company was a 50% owner of these facilities.

The Partnership Interest acquisition has been accounted for as a purchase business combination. All identifiable assets acquired and liabilities assumed were assigned a portion of the cost of acquiring the Partnership Interest, equal to their fair values at the date of the acquisition. The total cost of the acquisition was allocated as follows:

Cash	$ 12,956
Restricted cash	13,226
Power sales agreements	78,036
Other assets	20,254
Project loans	(48,161)
Liabilities	(5,311)
	$ 71,000

Magma Power Company

On January 10, 1995, the Company acquired approximately 51% of the outstanding shares of common stock of Magma (the "Magma Common Stock") through a cash tender offer (the "Magma Tender Offer") and completed the Magma acquisition on February 24, 1995 by acquiring the approximately 49% of the outstanding shares of Magma Common Stock not owned by the Company through a merger.

The Magma acquisition has been accounted for as a purchase business combination. All identifiable assets acquired and liabilities assumed were assigned a portion of the cost of acquiring Magma, equal to their fair values at the date of the acquisition. The total cost of the acquisition was allocated as follows:

Cash	$ 62,116
Operating facilities and project cash	291,365
Power sales agreements	173,730
Mineral reserves	160,768
Construction in progress	93,174
Process license and other	39,304
Excess of cost over fair value of net assets acquired, net of deferred taxes of $168,914	137,455
	$ 957,912

Unaudited pro forma combined revenue, net income and primary earnings per share of the Company, Northern, Falcon Seaboard, the Partnership Interest and Magma for the twelve months ended December 31, 1996 and 1995, as if the acquisitions had occurred at the beginning of 1995 after giving effect to certain pro forma adjustments related to the acquisition were $2,162,381, $64,811 and $1.12, compared to $2,006,496, $53,887 and $1.02, respectively.

4. Properties, Plants, Contracts and Equipment

Properties, plants, contracts and equipment comprise the following at December 31:

	1996	1995
Operating project costs:		
Power plants and distribution system	$ 2,361,089	$ 623,778
Wells and resource development	391,929	329,414
Power sales agreements	232,228	188,415
Licenses, equipment, wells and resource development in progress	66,207	58,517
Total operating facilities	3,051,453	1,200,124
Less accumulated depreciation and amortization	(271,216)	(164,184)
Net operating facilities	2,780,237	1,035,940
Mineral reserves	207,424	212,929
Construction in progress:		
Malitbog	152,411	146,735
Mahanagdong	123,567	76,560
Other international development	84,944	11,418
Uppet Mahiao	—	188,904
Salton Sea IV	—	108,769
Total	$ 3,348,583	$ 1,781,255

Coso Project Operating Facilities

The Coso Project operating facilities comprise the Company's proportionate share of the assets of three of its Coso Joint Ventures: Coso Finance Partnets ("Navy I Joint Venture"), Coso Energy Developers ("BLM Joint Venture"), and Coso Power Developers ("Navy II Joint Venture"). The Navy I power plant is located on land owned by and leased from the U.S. Navy to December 2009, with a 10 year extension at the option of the Navy. Under terms of the Navy I Joint Venture, profits and losses were allocated

approximately 49% before payout of Units 2 and 3 and approximately 46.4% thereafter to the Company. As of December 31, 1994, payout had been reached on Units 2 and 3 of the Navy I Joint Venture. The BLM power plant is situated on lands leased from the U.S. Bureau of Land Management under a geothermal lease agreement that extends until October 31, 2035. The lease may be extended to 2075 at the option of the BLM. Under the terms of the BLM Joint Venture agreement, the Company's share of profits and losses before and after payout is approximately 45% and 48%, respectively. The BLM Joint Venture reached payout in June 1994. Under terms of the Navy II Joint Venrure, all profits, losses and capital contributions for Navy II are divided equally by the two partners.

Imperial Valley Project Operating Facilities

The Company currently operates eight geothermal power plants in the Imperial Valley in California. Four of these plants were developed by Magma. The Partnership Project consists of the Vulcan, Hoch (Del Ranch), Elmore, and Leathers Partnerships. The remaining four plants which comprise the Salton Sea Project are indirect wholly owned subsidiaries of the Company, three of which were purchased by Magma on March 31, 1993 from Union Oil Company of California and the fourth which was completed by the Company in June 1996. These geothermal power plants consist of the Salton Sea I, Salton Sea II, Salton Sea III and the Salton Sea IV. The Partnership Project and the Salton Sea Project are collectively referred to as the Imperial Valley Project. The Imperial Valley Project commencement dates and nominal capacities are as follows:

Imperial Valley Plants	Commencement Date	Nominal Capacity
Vulcan	Februaty 10, 1986	34 MW
Hoch (Del Ranch)	January 2, 1989	38 MW
Elmore	January 1, 1989	38 MW
Leathers	January 1, 1990	38 MW
Salton Sea I	July 1, 1987	10 MW
Salton Sea II	April 5, 1990	20 MW
Salton Sea III	February 13, 1989	49.8 MW
Salton Sea IV	May 24, 1996	39.6 MW

Significant Customers and Contracts

All of the Company's sales of electricity from the Coso Project and Imperial Valley Project, which comprise approximately 77% of 1996 electricity and steam revenues, are to Edison and are under long-term power purchase contracts.

The Coso Project and the Partnership Project sell all electricity generated by the respective plants pursuant to seven long-term SO4 Agreements between the projects and Edison. These SO4 Agreements provide for capacity payments, capacity bonus payments and energy payments. Edison makes fixed annual capacity payments to the projects and, to the extent that capacity factors exceed certain benchmarks, is required to make capacity bonus payments. The price for capacity and capacity bonus payments is fixed for the life of the SO4 Agreements. Energy is sold at increasing scheduled rates for the first ten years after firm operation and thereafter at Edison's Avoided Cost of Energy.

The scheduled energy price periods of the Coso Project SO4 Agreements extend until at least August 1997, March 1999 and January 2000 for each of the units operated by the Navy I, BLM and Navy II Partnerships, respectively. The Company's share of the annual capacity payments is approximately $5,600 to $5,900 per annum for each plant. The Company's share of bonus payments is approximately $1,000 per annum for each plant.

The scheduled energy price periods of the Partnership Project SO4 Agreements extended until February 1996 for the Vulcan Partnership and extend until December 1998, December 1998, and December 1999 for each of the Hoch (Del Ranch), Elmore and Leathers Partnerships, respectively. The annual capacity payments are approximately $24,500 and the bonus payments are approximately $4,400 in aggregate for the four plants.

Excluding Vulcan, which is receiving Edison's Avoided Cost of Energy, the Company's SO4 Agreements provide for energy rates ranging from 12.6¢ per kWh in 1996 to 15.6¢ per kWh in 1999. The weighted average energy rate for all of the Company's SO4 Agreements was 11.7¢ per kWh in 1996.

Salton Sea I sells electricity to Edison pursuant to a 30-year negotiated power purchase agreement, as amended (the "Salton Sea I PPA"), which provides for capacity and energy payments. The energy payment is calculated using a Base Price which is subject to quarterly adjustments based on a basket of indices. The time period weighted average energy payment for Salton Sea I was 5.1¢ per kWh during 1996. As the Salton Sea I PPA is not an SO4 Agreement, the energy payments do not revert to Edison's Avoided Cost of Energy. The capacity payment is approximately $1,100 per annum.

Salton Sea II and Salton Sea III sell electricity to Edison pursuant to 30-year modified SO4 Agreements that provide for capacity payments, capacity bonus payments and energy payments. The price for contract capacity and contract capacity bonus payments is fixed for the life of the modified SO4 Agreements. The energy payments for the first ten year period, which period expires in April 2000 and Februaty 1999 are levelized at a time period weighted average of 10.6¢ per kWh and 9.8¢ per kWh for Salton Sea II and Salton Sea III, respectively. Thereafter, the monthly energy payments will be Edison's Avoided Cost of Energy. For Salton Sea II only, Edison is entitled to receive, at no cost, 5% of all energy delivered in excess of 80% of contract capacity through September 30, 2004. The annual capacity and bonus payments for Salton Sea II and Salton Sea III are approximately $3,300 and $9,700, respectively.

The Salton Sea IV Project sells electricity to Edison pursuant to a modified SO4 agreement which provides for contract capacity payments on 34 MW of capacity at two different rates based on the respective contract capacities deemed attributable to the original Salton Sea PPA option (20 MW) and to the original Fish Lake PPA (14 MW). The capacity payment price for the 20 MW portion adjusts quarterly based upon specified indices and the capacity payment price for the 14 MW portion is a fixed levelized rate. The energy payment (for deliveries up to a rate of 39.6 MW) is at a fixed price for 55.6% of the total energy delivered by Salton Sea IV and is based on an energy payment schedule for 44.4% of the total energy delivered by Salton Sea IV. The contract has a 30-year term but Edison is not required to purchase the 20 MW of capacity and energy originally attributable to the Salton Sea I PPA option after September 30, 2017, the original termination date of the Salton Sea I PPA.

For the year ended December 31, 1996, Edison's average Avoided Cost of Energy was 2.5 cents per kWh which is substantially below the contract energy prices earned for the year ended December 31, 1996. Estimates of Edison's future Avoided Cost of Energy vaty substantially from year to year. The Company cannot predict the likely level of Avoided Cost of Energy prices under the SO4 Agreements and the modified SO4 Agreements at the expiration of the scheduled payment periods. The revenues generated by each of the projects operating under SO4 Agreements could decline significantly after the expiration of the respective scheduled payment periods.

The Upper Mahiao Project was deemed complete in June 1996 and began receiving capacity payments pursuant to the Upper Mahiao Energy Conversion Agreement ("ECA"), in July of 1996. The project is structured as a ten year BOOT, in which the Company's subsidiary CE Cebu Geothermal Power Company, Inc. ("CE Cebu"), the project company, is responsible for providing operations and maintenance during the ten year BOOT period. The electricity generated by the Upper Mahiao geothermal power plant is sold to PNOC-Energy Development Corporation ("PNOC-EDC"), which is also responsible for supplying the facility with the geothermal steam. After the ten year cooperation period, and the recovery by the Company of its capital investment plus incremental return, the plant will be transferred to PNOC-EDC at no cost.

PNOC-EDC is obligated to pay for electric capacity that is nominated each year by CE Cebu, irrespective of whether PNOC-EDC is willing or able to accept delivery of such capacity. PNOC-EDC pays to CE Cebu a fee (the "Capacity Fee") based on the plant capacity nominated to PNOC-EDC in any year (which, at the plant's design capacity, is approximately 95% of total contract revenues) and a fee (the "Energy Fee") based on the electricity actually delivered to PNOC-EDC (approximately 5% of total contract revenues). The Capacity Fee serves to recover the capital costs of the project, to recover fixed operating costs and to cover return on investment. The Energy Fee is designed to cover all variable operating and maintenance costs of the power plant. Payments under the Upper Mahiao ECA are denominated in U.S. Dollars, or computed in U.S. dollars and paid in Philippine pesos at the then-current exchange rate, except for the Energy Fee, which will be used to pay Philippine peso-denominated expenses. Significant portions of the Capacity Fee and Energy Fee are indexed to U.S. and Philippine inflation rates, respectively. PNOC-EDC's payment requirements, and its other obligations under the Upper Mahiao ECA are supported by the Government of the Philippines through a performance undertaking.

Unit I of the Malitbog Project was deemed complete in July 1996. The Malitbog Project is being built, owned and operated by VGPC, a Philippine general partnership that is wholly owned, indirectly, by the Company. VGPC is selling 100% of its capacity on substantially the same basis as described above for the Upper Mahiao Project to PNOC-EDC, which will in turn sell the power to the NPC. As with the Upper Mahiao project, the Malitbog project is structured as a ten year BOOT, in which the Company will be responsible for implementing construction of the geothermal power plant and, as owner, for providing operations and maintenance for the ten year BOOT period. After a ten year cooperation period, and the recovery by the Company of its capital investment plus incremental return, the plant will be transferred to PNOC-EDC at no cost.

The Saranac Project sells electricity to New York State Electric & Gas pursuant ro a 15 year negotiated power purchase agreement (the "Saranac PPA"), which provides for capacity and energy payments. Capacity payments, which in 1996 total 2.1¢ per kWh, are received for electricity produced during "peak hours" as defined in the Saranac PPA and escalate at approximately 4.1% annually for the remaining term of the contract. Energy payments, which average 6.3¢ per kWh in 1996, escalate at approximately 4.4% annually for the remaining term of the Saranac PPA. The Saranac PPA expires in June of 2009.

The Power Resources Project sells electricity to Texas Utilities Electric Company ("TUEC") pursuant to a 15 year negotiated power purchase agreement (the "Power Resources PPA"), which provides for capacity and energy payments. Capacity payments and energy payments, which in 1996 are $2,930 per month and 2.86¢ per kWh, respectively, escalate at 3.5% annually for the remaining term of the Power Resources PPA. The Power Resources PPA expires in September 2003.

The NorCon Project sells electricity to Niagara Mohawk Power Corporation ("Niagara") pursuant to a 25 year negotiated power purchase agreement (the "NorCon PPA") which provides for energy payments calculated pursuant to an adjusting formula based on Niagara's ongoing Tariff Avoided Cost and the contractual Long-Run Avoided Cost. The NorCon PPA term extends through December 2017. The Company and Niagara are currently engaged in discussions regarding a potential restructuring or buyout and termination of the NorCon PPA.

The Yuma Project sells electricity to SDG&E under an existing 30-year power purchase contract. The energy is sold at SDG&E's Avoided Cost of Energy and the capacity is sold to SDG&E at a fixed price for the life of the power purchase contract. The contract term extends through May 2024.

Royalty Expense

Royalty expense comprises the following for the years ended:

	1996	1995	1994
Navy I, Unit 1	$ 1,620	$ 1,622	$ 1,641
Navy I, Units 2 and 3	3,512	3,394	3,174
BLM	2,538	3,036	2,842
Navy II	5,742	5,571	1,963
Partnership Project	6,702	6,820	—
Salton Sea Project	3,526	3,578	—
Desert Peak	53	287	268
Total	$ 23,693	$ 24,308	$ 9,888

The amount of royalties paid by Navy I to the U.S. Navy to develop geothermal energy for Navy I, Unit 1 on the lands owned by the Navy comprises (i) a fee payable during the term of the contract based on the difference between the amounts paid by the Navy to Edison for specified quantities of electricity and the price as determined under the contract (which currently approximates 73% of that paid by the Navy to Edison), and (ii) $25,000 payable in December 2009, of which the Company's share is $11,600. The $25,000 payment is secured by funds placed on deposit monthly, which funds, plus accrued interest, will aggregate $25,000. The monthly deposit is currently $50. As of December 31, 1996, the balance of funds deposited approximated $5,311, which amount is included in restricted cash.

Units 2 and 3 of Navy I and the Navy II power plants are on Navy lands, for which the Navy receives a royalty based on electric sales revenue at the initial rate of 4% escalating to 22% by the end of the contract in December 2019. The BLM is paid a royalty of 10% of the value of steam produced by the geothermal resource supplying the BLM Plant.

The Partnership Project pays royalties based on both energy revenues and total electricity revenues. Hoch (Del Ranch) and Leathers pay royalties of approximately 5% of energy revenues and 1% of total electricity revenue. Elmore pays royalties of approximately 5% of energy revenues. Vulcan pays royalties of 4.167% of energy revenues.

The Salton Sea Project's weighted average royalty expense in 1996 was approximately 5.2%. The royalties are paid to numerous recipients based on varying percentages of electrical revenue or steam production multiplied by published indices.

Nevada and Utah Properties

Roosevelt Hot Springs. The Company operates and owns an approximately 70% interest in a geothermal steam field which supplies geothermal steam to a 23 net MW power plant owned by Utah Power & Light Company ("UP&L") located on the Roosevelt Hot Springs property under a 30-year steam sales contract.

The Company obtained approximately $20,317 cash under a pre-sale agreement with UP&L whereby UP&L paid in advance for the steam produced by the steam field. The Company must make certain penalty payments to UP&L if the steam produced does not meet certain quantity and quality requirements.

Desert Peak. The Company is the owner and operator of a geothermal plant at Desert Peak, Nevada that is currently selling electricity to Sierra Pacific Power Company ("Sierra") at Sierra's Avoided Cost.

Glass Mountain

Under a Bonneville Power Administration ("BPA") geothermal pilot program, the Company has been developing a 30 net MW geothermal project which was originally located in the Newberry Known Geothermal Resource Area in Deschutes County, Oregon. Pursuant to two power sales contracts executed in September 1994, an affiliate of the Company agreed to sell 20 MW to BPA and 10 MW to Eugene Water and Electric Board ("EWEB") from the Project. In addition, BPA and EWEB together have an option to purchase up to an additional 100 MW of production from the project under certain circumstances. These power sales contracts provide that under certain circumstances the contracts may be utilized at an alternative location.

Pursuant to its resource exploration program, the Company has determined that the geothermal resource at Newberry is not sufficient to support the contracts and accordingly has determined to utilize the contracts at its leasehold position in Glass Mountain (the "Glass Mountain Project") in Northern California, where it has two successful production wells. The Company and BPA have agreed to relocate the project to Glass Mountain. Under the relocation agreement, BPA will purchase 30 MW from the project. The movement of the project to this alternative location and BPA's purchase obligation are subject to obtaining a final environmental impact statement relating to the new site location. Discussions with EWEB are continuing.

The Glass Mountain Project is currently expected to commence commercial operation in 2000. Completion of this project is subject to a number of significant uncertainties and cannot be assured.

5. Equity Investments

The Company has a present indirect ownership of approximately 35% in the Casecnan Project, a combined irrigation and 150 net MW hydroelectric power generation project located on the island of Luzon in the Philippines.

The Company acquired an approximate 47% economic interest in Saranac Power Partners, L.P. and a 20% economic interest in NorCon Power Partners, L.P. as part of the Falcon Seaboard acquisition.

Summary financial information for these equity investments follows:

	Casecnan	Saranac	NorCon
As of and for the year ended December 31, 1996:			
Assets	$ 492,166	$ 325,174	$ 125,956
Liabilities	380,737	213,326	121,223
Net income (loss)	(11,207)	40,005	(53)
As of December 31, 1995:			
Assets	501,160	N/A	N/A
Liabilities	378,524	N/A	N/A

6. Parent Company Debt

Parent company debt comprises the following at December 31:

	1996	1995
Senior discount notes	$ 527,535	$ 477,355
Senior notes	224,150	—
Limited recourse senior secured notes*	200,000	200,000
CalEnergy credit facility	100,000	—
Revolving credit facility	95,000	—
Convertible subordinated debentures	—	100,000
Convertible debt	—	64,850
	$ 1,146,685	$ 842,205

** The amount of recourse obligation to the parent was $0 at December 31, 1996.*

Senior Discount Notes

In March 1994, the Company issued $400,000 of 10 ¼% Senior Discount Notes which accrete to an aggregate principal amount of $529,640 at maturity in 2004. The original issue discount (the difference between $400,000 and $529,640) will be amortized from issue date through January 15, 1997, during which time no cash interest will be paid on the Senior Discount Notes. Commencing July 15, 1997, cash interest on the Senior Discount Notes will be payable semiannually on January 15 and July 15 of each year. The Senior Discount Notes are redeemable at any time on or after January 15, 1999 initially at a redemption price of 105.125% declining to 100% on January 15, 2002 plus accrued interest to the date of redemption. The Senior Discount Notes are unsecured senior obligations of the Company.

The Senior Discount Notes prohibit payment of cash dividends unless certain financial ratios are met and unless the dividends do not exceed 50% of the Company's accumulated adjusted consolidated net income as defined, subsequent to April 1, 1994, plus the proceeds of any stock issuance.

Senior Notes

On September 20, 1996 the Company completed a private sale to institutional investors of $225,000 aggregate principal amount of 9 ½% Senior Notes due 2006. Interest on the Senior Notes will be payable semiannually on March 15 and September

15 of each year. The Senior Notes are redeemable at any time on or after September 15, 2001 initially at a redemption price of 104.75% declining to 100% on September 15, 2004 plus accrued interest to the date of redemption. The Senior Notes are unsecured senior obligations of the Company.

Limited Recourse Senior Secured Notes
On July 21, 1995 the Company issued $200,000 of 9 7/8% Limited Recourse Senior Secured Notes Due 2003 (the "Notes"). Interest on the Notes is payable on June 30 and December 30 of each year, commencing December 1995. The Notes are secured by an assignment and pledge of 100% of the outstanding capital stock of Magma and are recourse only to such Magma capital stock, the Company's interest in a secured Magma note and general assets of the Company equal to the Restricted Payment Recourse Amount, as defined in the Note Indenture ("Note Indenture"), which was $0 at December 31, 1996.

At any time or from time to time on or prior to June 30, 1998, the Company may, at its option, use all or a portion of the net cash proceeds of a Company equity offering (as defined in the Note Indenture) and shall at any time use all of the net cash proceeds of any Magma equity offering (as defined in the Note Indenture) to redeem up to an aggregate of 35% of the principal amount of the Notes originally issued at a redemption price equal to 109.875% of the principal amount thereof plus accrued interest to the redemption date. On or after June 30, 2000, the Notes are redeemable at the option of the Company, in whole or in part, initially at a redemption price of 104.9375% declining to 100% on June 30, 2002 and thereafter, plus accrued interest to the date of redemption.

CalEnergy Credit Facility
On October 28, 1996 the Company obtained a $100,000 credit facility (the "CalEnergy Credit Facility") of which the Company has drawn $100,000 as of December 31,1996. Borrowings under the CalEnergy Credit Facility are unsecured and mature on October 28, 1997, subject to prepayment by the Company at any time. Subsequent to year end, the Company repaid the entire balance of the CalEnergy Credit Facility.

Revolving Credit Facility
On July 8, 1996 the Company obtained a $100,000 three year revolving credit facility. The facility is unsecured and is available to fund general operating capital requirements and finance future business opportunities. The Company had drawn $95,000 as of December 31, 1996. Subsequent to year end, the Company repaid the entire balance.

Convertible Subordinated Debentures
In June of 1993, the Company issued $100,000 principal amount of 5% convertible subordinated debentures ("debentures") due July 31, 2000. Substantially all of the debentures were converted into 4,443 common shares in September and October 1996 at a conversion price of $22.50 per share.

Convertible Debt
On November 19, 1991, the Company sold one thousand shares of convertible preferred stock, Series C, at $50,000 per share to Kiewit Energy Company Inc. ("Kiewit"), a subsidiary of PKS, in a private placement. Each share of the Series C preferred stock was convertible at any time at $18.375 per common share into 2,721 shares of common stock subject to customary adjustments. The Series C preferred stock had a dividend rate of 8.125%, commencing March 15, 1992 through conversion date or December 15, 2003. The dividends, which were cumulative, were payable quarterly in convertible preferred stock, Series C, through March 15, 1995 and in cash on subsequent dividend dates.

Pursuant to the terms of the Securities Purchase Agreement, the Company exercised its rights to exchange the preferred stock, Series C, on March 15, 1995 for $64,850 principal amount 9.5% convertible subordinated debenture of the Company due 2003, with the same conversion features of the preferred stock, Series C. On September 20, 1996, the Company converted the $64,850 convertible debt and associated accrued interest into 3,620 common shares at a conversion price of $18.375 per share.

The annual repayments of the parent company debt for the years beginning January 1, 1997 are as follows:

	Senior Discount Notes	Senior Notes	Limited Recourse Notes *
1997-2001	$ —	$ —	$ —
Thereafter	529,640	225,000	200,000
	$ 529,640	$ 225,000	$ 200,000

**The amount of recourse obligation to the parent was $0 at December 31, 1996.*

7. *Subsidiary and Project Debt:*

Project loans held by subsidiaries and projects of the Company comprise the following at December 31:

	1996	1995
Salton Sea Notes and Bonds	$ 538,982	$ 452,088
Northern eurobonds	439,192	—
Coso Funding Corp. project loans	148,346	203,226
U.K. Credit Facility	128,423	—
Power Resources project debt	114,571	—
Construction loans	377,454	211,198
Other	7,927	54,707
	$ 1,754,895	$ 921,219

Pursuant to separate project financing agreements, substantially all the assets of the Company are pledged or encumbered to support or otherwise provide the security for the project or subsidiary debt.

Salton Sea Notes and Bonds

On June 20, 1996 and July 25, 1995, the Company through its wholly owned subsidiary, Salton Sea Funding Corporation ("Funding Corporation"), completed sales to institutional investors of $135,000 and $475,000, respectively, of Salton Sea Notes and Bonds (the "Notes and Bonds"). The Salton Sea Notes and Bonds are nonrecourse to the Company. The Funding Corporation debt securities were offered as follows:

	Senior Secured Series	Due	Rate	Amount
July 25, 1995	A Notes	May 30, 2000	6.69%	$ 232,750
July 25, 1995	B Bonds	May 30, 2005	7.37%	133,000
July 25, 1995	C Bonds	May 30, 2010	7.84%	109,250
June 20, 1996	D Notes	May 30, 2000	7.02%	70,000
June 20, 1996	E Bonds	May 30, 2011	8.30%	65,000

The Salton Sea Notes and Bonds are secured by the Company's four existing Salton Sea plants as well as an assignment of the right to receive various royalties payable to Magma in connection with its Imperial Valley properties and distributions from the Partnership Project.

Each of the Company's direct or indirect subsidiaries is organized as a legal entity separate and apart from the Company and its other subsidiaries. It should not be assumed that any asset of any such subsidiary will be available to satisfy the obligations of the Company or any of its other such subsidiaries; provided, however, that unrestricted cash or other assets which are available for distribution may, subject to applicable law and the terms of financing arrangements of such parties, be advanced, loaned, paid as dividends or otherwise distributed or contributed to the Company or affiliates thereof. Substantially all of the assets of each subsidiary listed below (except Vulcan/BN Geothermal Power Company and certain other subsidiaries involved in project financing activities) have been encumbered to secure obligations owed to the creditors of such subsidiary:

Fish Lake Power Company
Salton Sea Brine Processing L.P.
Salton Sea Power Generation L.P.
Vulcan Power Company
CalEnergy Operating Company
Salton Sea Funding Corporation
Salton Sea Power Company
Salton Sea Royalty Company
Vulcan/BN Geothermal Power Company
Del Ranch, L.P.
Elmore, L.P.
Leathers, L.P.

Pursuant to the Depository Agreement, Funding Corporation established a debt service reserve fund in the form of a letter of credit in the amount of $70,430 from which scheduled interest and principal payments can be made.

Northern Eurobonds

The Northern debt includes a £55,000 ($94,177) debenture due in 1999, which bears a fixed interest rate of 12.661%. The debt also includes bearer bonds repayable in £100,000 ($171,230) amounts in 2005 and 2020, bearing fixed interest rates of 8.625% and 8.875%, respectively.

The balance at December 31, 1996 consists of the following:

Debenture due 1999	$ 99,924
Bearer bonds due 2005	171,130
Bearer bonds due 2020	168,138
	$ 439,192

Coso Funding Corp. Project Loans

The Coso Funding Corp. project loans are from Coso Funding Corp., a single-purpose corporation formed to issue notes for its own account and act as an agent on behalf of the Coso Project. On December 16, 1992, pursuant to separate credit agreements executed between Coso Funding Corp. and each Coso Joint Venture, the proceeds from Coso Funding Corp.'s note offering were loaned to the Coso Project. The proceeds of $560,245 were used by the Coso Project to (i) purchase and retire project finance debt comprised of the term loans and construction loans in the amount of $424,500, (ii) fund contingency funds in the amount of $68,400, (iii) fund debt service reserve funds in the amount of $40,000, and (iv) finance $27,345 of capital expenditures and transaction costs. The contingency fund and debt service reserve fund were required by the project loan agreements.

The contingency fund represented the approximate maximum amount, if any, which could theoretically have been payable by the Coso Project to third parties to discharge all liens of record and other contract claims encumbering the Coso Project's plants at the time of the project loans. The contingency fund was established in order to obtain investment-grade ratings to facilitate the offer and sale of the notes by Coso Funding Corp., and such establishment did not reflect the Coso Project's view as to the merits or likely disposition of such litigation or other contingencies. On June 9, 1993, MPE and the Mission Power Group, subsidiaries of Edison Corp., and the Coso Project reached a final settlement of all of their outstanding disputes and claims relating to the construction of the Coso Project. As a result of the various payments and releases involved in such settlement, the Coso Project agreed to make a net payment of $20,000 to MPE from the cash reserves of the Coso Project contingency fund and MPE agreed to release its mechanics' liens on the Coso Project. After making the $20,000 payment, the remaining balance of the Coso Project contingency fund (approximately $49,300) was used to increase the Coso Project debt reserve fund from approximately $43,000 to its maximum fully-funded requirement of $67,900. The remaining $24,400 balance of contingency fund was retained within the Coso Project for future capital expenditures and for Coso Project debt service payments. Since the Coso Project debt service reserve is fully funded in advance, Coso Project cash flows otherwise intended to fund the Coso Project debt service reserve fund, subject to satisfaction of certain covenants and conditions contained in the Coso Joint Ventures' refinancing documents, may be available for distribution to the Company in its proportionate share.

The Coso Funding Corp. project loans are collateralized by, among other things, the power plants, geothermal resource, debt service reserve funds, contingency funds, pledge of contracts, and an assignment of all such Coso Project's revenues which will be applied against the payment of obligations of each Coso Joint Venture, including the project loans. Each Coso Joint Venture's assets will secure only its own project loan, and will not be cross-collateralized with assets pledged under other Coso Joint Venture's credit agreements. The project loans are nonrecourse to any partner in the Coso Joint Ventures and the Coso Funding Corp. shall solely look to such Coso Joint Venture's pledged assets for satisfaction of such project loans. However, the loans are cross-collateralized by the available cash flow of each Coso Joint Venture. Each Coso Joint Venture after satisfying a series of its own obligations has agreed to advance support loans (to the extent of available cash flow and, under

certain conditions, its debt service reserve funds) in the event revenues from the supporting Coso Joint Ventures are insufficient to meet scheduled principal and interest on their separate project loans.

The Coso Funding Corp. project loans carry a fixed interest rate with weighted average interest rates of 8.46% and 8.29% at December 31, 1996 and 1995, respectively. The loans have scheduled repayments through December 2001.

U.K. Credit Facility

On October 28, 1996 CE Holdings obtained a £560,000 ($958,888) five year term loan and revolving credit facility (the "U.K. Credit Facility"). The Company has not guaranteed, nor is it otherwise subject to recourse for, amounts borrowed under the U.K. Credit Facility. The agreement places restrictions on distributions from CE Electric to any of its shareholders based on certain financial ratios. As of December 31, 1996, CE Holdings had drawn £75,000 ($128,423) under the agreement.

Power Resources Project Financing Debt

Power Resources, an indirect wholly-owned subsidiary, has project financing debt consisting of a term loan payable to a consortium of banks with interest and principal due quarterly through October 2003. The debt carries fixed interest rates of 10.385% and 10.625%. The loan is collateralized by all of the assets of Power Resources.

The annual repayments of the subsidiary and project debt, excluding construction loans, for the years beginning January 1, 1997 and thereafter are as follows:

	Salton Sea Notes and Bonds	Northern	Coso Funding Corp.	UK Credit Facility	Power Resources	Other
1997	$ 90,228	$ —	$ 41,729	$ —	$ 11,228	$ 873
1998	106,938	—	38,912	—	12,805	1,678
1999	57,836	99,924	31,717	—	14,268	1,421
2000	25,072	—	4,080	—	16,087	1,181
2001	22,376	—	31,908	128,423	18,119	959
Thereafter	236,532	339,268	—	—	42,064	1,815
	$ 538,982	$ 439,192	$ 148,346	$ 128,423	$ 114,571	$ 7,927

Construction Loans

The Company's share of project construction loans comprise the following at December 31:

	1996	1995
Upper Mahiao	$ 150,628	$ 134,619
Malitbog	137,881	36,863
Mahanagdong	76,503	39,716
Dieng Unit I	12,442	—
	$ 377,454	$ 211,198

The construction loans are scheduled to be replaced by term project financing upon completion of construction and commencement of commercial operations.

Upper Mahiao Construction Loan

Draws on the construction loan for the Upper Mahiao geothermal power project at December 31, 1996 totaled $150,628. A consortium of international banks provided the construction financing with interest rates at LIBOR or "Prime" with interest payments due every quarter and at LIBOR maturity. The weighted average interest rate at December 31, 1996 and 1995 is approximately 8.01% and 8.31%, respectively. The Export-Import Bank of the U.S. ("Ex-Im Bank") is providing political risk insurance to commercial banks on the construction loan. The construction loan is expected to be converted to a term loan promptly after NPC

completes the full capacity transmission line, which is currently expected in early 1997. The largest portion of the term loan for the project will also be provided by Ex-Im Bank. The term financing for the Ex-Im Bank loan will be for a ten year term at a fixed interest rate of 5.95%.

Malitbog Construction Loan

Draws on the construction loan for the Malitbog geothermal power project at December 31, 1996 totaled $137,881. Credit Suisse and OPIC have provided the construction and term loan facilities. The eight year project term loan facilities will be at variable interest rates (weighted average of 8.15% and 8.42% at December 31, 1996 and 1995, respectively). The international bank portion of the debt will be insured by the Overseas Private Investment Corporation ("OPIC") against political risks and the Company's equity contribution to Visayas Geothermal Power Company ("VGPC") is covered by political risk insurance from the Multilateral Investment Guarantee Agency and OPIC.

Mahanagdong Construction Loan

The Company's share of draws on the construction loan for the Mahanagdong geothermal power ptoject at December 31, 1996 totaled $76,503. The construction debt financing is provided by OPIC and a consortium of international banks. The construction loan interest rates are at LIBOR or "Prime" with interest payments due quarterly and at LIBOR maturity. The weighted average interest rate at December 31, 1996 and 1995 is approximately 8.05% and 8.02% respectively. Political risk insurance from Ex-Im Bank has been obtained for the commercial lenders. Ten year project term debt financing of approximately $120,000 will be provided by Ex-Im Bank (which will replace the bank construction debt) and by OPIC. The majority of the term financing is expected to be provided by the Ex-Im Bank at a fixed interest rate of 6.92%.

Dieng Construction Loan

On October 4, 1996 the Company closed the $120,000 project financing for the Dieng Unit I 55 net MW geothermal project located in Indonesia. The loan carries a variable interest rate (weighted average of 7.19% at December 31, 1996) and has scheduled project term repayments through 2002. Dieng Unit I is under construction and is currently expected to begin commercial operation by late 1997. The Company has drawn $12,442 as of December 31, 1996.

8. *Income Taxes*

Provision for income taxes is comprised of the following at December 31:

	1996	1995	1994
Currently payable:			
State	$ 7,520	$ 5,510	$ 1,970
Federal	19,873	11,138	5,829
Foreign	2,176	—	—
	29,569	16,648	7,799
Deferred:			
State	1,619	921	1,017
Federal	9,209	13,062	7,241
Foreign	1,424	—	—
	12,252	13,983	8,258
Total after benefit of extraordinary item	41,821	30,631	16,057
Tax benefit attributable to extraordinary item	—	—	945
Total before benefit of extraordinary item	$ 41,821	$ 30,631	$ 17,002

A reconciliation of the federal statutory tax rate to the effective tax rate applicable to income before provision for income taxes follows:

	1996	1995	1994
Federal statutory rate	35.00%	35.00%	35.00%
Percentage depletion in excess of cost depletion	(6.12)	(7.38)	(6.85)
Investment and energy tax credits	(8.34)	(1.80)	(3.04)
State taxes, net of federal tax effect	4.38	4.09	4.48
Goodwill amortization	2.51	2.53	—
Non-deductible expense	.84	1.10	—
Lease investment	—	(2.18)	—
Tax effect of foreign income	2.54	—	—
Other	.01	.20	.86
	30.82%	31.56%	30.45%

Deferred tax liabilities (assets) are comprised of the following at December 31:

	1996	1995
Depreciation and amortization, net	$ 725,366	$ 349,079
Pensions	22,883	—
Other	6,119	4,043
	754,368	353,122
Deferred contract costs	(128,745)	—
Deferred income	(9,298)	(7,709)
Loss carryforwards	—	(3,050)
Energy and investment tax credits	(55,931)	(52,857)
Advance corporation tax	(20,205)	—
Alternative minimum tax credits	(50,819)	(52,480)
Jr. SO4 royalty receivable	(5,865)	(5,865)
Accruals not currently deductible for tax purposes	(13,372)	—
Other	(934)	(4,641)
	(285,169)	(126,602)
Net deferred taxes	$ 469,199	$ 226,520

The Company has unused investment and geothermal energy tax credit carryforwards of approximately $55,931 expiring between 2002 and 2011. The Company also has approximately $50,819 of alternative minimum tax credit and £11,800 ($20,205) of surplus advance corporation tax carryforwards which have no expiration date.

9. *Company-Obligated Mandatorily Redeemable Convertible Preferred Securities of Subsidiary Trust Holding Solely Convertible Debentures*

On April 12, 1996, CalEnergy Capital Trust, a special purpose Delaware business trust organized by the Company (the "Trust"), pursuant to the Amended and Restated Declaration of Trust (the "Declaration") dated as of April 4, 1996, completed a private placement (with certain shelf registration rights) of $100,000 of convertible preferred securities ("TIDES"). In addition, an option to purchase an additional 78.6 TIDES, or $3,930, was exercised by the initial purchasers to cover over-allotments.

The Trust has issued 2,078.6 of 6 ¼% TIDES with a liquidation preference of fifty dollars each. The Company owns all of the common securities of the Trust. The TIDES and the common securities represent undivided beneficial ownership interests in the Trust. The assets of the Trust consist solely of the Company's 6 ¼% Convertible Junior Subordinated Debentures due 2016 in an outstanding aggregate principal amount of $103,930 ("Junior Debentures") issued pursuant to an indenture dated as of April 1, 1996. The indenture includes an agreement by the Company to pay expenses and obligations incurred by the Trust. Each TIDES will be convertible at the option of the holder thereof at any time into 1.6728 shares of CalEnergy Common Stock (equivalent to a conversion price of $29.89 per share of the Company's Common Stock), subject to customary anti-dilution adjustments.

Until converted into the Company's Common Stock, the TIDES will have no voting rights with respect to the Company and, except under certain limited circumstances, will have no voting rights with respect to the Trust. Distributions on the TIDES (and Junior Debentures) are cumulative, accrue from the date of initial issuance and are payable quarterly in arrears, commencing June 15, 1996. The Junior Debentures are subordinated in

right of payment to all senior indebtedness of the Company and the Junior Debentures are subject to certain covenants, events of default and optional and mandatory redemption provisions, all as described in the Junior Debenture Indenture.

Pursuant to a Preferred Securities Guarantee Agreement, dated as of April 10, 1996 (the "Guarantee"), between the Company and a preferred guarantee trustee, the Company has agreed irrevocably to pay to the holders of the TIDES, to the extent that the Trustee has funds available to make such payments, quarterly distributions, redemption payments and liquidation payments on the TIDES. Considered together, the undertakings contained in the Declaration, Junior Debentures, Indenture and Guarantee constitute a full and unconditional guarantee by the Company of the Trust's obligations under the TIDES.

10. Preferred Stock

On December 1, 1988 the Company distributed a dividend of one preferred share purchase right ("right") for each outstanding share of common stock. The rights are not exercisable until ten days after a person or group acquires or has the right to acquire, beneficial ownership of 20% or more of the Company's common stock or announces a tender or exchange offer for 30% or more of the Company's common stock. Each right entitles the holder to purchase one one-hundredth of a share of Series A junior preferred stock for $52. The rights may be redeemed by the Board of Directors up to ten days after an event triggering the distribution of certificates for the rights. The rights plan was amended in February 1991 so that the agreement with Kiewit would not trigger the exercise of the rights. The rights will expire, unless previously redeemed or exercised, on November 30, 1998. The rights are automatically attached to, and trade with, each share of common stock.

11. Stock Options and Restricted Stock

The Company has issued various stock options. As of December 31, 1996, a total of 5,088 shares are reserved for stock options, of which 4,777 shares have been granted and remain outstanding at prices of $3.00 to $30.38 per share.

The Company has stock option plans under which shares were reserved for grant as incentive or non-qualified stock options, as determined by the Board of Directors. The plans allow options to be granted at 85% of their fair market value at the date of grant. Generally, options are issued at 100% of fair market value at the date of grant. Options granted under the 1996 Plan become exercisable over a period of three to five years and expire if not exercised within ten years from the date of grant or, in some instances a lesser term. Prior to the 1996 Plan, the Company granted 256 options at fair market value at date of grant which had terms of ten years and were exercisable at date of grant. In addition, the Company had issued approximately 138 options to consultants on terms similar to those issued under the 1996 Plan. The non-1996 plan options are primarily options granted to Kiewit (See Note 12).

The Company granted 500 shares of restricted common stock with an aggregate market value of $9,500 in exchange for the relinquishment of 500 stock options which were canceled by the Company. The shares have all rights of a shareholder, subject to certain restrictions on transferability and risk of forfeiture. Unearned compensation equivalent to the market value of the shares at the date of issuance was charged to Stockholders' equity. Such unearned compensation is being amortized over the vesting period of which 125 shares were immediately vested and the remaining 375 shares vest straight line over approximately five years. Accordingly, $1,535 and $2,494 of unearned compensation was charged to general and administrative expense in 1996 and 1995, respectively.

Transactions in Stock Options

	Shares Available for Grant Under 1996 Option Plan	Options Outstanding			
		Shares	Option Price Per Shares	Weighted Avg Option Price	Total
Balance December 31, 1993	439	8,514	$ 3.00 – $ 19.00	$ 12.32	$ 104,931
Options granted	(954)	1,243	12.00 – 17.25	15.49	19,260
Options terminated	15	(15)	3.00 – 15.94	13.67	(205)
Options exercised	—	(141)	3.00 – 15.94	5.03	(709)
Additional shares reserved under 1996 Option Plan	586	—	—	—	—
Balance December 31, 1994	86	9,601	3.00 – 19.00	12.84	123,277
Options granted	(396)	396	15.81 – 19.00	18.15	7,188
Options terminated	571	(571)	14.88 – 19.00	18.69	(10,673)
Options exercised	—	(135)	3.00 – 15.94	3.41	(460)
Balance December 31, 1995	261	9,291	3.00 – 19.00	12.84	119,332
Options granted	(1,157)	1,157	25.06 – 30.38	28.17	32,590
Options terminated	468	(468)	3.00 – 19.00	17.96	(8,406)
Options exercised	—	(5,203)	3.00 – 21.68	11.13	(57,931)
Additional shares reserved under 1996 Option Plan	739	—	—	—	—
Balance December 31, 1996	311	4,777	$ 3.00 – $ 30.38	$ 17.92	$ 85,585
Options exercisable at:					
December 31, 1994		7,897	$ 3.00 – $ 19.00	$ 11.87	$ 93,705
December 31, 1995		8,229	$ 3.00 – $ 19.00	$ 12.26	$ 100,886
December 31, 1996		3,071	$ 3.00 – $ 30.38	$ 14.25	$ 43,770

The following table summarizes information about stock options outstanding and exercisable as of December 31, 1996:

	Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
$ 3.00 $ 11.99	1,251	$ 10.70	4 years	1,251	$ 10.70
12.00 20.99	2,369	16.72	7 years	1,786	16.50
21.00 30.38	1,157	28.16	9 years	34	29.25
	4,777	$ 17.92	7 years	3,071	$ 14.25

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." SFAS 123 defines a fair value based method of accounting for stock-based employee compensation plans and encourages all entities to adopt that method of accounting. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting.

The Company has decided to continue to apply the intrinsic value based method of accounting for its stock-based employee compensation plans. If the fair value based method had been applied for 1996 and 1995, non-cash compensation expense and the effect on net income available to common stockholders and earnings per share would have been immaterial. The fair value for stock options was estimated using the Black-Scholes option pricing model with assumptions for the risk-free interest rate of 6.00%, expected volatility of 22%, expected life of approximately 4.5 years, and no expected dividends. The weighted average fair value of options granted during 1996 and 1995 was $8.62 per option and $5.72 per option, respectively.

12. Common Stock Sales & Related Options

Simultaneous with the acquisition of the remaining equity interest of Magma on February 24, 1995, the Company completed a public offering (the "Offering") of 18,170 shares of common stock, which amount included a direct sale by the Company to Kiewit of 1,500 shares and the exercise of underwriter over-allotment options for 1,500 shares, at a price of $17.00 per share. The Company received proceeds of $300,388 from the Offering.

The Company and Kiewit signed a Stock Purchase Agreement and related agreements, dated as of February 18, 1991. Under the terms of the agreements, Kiewit purchased 4,000 shares of common stock at $7.25 per share and received options to buy 3,000 shares at a price of $9 per share exercisable over three years and an additional 3,000 shares at a price of $12 per share exercisable over five years (subject to customary adjustments).

In May 1994, pursuant to a special antidilution provision of the 1991 Stock Purchase Agreement between the Company and Kiewit, the Company increased Kiewit's existing option (granted in 1991) to purchase 3,000 shares at $12 per share by an additional 289 shares as a final adjustment under such provisions.

In connection with this initial stock purchase, the Company and Kiewit also entered into certain other agreements pursuant to which Kiewit and its affiliates agreed not to acquire more than 34% of the outstanding common stock (the "Standstill Percentage") for a five-year period ending in February 1996 and Kiewit became entitled to nominate at least three of the Company's directors.

On June 19, 1991, the board approved a number of amendments to the Stock Purchase Agreement and the related agreements. As part of those amendments, the Company extended the term of the $9 and $12 options to seven years; modified certain of the other terms of these options; granted to Kiewit an option to acquire an additional 1,000 shares of the common stock at $11.625 per share for a ten year term; and increased the Standstill Percentage from 34% to 49%.

On November 19, 1991, the Board approved the issuance by the Company to Kiewit of one thousand shares of Series C preferred stock for $50,000. In connection with the sale of the Series C preferred stock to Kiewit, the Standstill Agreement was amended so that the 49% Standstill Percentage restriction would apply to voting stock rather than just common stock.

13. Related Party Transactions

The Company charged and recognized a management fee and interest on advances to its Coso Joint Ventures, which aggregated approximately $5,731, $6,075 and $5,569 in the years ended December 31, 1996, 1995 and 1994, respectively. The Company has a note receivable from the Coso Joint Ventures included in deferred charges and other assets which bears a fixed interest rate of 12.5% and is payable on or before March 19, 2002. The balance of the note is $11,578 and $14,254 as of December 31, 1996 and 1995, respectively. This note is subordinated to the senior project loan on the project.

The Mahanagdong Project is being constructed by a consortium (the "EPC Consortium") of Kiewit Construction Group, Inc. ("KCG") and the CE Holt Company, a wholly owned subsidiary of the Company, pursuant to fixed-price, date-certain, turnkey supply and construction contracts (collectively, the "Mahanagdong EPC"). The obligations of the EPC Consortium under the Mahanagdong EPC are supported by a guaranty of KCG at an aggregate amount equal to approximately 50% of the Mahanagdong EPC price. The Mahanagdong EPC provides for maximum liability for liquidated damages of up to $100,500 and total liability of up to $201,000. KCG, a wholly owned subsidiary of PKS, is the lead member of the EPC Consortium, with an 80% interest. KCG performs construction services for a wide range of public and private customers in the U.S. and internationally. CE Holt Company provides design and engineering services for the EPC Consortium, and holds a 20% interest. The Company has provided a guaranty of CE Holt Company's obligations under the Mahanagdong EPC Contract.

The Company has an international joint venture agreement with PKS, a stockholder of the Company, which the Company believes enhances its capabilities in foreign power markets. The joint venture agreement is limited to international power project development activities and provides that, if both the Company and PKS agree to participate in a project, they will share all development costs equally. The Company and PKS each will provide 50% of the equity required for financing a project developed by the joint venture and the Company will receive from the project a development fee (generally 1% of project capital) and will operate and manage such projects for a fee. The agreement creates a joint development structure under which, on a project by project basis, the Company will be the development manager, managing partner and/or project operator, and equal equity participant with PKS and a preferred participant in the construction consortium and PKS will be an equal equity participant and the preferred turnkey construction contractor. The joint venture agreement may be terminated by either party on 15 days written notice, provided that such termination cannot affect the pre-existing contractual obligations of either party.

14. Extraordinary Item

In conjunction with the Company's Senior Discount Notes offering in 1994, the 12% Senior Notes were defeased. This resulted in an extraordinary item in the amount of $2,007, after the income tax effect of $945. The extraordinary item represents the amount necessary to defease the interest payments and the unamortized portion of the deferred financing costs on the 12% Senior Notes.

15. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation techniques. Therefore, the fair value estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current transaction.

The methods and assumptions used to estimate fair value are as follows:

Debt instruments–The fair value of all debt issues listed on exchanges has been estimated based on the quoted market prices.

Interest rate swap agreements–The fair value of interest rate swap agreements is estimated based on quotes from the counter party to these instruments and represents the estimated amounts that the Company would expect to receive or pay to terminate the agreements. It is the Company's intention to hold the swap agreements to their intended maturity.

Other financial instruments–All other financial instruments of a material nature fall into the definition of short-term and fair value is estimated as the carrying amount.

The carrying amounts in the table below are included under the indicated captions in Notes 6 and 7 except for the interest rate swaps which are discussed in Note 16.

	1996		1995	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Interest rate swap receivable	$ 100	$ 222	$ 61	$ 561
Financial liabilities:				
Senior discount notes	527,535	556,971	477,355	503,158
Senior notes	224,150	229,866	—	—
Limited recourse senior secured notes	200,000	212,560	200,000	210,500
CalEnergy credit facility	100,000	100,000	—	—
Revolving line of credit	95,000	95,000	—	—
Convertible subordinated debentures	—	—	100,000	100,500
Salton Sea notes and bonds	538,982	531,807	452,088	459,629
Northern eurobonds	439,192	445,830	—	—
Construction loans	377,454	377,454	211,198	211,198
Coso Funding Corp. project loans	148,346	153,650	203,226	214,917
Power Resources Inc. project financing debt	114,571	114,571	—	—
U.K. credit facility	128,423	128,423	—	—
Other	7,927	7,927	54,707	54,707
Interest rate swap payable	—	—	226	672

16. Interest Rate Swap Agreements

In Januaty 1993, the Coso Joint Ventures entered into five year deposit interest rate swap agreements. The subject deposits represent debt service reserves established in conjunction with refinancing the Coso Joint Ventures loans through Coso Funding Corp. The deposit interest rate swaps effectively convert interest earned on the debt service reserve deposits from a variable rate to a fixed rate, in order to match the nature of the interest rate on the borrowings used to fund the debt service reserve deposits. The Company's proportion of the deposit amount of $27,239 included in restricted cash and investments accretes annually to a maximum amount of approximately $29,300 in 1997. Under the agreements, which mature on Januaty 11, 1998, the Coso Joint Ventures make semi-annual payments to the counter party at variable rates based on LIBOR, reset and compounded every three months, and in return receive payments based on a fixed rate of 6.34%. The effective LIBOR rate ranged from 5.5313% to 5.9375% during 1996 and was 5.5313% at December 31, 1996. The counter party to these agreements is a large multi-national financial institution.

17. Regulatory Matters

Northern is subject to price cap regulation. The Office of Electricity Regulation ("OFFER") controls the revenues generated by Northern in its distribution and supply businesses by applying a price control formula, P + RPI - X (where X is currently 3% for distribution and 2% for supply), where P is the price level at the beginning of each new regulatory period, RPI is the change in the Retail Price Index and X is an adjustment factor determined by OFFER.

In the distribution business, the Distribution Price Control Formula ("DPCF") is usually set for a five-year period, subject to more frequent adjustments as determined necessary by the Director General of Electricity Supply (the "Regulator"). At each review, the Regulator can require a one-time price reduction. An initial review by the Regulator of allowable income in the distribution business led to a reduction of the price level by 17% for Northern starting April 1, 1995, followed by efficiency factors of X=2% for each year until March 2000. On July 6, 1995, the Regulator announced the result of a further distribution price review which was precipitated by certain market events in the UK electric utility industry. For Northern, such announcement meant a further real reduction of 11% in allowable distribution income for the twelve months from April 1, 1996, followed by an efficiency factor X=3% for each year until March 31, 2000, before an allowed increase for inflation.

In the supply business, which is progressively being opened to competition, price regulation still applies to the market for customers with demand of not more than 100kW. The calculation of the maximum supply charge is based on a Supply Price Control Formula, similar to the DPCF and is set for a four-year period. In 1993, OFFER announced the supply franchise market (i.e., with demand of not more than 100kW) income entitlement for the four-year period ending March 1998. A relatively small efficiency factor of X=2% was applied to Northern and is being offset by an allowance for both unit and customer growth. The nonfranchise markets (above 1 MW) were opened to full competition during privatization in 1990; the nonfranchise markets above 100kW were opened to full competition starting in April 1994.

18. Pension Commitments

Northern participates in the Electricity Supply Pension Scheme, which provides pension and other related defined benefits, based on final pensionable pay, to substantially all employees throughout the Electricity Supply Industry in the United Kingdom.

The actuarial computation assumed an interest rate of 7.75% an expected return on plan assets of 8.25% and annual compensation increases of 5.75% over the remaining service lives of employees covered under the plan. Amounts funded to the pension are primarily invested in equity and fixed income securities.

The following table details the funded status and the amount recognized in the balance sheet of the Company as of December 31, 1996.

Actuarial present value of benefit obligations:	
Vested benefits	$ 797,932
Nonvested benefits	—
Accumulated benefit obligation	797,932
Effect of future increase in compensation	58,218
Projected benefit obligation	856,150
Fair value of plan assets	919,163
Prepaid pension asset	$ 63,013

19. Commitments and Contingencies

There were no material outstanding lawsuits as of December 31, 1996.

Casecnan

In November 1995, CE Casecnan Water and Energy Company, Inc., a Philippine corporation ("CE Casecnan"), closed the financing and commenced construction of the Casecnan Project, a combined irrigation and 150 net MW hydroelectric power generation project (the "Casecnan Project") located in the central part of the island of Luzon in the Republic of the Philippines. The Casecnan Project will consist generally of diversion structures in the Casecnan and Denip Rivers that will divert water into a tunnel of approximately 23 kilometers. The tunnel will

transfer the water from the Casecnan and Denip Rivers in the Pantabangan Reservoir for irrigation and hydroelectric use in the Central Luzon area. An underground powerhouse located at the end of the water tunnel and before the Pantabangan Reservoir will house a power plant consisting of approximately 150 MW of newly installed rated electrical capacity. A tailrace tunnel of approximately three kilometers will deliver water from the water tunnel and the new powerhouse to the Pantabangan Reservoir, providing additional water for irrigation and increasing the potential electrical generation at two downstream existing hydroelectric facilities of the National Power Corporation of the Philippines ("NPC").

CE Casecnan, which is presently indirectly owned as to approximately 35% of its equity by the Company and approximately 35% by PKS, is developing the Casecnan Project under the terms of the Project Agreement between CE Casecnan and the National Irrigation Administration ("NIA"). Under the Project Agreement, CE Casecnan will develop, finance and construct the Casecnan Project over an estimated four-year construction period, and thereafter own and operate the Casecnan Project for 20 years (the "Cooperation Period"). During the Cooperation Period, NIA is obligated to accept all deliveries of water and energy, and so long as the Casecnan Project is physically capable of operating and delivering in accordance with agreed levels set forth in the Project Agreement, NIA will pay CE Casecnan a guaranteed fee for the delivery of water and a guaranteed fee for the delivety of electricity, regardless of the amount of water or electricity actually delivered. In addition, NIA will pay a fee for all electricity delivered in excess of a threshold amount up to a specified amount. NIA will sell the electric energy it purchases to NPC, although NIA's obligations to CE Casecnan under the Project Agreement are not dependent on NPC's purchase of the electricity from NIA. All fees to be paid by NIA to CE Casecnan are payable in U.S. dollars. The guaranteed fees for the delivery of water and energy are expected to provide approximately 70% of CE Casecnan's revenues.

The Project Agreement provides for additional compensation to CE Casecnan upon the occurrence of certain events, including increases in Philippine taxes and adverse changes in Philippine law. Upon the occurrence and during the continuance of certain force majeute events, including those associated with Philippines political action, NIA may be obligated to buy the Casecnan Project from CE Casecnan at a buy out price expected to be in excess of the aggtegate principal amount of the outstanding CE Casecnan debt securities, together with accrued but unpaid interest. At the end of the Cooperation Period, the Casecnan Project will be transferred to NIA and NPC for no additional consideration on an "as is" basis.

The Republic of the Philippines has provided a Performance Undertaking under which NIA's obligations under the Project Agreement are guaranteed by the full faith and credit of the Republic of the Philippines. The Project Agreement and the Performance Undertaking provide for the resolution of disputes by binding arbitration in Singapore under international arbitration rules.

The Casecnan Project is being constructed on a joint and several basis by Hanbo Corporation and Hanbo Engineering & Construction Co. Ltd. (formerly known as You One Engineering & Construction Co., Ltd., and herein referred to as "HECC"), both of which are South Korean corporations, pursuant to a fixed-price, date-certain, turnkey construction contract (the "Turnkey Construction Contract"). Hanbo Corporation and HECC (sometimes collectively referred to as the "Contractor") ate under common ownership control. Hanbo Corporation is an international consttuction company. HECC, which recently emerged from a court-administered receivership, is a contractor with over 25 years experience in tunnel construction, using both the drill-and-blast and tunnel boring machine ("TBM") methods.

The Contractor's obligations under the Turnkey Construction Contract are guaranteed by Hanbo Iron & Steel Company, Ltd. ("Hanbo Steel"), a large South Korean steel company. In addition, the Contractor's obligations under the Turnkey Construction Contract are secured by an unconditional, irrevocable standby letter of credit issued by Korea First Bank ("KFB") in the approximate amount of $118,000. The total cost of the Casecnan Project, including development, construction, testing and startup, is estimated to be approximately $495,000.

In late January 1997, the Company was advised that Hanbo Corporation and Hanbo Steel had each filed to seek court receivership protection in Korea. At the present time, all of the construction work on the Casecnan Project is being performed by the second contractor which is party to the Turnkey Construction Contract, HECC. Although HECC, Hanbo Corporation and Hanbo Steel are under common ownership control, HECC has not filed for receivership protection and is believed to be solvent. However, no assurances can be given that HECC will not file for receivership due to the foregoing developments or that it will remain solvent and able to perform fully its obligations under the Turnkey Construction Contract.

The work on the Casecnan Project, which commenced in 1995, is presently continuing on schedule and within the budget. CE Casecnan is presently reviewing its rights, obligations and potential remedies in respect of the recent developments regarding the co-Contractor and the guarantor and is presently unable to speculate as to the ultimate effect of such developments on CE Casecnan. However, CE Casecnan has recently received confirmation from HECC that it intends to fully perform its obligations under the Turnkey Construction Contract and complete the Casecnan Project on schedule and within the budget. Additionally, it has been reported that the South Korean government has informed the Philippine government that the South Korean government will take appropriate actions to support HECC's completion of the Casecnan Project.

KFB has recently reconfirmed to CE Casecnan that it will honor its obligations under the Casecnan Project letter of credit and also has stated its support for the successful completion of the Casecnan Project. However, Moody's Investors Service has recently issued a warning for a possible ratings downgrade for KFB because of the possible impact of the Hanbo Steel receivership on the substantial loans KFB previously made to Hanbo Steel. In a related development, the South Korean government has recently announced that it would provide some funding to assist Hanbo Steel's creditor banks (including KFB) and its subcontractors.

CE Casecnan financed a portion of the costs of the Casecnan Project through the issuance of $125,000 of its 11.45% Senior Secured Series A Notes due 2005 and $171,500 of its 11.95% Senior Secured Series B Notes due 2010 pursuant to an indenture dated November 27, 1995, as amended to date (the "Casecnan Indenture"). Although no default has occurred under the Casecnan Indenture as a result of the announced receivership of Hanbo Corporation, CE Casecnan will continue to closely monitor the Hanbo group and KFB developments and project construction status and develop appropriate contingency plans.

If HECC were to materially fail to perform its obligations under the Turnkey Construction Contract and if KFB were to fail to honor its obligations under the Casecnan letter of credit, such actions could have a material adverse effect on the Casecnan Project and CE Casecnan. However, based on the information presently available to it, CE Casecnan does not presently expect that either such event will occur.

Leases

Certain retail facilities, buildings and equipment are leased. The leases expire in periods ranging from one to 75 years and some provide for renewal options.

At December 31, 1996, the Company's future minimum rental payments with respect to non-cancelable operating leases were as follows:

1997	$ 9,137
1998	8,897
1999	5,337
2000	5,279
2001	5,098
Thereafter	61,204
	$ 94,952

20. Subsequent Event

On February 26, 1997, CalEnergy Capital Trust II, a special purpose Delaware business trust organized by the Company (the "Trust II"), pursuant to the Amended and Restated Declaration of Trust (the "Declaration") dated as of February 26, 1997, completed a private placement (with certain shelf registration rights) of $150,000 of trust preferred convertible securities, referred to as Company-obligated mandatorily redeemable convertible preferred securities of subsidiary trust holding solely convertible debentures ("Trust Securities"). In addition, an option to purchase an additional 600 Trust Securities, or $30,000, was exercised by the initial purchasers to cover over-allotments.

The Trust has issued 3,600 of 6 1/4% Trust Securities with a liquidation preference of fifty dollars each. The Company owns all of the common securities of the Trust. The Trust Securities and the common securities represent undivided beneficial ownership interests in the Trust. The assets of the Trust consist solely of the Company's 6 1/4% Convertible Junior Subordinated Debentures due 2012 in an outstanding aggregate principal amount of $180,000 ("Junior Debentures") issued pursuant to an indenture dated as of February 20, 1997. The indenture includes an agreement by the Company to pay expenses and obligations incurred by the Trust. Each Trust Security will be convertible at the option of the holder thereof at any time into 1.1655 shares of CalEnergy Common Stock (equivalent to a conversion price of $42.90 per share of the Company's Common Stock), subject to customary anti-dilution adjustments.

Until converted into the Company's Common Stock, the Trust Securities will have no voting rights with respect to the Company and, except under certain limited circumstances, will have no voting rights with respect to the Trust. Distributions on the Trust Securities (and Junior Debentures) are cumulative, accrue from the date of initial issuance and are payable quarterly in arrears, commencing June 1, 1997. The Junior Debentures are subordinated in right of payment to all senior indebtedness of the Company and the Junior Debentures are subject to certain covenants, events of default and optional and mandatory redemption provisions, all as described in the Junior Debenture Indenture.

Pursuant to a Preferred Securities Guarantee Agreement (the "Guarantee"), between the Company and a preferred guarantee trustee, the Company has agreed irrevocably to pay to the holders of the Trust Securities, to the extent that the Trust has funds available to make such payments, quarterly distributions, redemption payments and liquidation payments on the Trust Securities. Considered together, the undertaking contained in the Declaration, Junior Debentures, Indenture and Guarantee constitute a full and unconditional guarantee by the Company of the Trust's obligations under the Trust Securities.

A portion of the net proceeds of the Trust Securities offering were used to repay the CalEnergy Credit Facility.

21. *Geographic Information*

The Company operates in one principal industry segment: the generation, distribution and supply of electricity to customers located throughout the world. The Company's operations by geographic area are as follows:

	1996	1995	1994
Revenue			
Americas	457,032	355,112	154,562
Asia	35,691	—	—
Europe	39,191	—	—
	531,914	355,112	154,562
Operating income (loss)			
Americas	203,305	155,885	77,450
Asia	17,914	—	—
Europe	6,163	—	—
	227,382	155,885	77,450

	1996	1995
Identifiable assets		
Americas	$ 2,613,830	$ 2,194,873
Asia	713,570	459,165
Europe	2,385,507	—
	$ 5,712,907	$ 2,654,038

22. *Quarterly Financial Data (Unaudited)*

Following is a summary of the Company's quarterly results of operations for the years ended December 31, 1996 and December 31, 1995.

	Three Months Ended *			
1996: (1)	March 31	June 30	September 30	December 31
Sales of electricity and steam	$ 75,944	$ 104,735	$ 165,487	$ 172,768
Total revenue	90,356	115,794	179,048	190,997
Total costs and expenses	69,398	87,482	123,169	160,433
Income before provision for income taxes and minority interest	20,958	28,312	55,879	30,564
Provision for income taxes	6,497	9,040	18,325	7,959
Net income before minority interest	14,461	19,272	37,554	22,605
Minority interest	—	—	—	1,431
Net income attributable to common shares	$ 14,461	$ 19,272	$ 37,544	$ 21,174
Net income per share - primaty	$ .27	$ .35	$ .67	$ .33
Net income per share - fully diluted	$ .26	$ .33	$ .59	$ .32

	Three Months Ended *			
1995: (2)	March 31	June 30	September 30	December 31
Sales of electricity and steam	$ 72,978	$ 81,756	$ 102,423	$ 78,473
Total revenue	86,685	97,096	119,717	95,225
Total costs and expenses	68,527	76,957	79,898	76,290
Income before provision for income taxes and minority interest	18,158	20,139	39,819	18,935
Provision for income taxes	5,540	6,248	12,457	6,386
Net income before minority interest	12,618	13,891	27,362	12,549
Minority intetest	3,005	—	—	—
Net income	9,613	13,891	27,362	12,549
Preferred dividends	1,080	—	—	—
Net income attributable to common shares	$ 8,533	$ 13,891	$ 27,362	$ 12,549
Net income per share - primaty	$ .21	$ .27	$ .52	$ .24
Net income per share - fully diluted	$ .21	$ .27	$ .48	$ .18

** The Company's operations are seasonal in nature with a disproportionate percentage of income historically earned in the second and third quarters.*

(1) Reflects acquisitions of Northern, Falcon Seaboard and the Partnership Interest.

(2) Reflects acquisition of Magma.

Independent Auditors' Report

Board of Directors and Shareholders
CalEnergy Company, Inc.
Omaha, Nebraska

We have audited the accompanying consolidated balance sheets of CalEnergy Company, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CalEnergy Company, Inc. and subsidiaries at December 31, 1996 and 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Omaha, Nebraska
January 31, 1997
(February 27, 1997 as to Notes 6 and 20)

Corporate Information

Executive Officers

DAVID L. SOKOL
Chairman of the Boatd and
Chief Executive Officer

GREGORY E. ABEL
President and Chief Operating Officer,
CalEnergy Europe and
Chief Accounting Officer,
CalEnergy Company, Inc.

THOMAS R. MASON
President and Chief Operating Officer,
CalEnergy Americas

STEVEN A. MCARTHUR
Senior Vice President, General Counsel
and Secretary

DONALD M. O'SHEI, JR.
President and Chief Operating Officer,
CalEnergy Asia

ROBERT S. SILBERMAN
Senior Vice President,
Marketing/Implementation/
Strategic Planning

JOHN G. SYLVIA
Senior Vice President and
Chief Financial Officer

Officers

DOUGLAS L. ANDERSON
Assistant General Counsel and
Assistant Secretary, CalEnergy and
General Counsel, CalEnergy Americas

EDWARD F. BAZEMORE
Vice President, Human Resources

J. DOUGLAS DIVINE
Vice President, Strategic Planning

VINCENT R. FESMIRE
Vice President, Construction
and Engineering

ADRIAN M. FOLEY
Vice President, Marketing

PATRICK J. GOODMAN
Controller

BRIAN K. HANKEL
Treasurer

FREDERICK L. MANUEL
Vice President, Indonesia

DALE R. SCHUSTER
Vice President, Implementation

JAMES D. STALLMEYER
Assistant Genetal Counsel, CalEnergy
and General Counsel, CalEnergy Asia

RUSS L. TENNEY
Vice President and General Manaqet,
Philippines

JONATHAN M. WEISGALL
Vice Ptesident, Legislative and
Regulatory Affairs

Board of Directors

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Chairman of the Board and
Chief Executive Officer
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Omaha, NE

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EDACO, Inc.
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JUDITH E. AYRES
Principal
The Environmental Group
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Chairman and Chief Executive Officer
Union Pacific Corporation
Bethlehem, PA

DAVID H. DEWHURST
Chairman and Chief Executive Officer
Falcon Seaboard Holdings, L.P.
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Chairman (retired)
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Partner
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(formerly The Ben Holt Co.)
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STOCK TRANSFER AGENT AND REGISTRAR
ChaseMellon Shareholder Services
2323 Bryan Street, Suite 2300
Dallas, Texas 75201-2656
800-635-9270
Overseas call collect at 212-613-7427

AUDITORS
Deloitte & Touche LLP
2000 First National Center
Omaha, NE 68102

STOCK LISTINGS
New York Stock Exchange Symbol: CE
London Stock Exchange Symbol: CE
Pacific Stock Exchange Symbol: CE

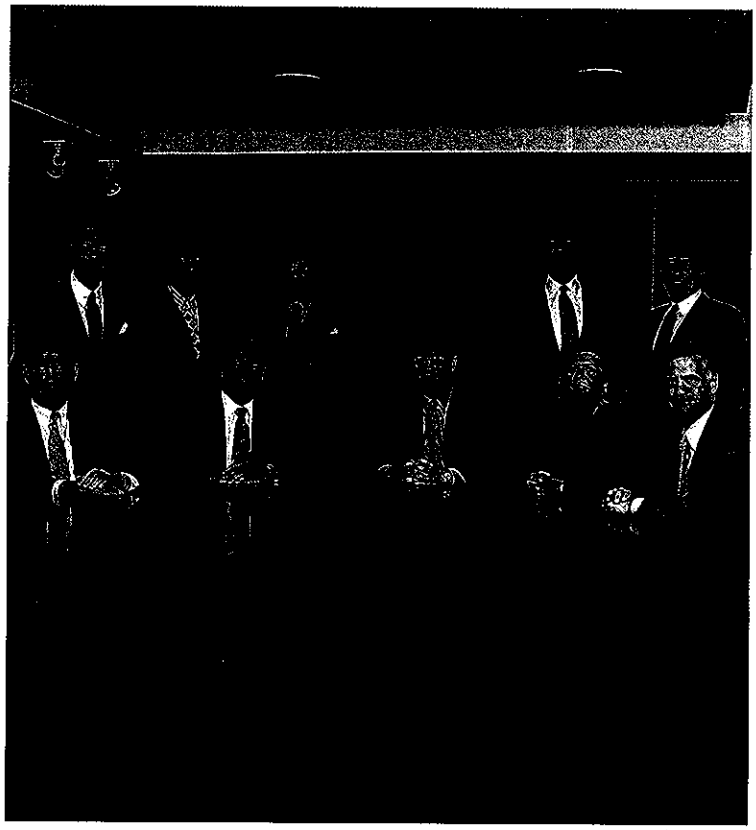
INVESTOR RELATIONS
Jeffrey S. Laudin
Investor Relations Manager
CalEnergy Company, Inc.
302 S. 36th Street, Suite 400
Omaha, NE 68131-3845
Telephone: 402-341-4500
Fax: 402-231-1578
E-mail: jlaudin@mcimail.com

FORM 10-K AND 8-K
The Company's Annual Report on Form 10-K is filed with the Securities and Exchange Commission. Projects in operation, construction and development are subject to a number of uncertainties, more specifically described in the Company's Form 8-K, dated February 25, 1997, filed with the Securities and Exchange Commission. The Company will provide a copy of the Form 10-K and the Form 8-K without charge. Copies of exhibits to the Form 10-K will be furnished upon payment of a fee equal to the Company's reasonable expenses in furnishing such exhibits. Please direct your written requests to:

JEFFREY S. LAUDIN
Investor Relations Manager
CalEnergy Company, Inc.
302 S. 36th Street, Suite 400
Omaha, NE 68131-3845

The Annual Meeting of the Shareholders will be held on May 15,1997 at 9:00 a.m. local time at Joslyn Art Museum, Witherspoon Concert Hall, 2200 Dodge Street, Omaha, Nebraska

Board of Directors

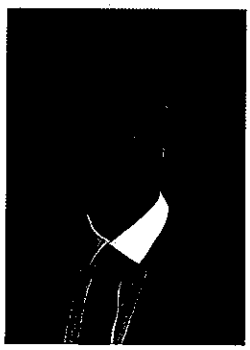


CalEnergy Company, Inc.
Board of Directors

Seated from left:
Richard K. Davidson, Walter Scott, Jr., David L. Sokol, Judith E. Ayres, Richard R. Jaros.

Standing from left: John R. Shiner, David E. Wit, Edgar D. Aronson, James Q. Crowe, Bernard W. Reznicek.

Emeritus Members not pictured:
Ben Holt, Everett B. Layhourne, Esq. and Barton W. Shackelford.



David H. Dewhurst
CalEnergy Board Member
Chairman and
Chief Executive Officer
Falcon Seaboard Holdings

Joined CalEnergy's Board of Directors in August, 1996.

David R. Morris
CalEnergy Board Member
Chairman (retired)
Northern Electric plc

Joined CalEnergy's Board of Directors in February 1997.

Regional Presidents

Gregory E. Abel
President and
Chief Operating Officer

CalEnergy Europe

Thomas R. Mason
President and
Chief Operating Officer

CalEnergy Americas

Donald M. O'Shei, Jr.
President and
Chief Operating Officer

CalEnergy Asia

CalEnergy Company, Inc.

CalEnergy Company, Inc.
302 South 36th Street, Suite 400
Omaha, Nebraska 68131-3845

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