

# RURELEC PLC

INTERIM REPORT 2010  
for the 6 months ended 30th June 2010



## CHAIRMAN'S STATEMENT

I am pleased to report the results of Rurelec PLC ("Rurelec" or the "Company") for the half year to 30th June 2010. As shareholders are already aware, it has been an eventful first half.

The profit for the period reported is £17.4m. This figure includes a one off gain of £15.1m and a notional compensation level that corresponds to the audited book value of Rurelec's interest in Empresa Guaracachi S.A. ("Guaracachi"). Rurelec's 50.001 per cent. controlling shareholding in Guaracachi was nationalised by the Government of Bolivia on 1st May 2010 as part of its wider nationalisation of a number of electricity generation companies. In addition, we have reported an estimated trading profit from discontinued operations at Guaracachi of £1.4m.

On 13th May, Rurelec and its wholly-owned indirect subsidiary, Guaracachi America, Inc. ("GAI") initiated the process to recover adequate compensation for the nationalisation through international arbitration pursuant to applicable bilateral investment treaties ("BITs"), by notifying the relevant authorities that an investment dispute had arisen. As announced on 14th September, the Notice of Arbitration is now being prepared on an accelerated basis. The communication of the Notice will formally commence the arbitration process. A claim for compensation equal to the fair market value for the nationalised investments will be made in the arbitration. This amount will be greater than the pro rata book value of Guaracachi as derived from Guaracachi's latest audited accounts to 31st December 2009, together with declared but unpaid dividends owed to Guaracachi America Inc, (US \$73m, or £47m) since these figures are for accounting purposes only and do not reflect the fair market value of the investment.

We continue to own a 50 per cent. interest in the 136 MW gas fired combined cycle plant of Energia del Sur ("EdS"). I am delighted to report that EdS made a trading profit of just over £1m for the first half of the

year, of which our share is £0.5m. That profit was recorded before the long-awaited Resolution 220 contract was awarded to EdS in August 2010. The Resolution 220 contract has the effect of increasing power generation margins at EdS and so shareholders may take heart from the fact that the reported profit for the first half did not include these increased margins since the contract did not take effect until mid-September.

The events of 1st May have introduced an unwelcome level of uncertainty for Rurelec and its shareholders. However, the Bolivian Government has given its word to Rurelec, GAI and to Her Majesty's Ambassador in La Paz that fair compensation will be paid and we have no reason to doubt those promises which correspond to the international right of Rurelec and GAI to be paid fair market value by the Government of Bolivia. However, we cannot predict the timing of compensation payments or the precise quantum.

The delay in the receipt of dividends from Guaracachi strained our cash position in the year running up to nationalisation and we have subsequently had to incur unbudgeted legal costs to protect Rurelec's and GAI's claims. However, against this we now have a relatively stable basis for our business in Argentina. With the Resolution 220 contract now executed and with the enhanced cashflow resulting from the contract due to start flowing in the last quarter of this year, Rurelec can now look forward to releasing some of the cash tied up in Argentina through the long-awaited refinancing of the EdS plant.

I therefore hope that the second half of the year will be much more encouraging than the first with its unforeseen events.

**A Morris**  
Chairman

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

for the half year ended 30th June 2010 (expressed in thousands of pounds)

	Notes	6 months to 30/06/10	6 months to 30/06/09	12 months to 31/12/09
<b>Continuing operations:</b>				
Revenue		4,719	18,476	36,164
Cost of sales		(3,346)	(16,672)	(31,692)
<b>Gross profit</b>		<b>1,373</b>	<b>1,804</b>	<b>4,472</b>
Administrative expenses		(1,402)	(2,506)	(4,136)
<b>(Loss) / profit from operations</b>		<b>(29)</b>	<b>(702)</b>	<b>336</b>
Foreign exchange gains / (losses)		985	(2,674)	(1,684)
Finance income		700	40	441
Finance expense		(615)	(2,163)	(3,158)
Other income		–	2,361	3,418
<b>Profit / (loss) before tax</b>		<b>1,041</b>	<b>(3,138)</b>	<b>(647)</b>
Tax expense		(167)	(236)	(2,211)
<b>Profit / (loss) from continuing operations</b>		<b>874</b>	<b>(3,374)</b>	<b>(2,858)</b>
<b>Discontinued operations:</b>				
	3			
Trading profit	3a	1,420	–	–
Other income	3b	15,111	–	–
<b>Profit from discontinued operations</b>		<b>16,531</b>	<b>–</b>	<b>–</b>
<b>Profit / (loss) for the period</b>		<b>17,405</b>	<b>(3,374)</b>	<b>(2,858)</b>
Attributable to:				
Owners of the parent				
Continuing operations		874	(3,105)	(2,929)
Discontinued operations	3b	15,821	–	–
		<b>16,695</b>	<b>(3,105)</b>	<b>(2,929)</b>
Minority interests				
		710	(269)	71
		<b>17,405</b>	<b>(3,374)</b>	<b>(2,858)</b>
Basic and diluted profit / (loss) per share on continuing operations				
	4	0.42p	(2.99p)	(1.89p)
<b>Other comprehensive income</b>				
Exchange differences on translation		(39)	(11,304)	(6,903)
Exchange difference on disposal now realised		(2,633)	–	–
Adjustment of disposal of 50% of associate		–	–	(1,575)
Revaluation		–	–	(192)
<b>Total other comprehensive income</b>		<b>(2,672)</b>	<b>(11,304)</b>	<b>(8,670)</b>
Attributable to:				
Owners of the parent				
		(2,672)	(6,475)	(3,337)
Minority				
		–	(4,559)	(5,293)
		<b>(2,672)</b>	<b>(11,304)</b>	<b>(8,670)</b>
<b>Total comprehensive profit / (loss) for period</b>		<b>14,733</b>	<b>(14,678)</b>	<b>(11,528)</b>
Attributable to:				
Owners of the parent				
		14,023	(9,850)	(8,222)
Minority				
		710	(4,828)	(3,306)
		<b>14,733</b>	<b>(14,678)</b>	<b>(11,528)</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

at 30th June 2010 (expressed in thousands of pounds)

	Notes	30/6/10	30/6/09	31/12/09
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		22,080	132,735	142,345
Intangible assets		4,154	4,003	4,118
Trade and other receivables		12,070	4,713	7,454
Deferred tax assets		280	1,158	1,722
		<b>38,584</b>	<b>142,609</b>	<b>155,639</b>
<b>Current assets</b>				
Inventories		409	2,673	3,202
Trade and other receivables		2,744	11,021	20,250
Compensation claim	3	47,000	–	–
Current tax assets		–	2,599	1,172
Cash and cash equivalents		475	7,382	4,176
		<b>50,628</b>	<b>23,675</b>	<b>28,800</b>
<b>TOTAL ASSETS</b>		<b>89,212</b>	<b>166,284</b>	<b>184,439</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
Share capital		4,328	4,108	4,108
Share premium account		39,011	38,182	38,182
Foreign currency reserve		1,372	825	4,044
Other reserves		1,383	1,575	1,383
Profit and loss reserve		21,790	6,494	5,095
<b>Total equity attributable to shareholders of Rurelec PLC</b>		<b>67,884</b>	<b>51,184</b>	<b>52,812</b>
Minority interests		–	32,288	33,810
<b>TOTAL EQUITY</b>		<b>67,884</b>	<b>83,472</b>	<b>86,622</b>
<b>Non-current liabilities</b>				
Trade and other payables		556	296	1,064
Future tax liabilities		423	–	445
Deferred tax liabilities		1,053	2,153	2,299
Borrowings		5,401	49,082	57,434
		<b>7,433</b>	<b>51,531</b>	<b>61,242</b>
<b>Current liabilities</b>				
Trade and other payables		5,448	18,266	20,264
Current tax liabilities		291	1,395	1,728
Borrowings		8,156	11,620	14,583
		<b>13,895</b>	<b>31,281</b>	<b>36,575</b>
<b>TOTAL LIABILITIES</b>		<b>21,328</b>	<b>82,812</b>	<b>97,817</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>89,212</b>	<b>166,284</b>	<b>184,439</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the half year ended 30th June 2010 (expressed in thousands of pounds)

	Attributable to equity shareholders								
	Share capital	Share premium	Foreign currency	Retained earnings reserve	Other reserves	Total	Minority interest	Total equity	
Balance at 1.1.09	<b>1,716</b>	<b>31,558</b>	<b>7,570</b>	<b>8,024</b>	<b>3,150</b>	<b>52,018</b>	<b>37,116</b>	<b>89,134</b>	
Transactions with owners:									
Allotment of shares	2,392	7,179	-	-	-	<b>9,571</b>	-	<b>9,571</b>	
Share issue costs	-	(555)	-	-	-	<b>(555)</b>	-	<b>(555)</b>	
<b>Total transactions with owners</b>	<b>2,392</b>	<b>6,624</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,016</b>	<b>-</b>	<b>9,016</b>	
Loss for period	-	-	-	(3,105)	-	<b>(3,105)</b>	(269)	<b>(3,374)</b>	
Transfer on realisation of revaluation	-	-	-	1,575	(1,575)	-	-	-	
Exchange differences	-	-	(6,745)	-	-	<b>(6,745)</b>	(4,559)	<b>(11,304)</b>	
<b>Total comprehensive income / (loss)</b>	<b>-</b>	<b>-</b>	<b>(6,745)</b>	<b>(1,530)</b>	<b>(1,575)</b>	<b>(9,850)</b>	<b>(4,828)</b>	<b>(14,678)</b>	
Balance at 30.6.09	<b>4,108</b>	<b>38,182</b>	<b>825</b>	<b>6,494</b>	<b>1,575</b>	<b>51,184</b>	<b>32,288</b>	<b>83,472</b>	
(Loss) / profit for period	-	-	-	(1,399)	-	<b>(1,399)</b>	340	<b>(1,059)</b>	
Revaluation	-	-	-	-	(192)	<b>(192)</b>	-	<b>(192)</b>	
Exchange differences	-	-	3,219	-	-	<b>3,219</b>	1,182	<b>4,401</b>	
<b>Total comprehensive income / (loss)</b>	<b>-</b>	<b>-</b>	<b>3,219</b>	<b>(1,399)</b>	<b>(192)</b>	<b>1,628</b>	<b>1,522</b>	<b>3,150</b>	
Balance at 31.12.09	<b>4,108</b>	<b>38,182</b>	<b>4,044</b>	<b>5,095</b>	<b>1,383</b>	<b>52,812</b>	<b>33,810</b>	<b>86,622</b>	
Transactions with owners:									
Disposal	-	-	-	-	-	-	(34,520)	<b>(34,520)</b>	
Allotment of shares	220	880	-	-	-	<b>1,100</b>	-	<b>1,100</b>	
Share issue costs	-	(51)	-	-	-	<b>(51)</b>	-	<b>(51)</b>	
<b>Total transactions with owners</b>	<b>220</b>	<b>829</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,049</b>	<b>(34,520)</b>	<b>(33,471)</b>	
Profit for period	-	-	-	874	-	<b>874</b>	710	<b>1,584</b>	
Adjustment on disposal	-	-	(2,633)	15,821	-	<b>13,188</b>	-	<b>13,188</b>	
Exchange differences	-	-	(39)	-	-	<b>(39)</b>	-	<b>(39)</b>	
<b>Total comprehensive income / (loss)</b>	<b>-</b>	<b>-</b>	<b>(2,672)</b>	<b>16,695</b>	<b>-</b>	<b>14,023</b>	<b>710</b>	<b>14,733</b>	
Balance at 30.6.10	<b>4,328</b>	<b>39,011</b>	<b>1,372</b>	<b>21,790</b>	<b>1,383</b>	<b>67,884</b>	<b>-</b>	<b>67,884</b>	

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

for the half year ended 30th June 2010 (expressed in thousands of pounds)

	6 months to 30/06/10	6 months to 30/06/09	12 months to 31/12/09
Result for the period before tax from continuing operations	1,041	(3,138)	(647)
Net finance costs	(85)	2,123	2,717
Adjustments for:			
Depreciation	227	2,711	5,376
Profit on sale of 50% of EdS	–	(2,361)	(2,361)
Profit on sale of land	–	–	(1,057)
Change in inventories	–	351	(215)
Change in trade and other receivables	340	(3,321)	(7,830)
Change in trade and other payables	(169)	221	(84)
<b>Cash generated from / (used in) operations</b>	<b>1,354</b>	<b>(3,414)</b>	<b>(4,101)</b>
Taxation paid	(160)	(953)	(1,569)
Interest received	–	40	67
Interest paid	(75)	(827)	(2,446)
<b>Net cash generated from / (used in) operations</b>	<b>1,119</b>	<b>(5,154)</b>	<b>(8,049)</b>
Cash flows from investing activities			
Purchase of plant and equipment	(1,078)	(9,195)	(18,929)
Sale of plant and equipment	–	–	1,913
Loans to joint venture company	(383)	–	(1,663)
Costs relating to disposal	–	–	(125)
<b>Net cash used in investing activities</b>	<b>(1,461)</b>	<b>(9,195)</b>	<b>(18,804)</b>
<b>Net cash outflow before financing activities</b>	<b>(342)</b>	<b>(14,349)</b>	<b>(26,853)</b>
Cash flows from financing activities			
Issue of shares (net of costs)	1,049	6,770	7,016
Net (repayment) / increase in loans	(493)	9,930	18,982
<b>Net cash generated from financing activities</b>	<b>556</b>	<b>16,700</b>	<b>25,998</b>
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>214</b>	<b>2,351</b>	<b>(855)</b>
Cash and cash equivalents at start of period	4,176	5,031	5,031
Deduct: cash in discontinued operations at start of period	(3,915)	–	–
<b>Cash and cash equivalents at end of period</b>	<b>475</b>	<b>7,382</b>	<b>4,176</b>

# NOTES TO THE INTERIM STATEMENT

for the six months ended 30th June 2010

## 1. Basis of preparation

These condensed consolidated interim financial statements do not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The comparative figures for the year ended 31st December 2009 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. Those accounts, which contained a qualified audit report with respect to the limitations placed on the scope of the audit work on the financial results of Guaracachi following the nationalisation of Guaracachi and an emphasis of matter paragraph on going concern, did not contain statements under sections 489 (2) or (3) of the Companies Act 2006. The financial information contained in this interim statement has been prepared in accordance with all relevant International Financial Reporting Standards ('IFRS') in force and expected to apply to the Group's results for the year ending 31st December 2010 and on interpretations of those Standards released to date.

## 2. Accounting policies

These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies set out in the Group's financial statements for the year ended 31st December 2009.

## 3. Discontinued operations

On 1st May 2010 the Bolivian Government nationalised by force Rurelec's controlling stake in Empresa Electrica Guaracachi SA ("Guaracachi"), by expropriating the shares held by its wholly-owned indirect US subsidiary, Guaracachi America, Inc. (the "Nationalisation"). The Nationalisation was a part of the 2010 May Day programme in which three privately-owned power generating companies, a regional distribution company and a national electricity transmission company were brought into state ownership by means of a Supreme Decree issued by Bolivia's President Evo Morales on 1st May (the "Decree"). On 13th May, Rurelec entities initiated the process to recover adequate compensation for the Nationalisation under each of the US and UK bilateral investment treaties ("BITs"), by notifying the relevant governmental authorities that an investment dispute had arisen. As announced on 14th September, the Notice of Arbitration is now being prepared in order to initiate the arbitration process.

### a) Trading profit

In accordance with IFRS 5, the results of Guaracachi during the period from 1st January to 30th April, which are based on Guaracachi's management accounts for the period from 1st January 2010 to 28th February 2010 plus an estimate of the results for March and April, are disclosed as a single amount. Due to restrictions on access imposed by the new owners of Guaracachi, we are unable to verify these amounts.

### b) Other income

Notices of Dispute under the relevant BITs have been submitted and, unless settled beforehand, a claim for compensation, pursuant to the terms of the relevant BITs, will be made in accordance with the right to be paid fair market value for the expropriated investments. The Bolivian book value of the net assets of Guaracachi, together with the declared but unpaid dividend for 2009, is not less than £47m and has been used to determine the book gain to be recognised as other income for the purposes of these interim accounts. The figure of £47m has been used for accounting purposes only and does not represent the fair market value of the investment to be claimed under the relevant BITs.

	<b>£'000</b>
Compensation as described above	47,000
Deduct: net assets consolidated in the Group's financial statements at 31 December 2010	(33,812)
Add: cumulative foreign currency adjustments at 31 December 2010	2,633
	<b>15,821</b>
Deduct: Group's share of trading profit in current period	(710)
Other income	<b>15,111</b>

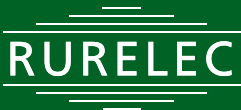
## 4. Earnings per share

### Basic and diluted

	6 months to 30/06/10	6 months to 30/06/09	12 months to 31/12/09
Average number of shares in issue during the period	208m	104m	155m
Profit / (loss) for the period from continuing operations	£0.9m	(£3.1m)	(£2.9m)
Basic and diluted profit / (loss) per share on continuing operations	0.42p	(2.99p)	(1.89p)

5. The Board of Directors approved this interim statement on 29th September 2010. This interim statement has not been audited.

6. Copies of this statement are being sent to all shareholders. Copies may be obtained from the company's registered office, 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ.



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