RURELEC PLC

ANNUAL REPORT 2010

RURELEC

Rurelec PLC, the power plant development and owner operator of power generation assets in Latin America, announces final results for the year ended 31 December 2010.

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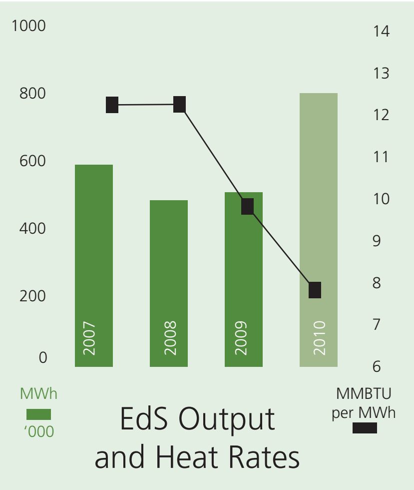


I am pleased to present my first report of the results of Rurelec PLC ("Rurelec" or the "Company") for the year-ended 31 December 2010. As shareholders are already aware, it has been an eventful period since the end of the financial year on which my predecessor made his report.

The profit for the financial year under review is £16.4 million. This figure includes a one off gain of £15.1 million and a notional compensation level that corresponds to the audited book value of Rurelec's interest in Empresa Guaracachi S.A. ("Guaracachi") and which is reported as discontinued operations and includes an estimated trading profit from Guaracachi of £1.4m. As last year, the Auditors have noted that they are unable to report on this element of the Group accounts as they were unable to gain access to the necessary papers in order to form their opinion.

For the purposes of these accounts a notional compensation level of £47m, being the Company's share of the latest audited book value of Guaracachi (at 31 December 2009) prior to the expropriation of our interest, plus declared but unpaid dividends has been used as a proxy for the value of the claim in respect of the asset. The Directors have carefully considered the inclusion of this amount. Effectively, the ongoing business of electricity generation was expropriated and replaced by an asset of equal value being an international right to the market value of that business prior to any threat of expropriation. The Directors do, however, note that this figure does not reflect the full fair market value that Rurelec and its subsidiary Guaracachi America Inc ("Guaracachi America") are entitled to claim (and will claim) under the applicable bilateral investment treaties and international law in the pending international arbitration against Bolivia (any more than the audited book value as at 31 December 2009 reflected the market value of the operating business).

As a result of the expropriation of our controlling shareholding in Guaracachi, turnover during the year fell to £10.8m and is based solely on the 50 per cent. equity interest in Energia del Sur S.A. ("EdS") (2009 – £36.2m). I am pleased to say that we did see operating profits return at £0.6m, following the initiation of the Resolution 220 power purchase contract late in the third quarter, against last year's loss of £1.3m. The loss after tax on continuing operations was £0.1m (2009 – loss of £2.9m).

At the operating level in Argentina, and therefore based on 100% of EdS's activities, EdS's revenues increased to £21.7m (AR$131) million this year (2009 – £10.5m/AR$63 million). Gross operating profit also increased substantially, to £7.7m (AR$48 million) (2009 – £1.7m/AR$11 million). The overall improvement at EdS is significant as it reports a loss after tax of £106k/AR$640k (2009 – loss of £4.9m/AR$30.2).

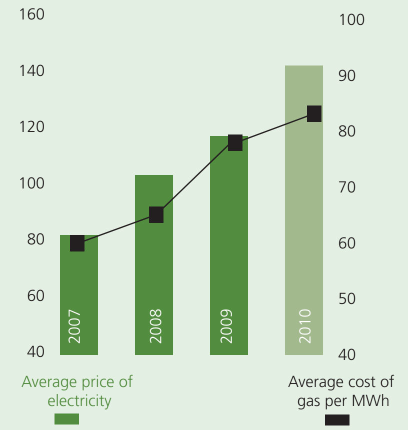
As a result of the support of shareholders and Sterling Trust in particular, the share issue in March this year went ahead as described in the circular dated 11 March 2011 and the Group is now virtually debt free, with only £1.6m of non-shareholder debt at the operating company level. Rurelec is now the primary lender to EdS and is in the process of restructuring the debt in order to accelerate payments back to London. Indeed since the capital increase closed, Rurelec has received a capital repayment of US$2m from EdS.

Progress towards obtaining compensation for the nationalisation of our assets in Bolivia is slower than we would wish. Whilst President Morales's May day Supreme Decree provided that compensation for the nationalisation of Guaracachi's shares would be established within 120 days, neither payment nor a compensation offer have been made within the stipulated timeframe, nor subsequently. We are therefore pursuing with all vigour the international arbitration claim that we and our US subsidiary initiated against the Government of Bolivia. The costs of the legal case will be met from internal resources.

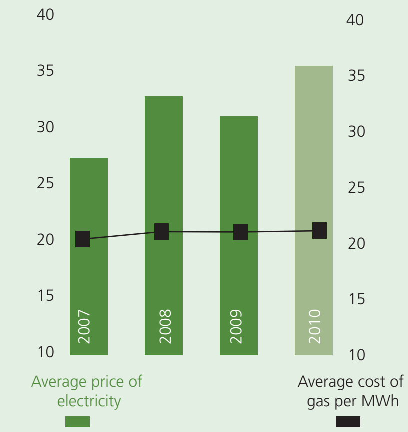
During the year we said goodbye to Mr Jimmy West and Sir Robin Christopher, and more recently to Mr Mike Eyre. Their contributions to the Company have been important and I wish them all well for the future. I extend a warm welcome to Larry Coben, who joined the Board recently. Larry has extensive experience in Latin America and I am looking forward to working with him to achieve our goals.

For Rurelec, now that we see a stable future for our investment in Argentina, we intend to return to our stated objectives of seeking to develop power generation assets or businesses in the Southern Cone of South America and we will consider the possibility of returning money to shareholders in due course by means of a special dividend once the arbitration against Bolivia is settled.

Andrew Morris
Chairman
7 June 2011



EdS AR$ price/gas cost per MWh



EdS US$ price/gas cost per MWh

As anticipated in my last review, our operations in Argentina have improved their operational and financial performance. The cost per MWh shows the benefit of combined cycle operations with the average heat rate falling once again as the steam turbine was in service for the full year. The promised financial improvement is not quite so evident in the final results for the year since the new power purchase contract under Resolution 220 did not start until the very end of the third quarter 2010 and inflation in Argentina has continued to run high.

Gross energy output at EdS was just under 809 GWh (2009 – 517 GWh), rising substantially with a full year of operating in combined cycle and the addition of auxiliary firing in the last quarter as the Resolution 220 contract came into force. The cost of gas in AR$ increased by over 20% in 2010. However, more efficient use of the gas consumed allowed EdS to reduce the increase in the gas cost per MWh of electricity generated to just over 6% and so the efficiency improvements of the CCGT conversion may clearly be seen.

The real disappointment in Argentina was the fact that EdS was unable to refinance its construction finance as anticipated. Bank debt in Argentina is still very difficult to find, with banks wishing to hold back on any commitment until the new Resolution 220 contract was tested commercially. The Directors examined the possibility of raising debt from overseas funds based outside Argentina. However, the rate required by the funds that expressed a willingness to lend together with the complexities of the Argentine foreign exchange regulations resulted in a costly proposal being rejected by our partners in EdS. This meant that the strain on Rurelec's cashflow continued into the beginning of 2011 since the expected 2010 year-end return of funds loaned to EdS did not materialise.

When the opportunity to acquire the senior debt of EdS arose in March 2011, even though this would mean considerable dilution for existing shareholders, the Board felt that it was in shareholders' interests to do so. Control of the senior debt would allow Rurelec to restructure repayments to allow Rurelec, along with its partner Basic Energy, to receive timely payments of principal and interest.

In addition to the financing delays in Argentina, the Bolivian Government's nationalisation of Guaracachi on 1 May meant that 2010 was the most challenging year in Rurelec's history.

Since May Day 2010, my colleagues and I have tried to engage with the Bolivian Government to secure a negotiated settlement to the expropriation of Rurelec's investments in Guaracachi as well as the release of two dual fuel motors directly owned by Rurelec's Energais subsidiary. In spite of attending a number of meetings with representatives of the Bolivian Government in La Paz and Santa Cruz, no settlement offer has been tabled by Bolivia.

Given this lack of progress, Rurelec has exercised its rights under Bolivia's bilateral investment treaties with the United Kingdom and the United States (the "Treaties"). to seek full compensation for the value of its expropriated Bolivian assets through international arbitration proceedings under the arbitration rules of the United Nations Commission on International Trade Law. The arbitral tribunal that will adjudicate Rurelec's and its subsidiary's claims against Bolivia is in the process of being constituted (with two out of the three arbitrators having been appointed at the time of writing) and the legal process will progress throughout the remainder of 2011, assuming no settlement is reached with the Bolivian Government before then.

The profit for the 2010 financial year has been calculated taking into account a notional compensation level for the nationalisation of US$75.0 million which corresponds to the audited book value of Rurelec's interest in Guaracachi together with the US$5.5 million of declared but unpaid dividends owed to Rurelec. This calculation, however, is based on accounting principles only and is significantly inferior to the fair market value of Rurelec's expropriated investments in Guaracachi that Rurelec is entitled to and will claim under the Treaties and international law in the pending international arbitration. Past experience shows that Bolivia prefers to settle arbitration claims in advance rather than risk a higher pay out enforced by an international tribunal.

The Bolivian electricity sector has suffered over the last twelve months since nationalisation. On May Day 2011 governmental authorities warned the Bolivian people that they could expect an imminent round of blackouts in the approaching winter. The Central Bank of Bolivia in the last month has made a loan of US$160.0 million available to ENDE, the state electricity company, to finance 160 MW of new emergency power generation capacity. This is in marked contrast to the period between 2006 and 2010 when Rurelec developed, financed and installed 185 MW of new capacity at a cost before interest of US$90.0 million which it financed using locally issued bank debt and highly rated bonds together with a project loan from CAF. During that time Bolivia could boast the highest GDP growth in Latin America as the only country on the continent not to have suffered from power shortages due to lack of generation capacity.

In spite of the problems encountered during 2010, Rurelec is now able to move ahead and return to its business as a result of the substantial fundraising completed in April this year. The support which we have received from our shareholders over the last year has been extraordinary and the latest capital increase is a transformational event. While shareholders may still have to wait to see fair compensation for their expropriated assets, the Directors will be able to work to increase the value of the Company through developing the business through optimisation and acquisition.

Peter Earl
Chief Executive
07 June 2011

DIRECTORS' REPORT

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is a holding company for its regional subsidiaries and associated companies which engage in the acquisition and development of power generation assets in markets in Latin America. In addition, and as opportunities arise, the Company acquires, refurbishes and sells power generation equipment to third parties.

Since the Company's admission to AIM in August 2004, the Company has acquired interests in power generation operations in Bolivia and Argentina.

In October 2004, the Company acquired 100% of the equity of Energia para Sistemas Aislados S.A. ("Energais"), a company incorporated in Bolivia.

In July 2005, the Company acquired 50% of the equity of Patagonia Energy Limited ("PEL"), which owns and operates, through its wholly owned subsidiary Energia del Sur S.A., ("EdS"), generating plant supplying electricity in southern Patagonia, Argentina. In June 2008, the Company acquired the remaining 50% of PEL. In June 2009, as part of the process of raising additional equity, the Company sold back 50% of PEL to the former 50% owner of PEL.

In January 2006, the Company, through its acquisition of Bolivia Integrated Energy Limited ("BIE"), acquired a controlling interest (50.00125%) in Empresa Electrica Guaracachi S.A. ("Guaracachi") which owns and operates generating plant supplying electricity in Bolivia. As explained more fully in the Chairman's Statement and the Chief Executive's review of operations, on 1 May 2010 the Government of Bolivia announced a compulsory purchase of the Group's interest in Guaracachi.

On 1 May 2010, the Bolivian Government nationalised the Group's interest in Guaracachi by expropriating the shares held by the Group. On 13 May 2010, The Group initiated the process to recover adequate compensation for the Nationalisation under each of the US and UK bilateral investment treaties by notifying the relevant governmental authorities that an investment dispute had arisen. As announced on 1 December 2010, the Notice of Arbitration has being issued and the arbitration process is continuing.

A detailed review of the business and future developments is provided in the Chairman's Statement. Further details of the Group's operational activities are set out in the Chief Executive's review of operations.

The principal risks and uncertainties facing the Group, apart from the efficient operation of the Group's generating plant and possible changes in demand and pricing for electricity in the markets in South America in which the Group operates, relate to political risk and the current uncertainties in the financial markets.

a) Political risk – as evidenced by the decision in May 2010 by the Government of Bolivia to nationalise the Group's interest in Guaracachi, there exists significant political risk in areas in which the Group operates.

b) Financial markets – the current economic conditions have affected the markets for project finance. If these conditions continue for a prolonged period, the Group may experience difficulties in raising funds to refinance its assets and to finance future development plans.

RESULTS AND DIVIDENDS

The Group results for the year ended 31 December 2010 are set out in the Consolidated Statement of Comprehensive Income.

No dividend was paid during the year to 31 December 2010 (2009 – nil).

SHARE CAPITAL

Details of the issued share capital together with changes during the year and since the year end are set out in notes 22 and 33.

GOING CONCERN

As set out in note 1b to the financial statements, the Directors have continued to adopt the 'going concern' basis for the preparation of the financial statements since the Directors consider that the Company and the Group will have sufficient financial resources available to continue trading for at least 12 months from the date of approval of the financial statements.

Since the year-end, the Company has raised, before expenses, £18.0m of new equity of which £16.5m has been used to repay the Group's borrowings such that as at today's date, the Group's borrowings amount to £1.6m. This debt reduction, together with the improved operating performance of EdS, the Group's joint venture company, is expected to provide the Company and the Group with adequate resources for the foreseeable future, including the cost of the arbitration against the Government of Bolivia. With regards to the nationalisation of the Group's interest in Guaracachi, there remains uncertainty as to quantum and timing of receipt of funds until the arbitration process has been completed or negotiations with the Bolivian Government are concluded.

KEY PERFORMANCE INDICATORS

The Directors use a range of performance indicators to monitor progress in the delivery of the Group's strategic objectives, to assess actual performance against targets and to aid management of the businesses.

Rurelec's key performance indicators ("KPIs") include both financial and non-financial targets which are set annually.

FINANCIAL KPIs

Financial KPIs address operating profitability, net asset value and earnings per share.

i) Operating profitability

Operating profit excludes all non-operating costs, such as financing and tax expenses as well as one-off items and non-trading items such as negative goodwill. The exclusion of these non-operating items provides an indication of the performance of the underlying businesses.

ii) Net asset value

Net asset value is calculated by dividing funds attributable to Rurelec's shareholders by the number of shares in issue.

iii) Earnings per share

Earnings per share provides a measure of the overall profitability of the Group. It is defined as the profit or loss attributable to each Ordinary Share based on the consolidated profit or loss for the year after deducting tax and minority interests. Growth in earnings per share is indicative of the Group's ability to identify and add value.

NON-FINANCIAL KPIs

Non-financial KPIs address other important technical aspects of the business, such as gross capacity, operating efficiency and availability.

i) Gross capacity

Gross capacity is the total generation capacity owned by Group companies and is affected by acquisitions, expansion programmes and disposals.

ii) Operating efficiency

Operating efficiency is the average operating efficiency of the generating plant owned by Group companies. It can be improved through the installation of more thermally efficient turbines, refurbishment activities or through conversion to combined cycle operation.

iii) Technical availability

Technical availability measures when a plant is available for dispatch. The measurement method excludes time allowed for planned maintenance activities which occur at regular intervals during the life of the unit plus an allowance for unplanned outages. Unplanned and forced outages in excess of the annual allowance will cause a reduction in the technical availability factor.

DIRECTORS

The following directors served during the year:

Andrew Morris – Chairman and Non-Executive Director

Andrew was appointed Chairman of the Board 14 June 2010 and he is also Chairman of the Audit and Nominations' committees. Andrew is currently the Finance and Business Development Director of Advanced Plasma Power Limited where he was instrumental in raising corporate investment into the business as well as successfully negotiating the associated international licence into restricted territories to develop plants using the company's technology. He has also been responsible for leading a number of negotiations and teams for business development to further enhance operations and is fully conversant with all aspects of financial control and reporting. Andrew is a Fellow of the Chartered Association of Certified Accountants.

Peter Earl – Chief Executive

Peter began his career at the Boston Consulting Group Inc. advising state-owned companies. In 1994 he acted on secondment to the World Bank and UNDP in Bolivia. He has advised governments on privatisations in Latin America and Eastern Europe having served as Deputy Chairman for the United Nations Economic Commission for Europe infrastructure finance group. He became a director of Fieldstone Private Capital Group in London in 1994, where he advised on cross-border power sector acquisitions and bids totalling approximately US$6 billion, involving 5,000 MW of installed generating capacity. In 1995 he founded Independent Power Corporation PLC ("IPC") and is also a director of IPSA Group PLC. He is an Oxford University graduate and was a Kennedy Scholar at Harvard University.

Elizabeth Shaw – Finance Director

Elizabeth has been involved in the electricity sector since 1994 when she joined Fieldstone Private Capital Group. Between 1994 and 2000, as a director of Fieldstone, she advised on a number of mergers, acquisitions and disposals in the electricity industry, both in the UK and in developing markets. She joined IPC as a director in 2000 where she is responsible for business development and finance. She is also a director of IPSA Group PLC. She is a graduate of Exeter University.

Marcelo Blanco – Regional Director of Finance

Marcelo was, until 1 May 2010, finance director of Guaracachi and was appointed to the Company's Board in October 2008. Marcelo graduated from Green Mountain College in the United States and subsequently gained an MBA from the University of Belgrano in Argentina. He has extensive financial advisory experience and has also held appointments in the Bolivian Embassy in Argentina and as a consultant to the World Bank and the United Nations Development programme. Over the last 11 years, Marcelo has focussed on the energy sector, including a two year appointment as Vice Minister of Electricity and Alternative Energies at the Bolivian Ministry of Public Works before being re-appointed as Finance Director at Guaracachi in 2004.

Larry Coben – Non-Executive Director – appointed 1 May 2011

Larry has extensive experience in the international electricity sector, particularly in Latin America. He was a founder of Catalyst Energy Corporation, which focused on alternative energy technologies. In the early 1990's he founded and managed Liberty Power Corp. Currently Chairman and CEO of Tremesis Energy LLC, he is also a director of NRG Energy and serves as executive director of the Sustainable Preservation Initiative, a not-for-profit organisation that preserves cultural heritage worldwide through locally-based and owned economic development. Larry received a BA in economics from Yale University and a J.D. from Harvard Law School before going on to an MA in Anthropology from the University of Pennsylvania where he expects to gain his PhD in December 2011. Larry is chairman of the Remuneration Committee.

James West – Chairman and Non-Executive Director – resigned 14 June 2010

Jimmy was formerly Managing Director of Globe Investment Trust plc and later Chief Executive of Lazard Asset Management and a Managing Director of Lazard Brothers & Co Ltd, where he held full responsibility for the bank's investment operations. He is now Chairman of Gartmore Fledgling Trust plc, Cannacord Genuity Ltd and New City High Yield Fund Ltd and a non-executive Director of a number of companies including British Assets Trust plc. He was also a director of IPSA Group PLC. As well as being Chairman of the Company, he was also Chairman of the Remuneration and Nominations' committees.

Mike Eyre – Technical Director – resigned on 5 April 2011

Mike is both a Chartered and European Engineer with over 33 years experience in project management and development in the power sector. As a CEGB engineer, Mike spent part of his early career on secondment to Eskom of South Africa. During the Privatisation of the UK electricity industry, he was Head of Engineering Quality with National Power. In 1996, he established a joint venture between National Power Plc and Lloyd's Register, a project development and risk management business for IPP's and the London Insurance industry. Mike was invited in 1997 by the UN Secretary General of the Rio Earth Summit to join the UN Emissions Trading Policy Forum. He is also a director of IPSA Group PLC.

Sir Robin Christopher KBE CMG – Non-Executive Director – resigned on 23 February 2011

Sir Robin was a VSO volunteer in Bolivia in 1963/4 and British Ambassador to Argentina from 2000 to 2004. He is Secretary General of GLF Global Leadership Foundation. He is a trustee for The Brooke Hospital, Prospect Burma and St. Matthew's Children Fund (Ethiopia). He is also an Hon. Fellow of the Institute for the Study of the Americas (ISA) at London University.

DIRECTORS' INTERESTS

The directors' beneficial interests in the shares of the Company were on the reference dates as stated below:

	24 May 2011	31 December 2010	31 December 2009
A J S Morris	100,000	100,000	0
J G West	n/a	2,370,230	2,370,230
Sir D R C Christopher	n/a	33,333	33,333
L S Coben	500,000	n/a	n/a
P R S Earl[1]	250,000	250,000	30,944,486
J M Eyre	n/a	250,000	250,000
E R Shaw	275,000	275,000	275,000

[1] P R S Earl's interest in the shares of the Company at 31 December 2009 included his personal holding, his former wife's holding and the holding of IPC. IPC was controlled by P R S Earl until 17 June 2010. P R S Earl and E R Shaw are directors of IPC.

SIGNIFICANT SHAREHOLDINGS IN THE COMPANY

In addition to the shareholdings shown above, the Company is aware of the following interests of 3% or more in the issued ordinary share capital of the Company notifiable at 24 May 2011, being the last practicable date for reporting this information.

	Number of shares	% holding
Sterling Trust Ltd*	210,361,181	50.01%
Nortrust Nominees Ltd	60,702,400	14.43%
HSBC Global Custody (Nominee) (UK) Ltd	35,412,666	8.42%
Lynchwood Nominees Ltd	24,530,800	5.83%

* 26,325,962 shares are held in a nominee account with Forest Nominees Ltd.

POLICY AND PRACTICE ON PAYMENT OF SUPPLIERS

It is the policy of all Group companies, with respect to suppliers, to: a) settle payment terms when agreeing the terms of each transaction, b) ensure suppliers are made aware of the terms of payment and c) pay in accordance with the contractual and legal obligations. The Company's average creditor payment period at 31 December 2010 was 45 days (2009 – 50 days).

RISK MANAGEMENT AND OBJECTIVES

The financial risk management policies and objectives are set out in note 29.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AUDITORS

The auditors, Grant Thornton UK LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

On behalf of the Board

Susan Laker
Company Secretary
7 June 2011

POLICY STATEMENT

The Board is committed to applying high standards of corporate governance and integrity to all activities. The Company is not required by the rules of the AIM market of the London Stock Exchange to comply with the Combined Code on Corporate Governance (June 2008) (the “Code”). However the Board is accountable to the Company’s shareholders for good corporate governance and therefore seeks to comply with the Code in so far as is practicable as a smaller company.

INTERNAL CONTROLS

The Directors are responsible for the Group’s systems of internal control. Whilst no risk management process or systems of internal control can completely eliminate the risk of material misstatement or loss, the Group’s systems are designed to provide the Directors with reasonable assurance that problems are identified in a timely manner and dealt with appropriately. The Board considers that there have been no substantial weaknesses in financial controls resulting in material loss, contingencies or uncertainties and thus disclosable in the accounts. The Board has considered the need for an internal audit function and has concluded that there is no current need for such a function.

THE BOARD OF DIRECTORS

The Board, comprising a non-executive Chairman, three executive Directors and one non-executive Director is responsible for the overall direction and management of the Company as well as approving major capital expenditure, potential acquisitions and financial matters. The Board meets regularly and has a schedule of business reserved to it including raising new capital, entering into financing facilities for projects, treasury policies and approval of annual operating budgets and monitoring of key risks. The Board met 7 times during 2010. External advice is available to the Directors if they consider it necessary.

The Chairman of the Board is Andrew Morris, who is also an executive director of another company. The other non-executive Director is Larry Coben. Both are regarded by the Board as independent in character and judgement.

The executive Directors are Peter Earl, who is Chief Executive, Elizabeth Shaw, who is Finance Director and Marcelo Blanco, who has special responsibility for regional financing in Latin America. All Directors are involved in significant decisions.

SHAREHOLDER RELATIONS

The Group values the views of its shareholders and recognises their interest in the Group’s strategy and performance, Board membership and quality of management. It therefore holds regular meetings with and gives presentations to its institutional shareholders to discuss objectives.

The Annual General Meeting ("AGM") is used to communicate with private investors with whom dialogue is encouraged. Additional information is supplied through the circulation of the interim report and the Annual Report and Accounts. The Company maintains up to date information on the investor section of its website www.rurelec.com.

AUDIT COMMITTEE

The Audit Committee comprises Andrew Morris and Larry Coben who are both Non-Executive Directors and is chaired by Andrew Morris.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Larry Coben and Andrew Morris and is chaired by Larry Coben. The Remuneration Committee reviews the remuneration policy for the Executive Directors and for senior management. The Executive Directors determine the remuneration arrangements for the Non-executive Directors. No Director may participate in decisions regarding his own remuneration.

APPOINTMENT OF DIRECTORS

The Nomination Committee presently comprises Andrew Morris as Chairman and Larry Coben. The Committee is responsible for monitoring the composition of the Board and meets to make recommendations to the Board on all new Board appointments and succession planning. The Board has not used external consultants in the appointment of directors

HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION POLICY

The Group is committed to compliance with all relevant laws and regulations and continues to assess its operations to ensure protection of the environment, the community and the health and safety of its employees. The Group maintains appropriate procedures to ensure that all activities are carried out in compliance with safety regulations, in a culture where the safety of personnel is paramount and which recognises environmental sustainability and respect for cultural and heritage issues.

STATEMENT OF NON-COMPLIANCE

The non-executive Directors are all considered to be independent in character and judgement. However, in view of the size of the board Andrew Morris currently chairs the Audit Committee as he has recent relevant financial experience although the Company recognises that it is not able to comply with the Code in this respect.

Susan Laker
Company Secretary
07 June 2011

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF RURELEC PLC

We were engaged to audit the group financial statements of Rurelec PLC for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out in the Group Directors' Report, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

BASIS FOR DISCLAIMER OF OPINION ON CONSOLIDATED FINANCIAL STATEMENTS

Whilst we have been able to conduct appropriate audit procedures on Rurelec PLC as a standalone company and its joint venture company, Energia Del Sur S.A. ("EdS"), we were unable to carry out sufficient audit procedures or obtain sufficient audit evidence in relation to the financial results of Empresa Electrica Guaracachi S. A. ("Guaracachi") that have been consolidated into the Group financial statements in 2009 and four months to 1 May 2010. The audit evidence available to us was limited following the nationalisation of Guaracachi in May 2010 and the resulting change in local management. As a result of this we have been unable to access the auditors' working papers relating to Guaracachi, nor have we been able to conduct appropriate alternative audit procedures, such as reviewing primary documentation prepared by Guaracachi for the prior and current year. Therefore we have not obtained sufficient, appropriate audit evidence concerning the financial position of Guaracachi and consequently the consolidated financial position of Rurelec plc.

DISCLAIMER OF OPINION ON CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matter described in the Basis for Disclaimer of Opinion on Consolidated Financial Statements paragraph we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the consolidated financial statements.

EMPHASIS OF MATTER – DISCONTINUED OPERATIONS

We draw attention to the disclosure made in note 12 to the consolidated financial statements regarding the uncertain outcome of the parent company's ability to recover the compensation of £47m for the Nationalisation of Guaracachi America Inc.. The ultimate outcome of this matter cannot presently be determined, and no provision for any adjustments that would result from a non-satisfactory settlement of the compensation has been made.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

Notwithstanding our disclaimer of an opinion on the view given by the group financial statements, in our opinion the information given in the Group Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Arising from the limitation on our work referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made.

OTHER MATTER

We have reported separately on the parent company financial statements of Rurelec PLC for the year ended 31 December 2010. That report includes an emphasis of matter.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
7 June 2011

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF RURELEC PLC

We have audited the parent company financial statements of Rurelec PLC for the year ended 31 December 2010 which comprise the parent company statement of financial position, the parent company statement of cash flows, the parent company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out in the Group Directors' Report, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

EMPHASIS OF MATTER – DISCONTINUED OPERATIONS

In forming our opinion on the parent company financial statements, which is not modified, we have considered the disclosure made in note 12 to the consolidated financial statements regarding the uncertain outcome of the parent company's ability to recover compensation of £47m for the Nationalisation of Guaracachi America Inc.. This will have an effect on the repayment of the inter-company loan of £20.6m in note 17C of the consolidated financial statement. The ultimate outcome of this matter cannot presently be determined, and no provision for any adjustments that would result from a non-satisfactory settlement of the compensation has been made.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Group Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the group financial statements of Rurelec PLC for the year ended 31 December 2010. That report is modified by a Disclaimer of Opinion.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
7 June 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Revenue	4	**10,835**	**36,164**
Cost of sales	6	(6,981)	(31,692)
Gross profit		**3,854**	**4,472**
Administrative expenses	7	(3,242)	(5,820)
Operating profit/(loss)		**612**	**(1,348)**
Other income	9	-	3,418
Finance income	10	631	441
Finance expense	10	(1,098)	(3,158)
Profit/(loss) before tax		**145**	**(647)**
Tax expense	11	(284)	(2,211)
Loss for the year from continuing operations		**(139)**	**(2,858)**
Discontinued operations			
Trading profit	12a	1,420	-
Other income	12b	15,111	-
Profit from discontinued operations		**16,531**	**-**
Profit/(loss) for the year		**16,392**	**(2,858)**
Attributable to:			
Owners of the parent			
Continuing operations		(139)	(2,929)
Discontinued operations		15,821	-
		15,682	**(2,929)**
Minority interests		710	71
		16,392	**(2,858)**
Earnings per share	14		
i) Results for the year			
Basic earnings per share		7.34p	(1,89p)
Diluted earnings per share		7.02p	(1.86p)
ii) Continuing operations			
Basic earnings per share		(0.06p)	(1,89p)
Diluted earnings per share		(0.06p)	(1.86p)
Other comprehensive income for the year			
Exchange differences on translation of foreign operations		(126)	(6,903)
Exchange differences on disposal of Guaracachi now realised		(2,633)	-
Revaluation of CERs		(191)	(192)
Adjustment on disposal of 50% of PEL		-	(1,575)
Total other comprehensive income		**(2,950)**	**(8,670)**
Attributable to:			
Owners of the parent		(2,950)	(5,293)
Minority interests		-	(3,377)
		(2,950)	**(8,670)**
Total comprehensive loss for year			
Attributable to:			
Owners of the parent		12,732	(8,222)
Minority interests		710	(3,306)
		13,442	**(11,528)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ending 31 December 2010

	Notes	31.12.10 £'000	31.12.09 £'000
Assets			
Non-current assets			
Property, plant and equipment	15	21,084	142,345
Intangible assets	16	3,853	4,118
Trade and other receivables	17a	10,939	7,454
Deferred tax assets	18	363	1,722
		36,239	**155,639**
Current assets			
Inventories	19	395	3,202
Trade and other receivables	17b	3,641	20,250
Compensation claim	12	47,000	-
Current tax assets	20	-	1,172
Cash and cash equivalents	21	157	4,176
		51,193	**28,800**
Total assets		**87,432**	**184,439**
Equity and liabilities			
Shareholders' equity			
Share capital	22	4,413	4,108
Share premium account		39,329	38,182
Foreign currency reserve		1,285	4,044
Other reserves		1,192	1,383
Retained earnings		20,777	5,095
Total equity attributable to shareholders of Rurelec PLC		**66,996**	**52,812**
Minority interests		-	33,810
Total equity		**66,996**	**86,622**
Non-current liabilities			
Trade and other payables	23a	470	1,064
Future tax liabilities	11	381	445
Deferred tax liabilities	18	937	2,299
Borrowings	25a	1,081	57,434
		2,869	**61,242**
Current liabilities			
Trade and other payables	23b	4,916	20,264
Current tax liabilities	24	59	1,728
Borrowings	25b	12,592	14,583
		17,567	**36,575**
Total liabilities		**20,436**	**97,817**
Total equity and liabilities		**87,432**	**184,439**

The financial statements were approved by the Board of directors on 7 June 2011 and were signed on its behalf by P Earl (Chief Executive) and E Shaw (Finance Director).

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2010

	Notes	31.12.10 £'000	31.12.09 £'000
Assets			
Non-current assets			
Investments	27	8,470	8,470
Trade and other receivables	17c	35,623	35,007
		44,093	**43,477**
Current assets			
Trade and other receivables	17d	7,443	7,731
Cash and cash equivalents	21	71	22
		7,514	**7,753**
Total assets		**51,607**	**51,230**
Equity and liabilities			
Shareholders' equity			
Share capital	22	4,413	4,108
Share premium account		39,329	38,182
Retained earnings		(923)	600
Total equity		**42,819**	**42,890**
Non-current liabilities			
Loan note	25c	-	2,500
		-	**2,500**
Current liabilities			
Trade and other payables	23c	644	333
Loan note	25c	2,500	-
Borrowings	25d	5,644	5,507
		8,788	**5,840**
Total liabilities		**8,788**	**8,340**
Total equity and liabilities		**51,607**	**51,230**

The financial statements were approved by the Board of directors on 7 June 2011 and were signed on its behalf by P Earl (Chief Executive) and E Shaw (Finance Director).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Cash flows from operating activities			
Cash generated from/(used in) operations	26	1,209	(4,101)
Interest received		-	67
Interest paid		(873)	(2,446)
Taxation paid		(369)	(1,569)
Net cash used in operating activities		**(33)**	**(8,049)**
Cash flows from investing activities			
Purchase of plant and equipment	15	(1,199)	(18,929)
Sale of plant and equipment		-	1,913
Cash in discontinued operations		(3,915)	-
Loans to joint venture company		(59)	(1,663)
Costs relating to disposal		-	(125)
Net cash used in investing activities		**(5,173)**	**(18,804)**
Net cash outflow before financing activities		**(5,206)**	**(26,853)**
Cash flows from financing activities			
Issue of shares (net of costs)		1,452	7,016
Loan drawdowns		-	21,731
Issue of loan note		-	2,500
Loan repayments		(265)	(5,249)
Net cash generated from financing activities		**1,187**	**25,998**
Decrease in cash and cash equivalents		**(4,019)**	**(855)**
Cash and cash equivalents at start of year		4,176	5,031
Cash and cash equivalents at end of year		**157**	**4,176**

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Cash flows from operating activities			
Cash used in operations	26	(881)	(1,101)
Interest paid		(399)	(161)
Net cash used in operations		**(1,280)**	**(1,262)**
Cash flows from investing activities			
Costs relating to disposal		-	(125)
Loans to joint venture company		(123)	(7,715)
Net cash (used in)/generated from investing activities		**(123)**	**(7,840)**
Net cash outflow before financing activities		**(1,403)**	**(9,102)**
Cash flows from financing activities			
Issue of shares (net of costs)		1,452	7,016
Issue of loan note		-	2,500
Loan repayments		-	(434)
Net cash generated from financing activities		**1,452**	**9,082**
Decrease in cash and cash equivalents		**49**	**(20)**
Cash and cash equivalents at start of year		22	42
Cash and cash equivalents at end of year		**71**	**22**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to equity shareholders						Minority	
	Share Capital £'000	Share premium £'000	Foreign Currency Reserve £'000	Retained earnings £'000	Other reserves £'000	Total £'000	Minority Interest £'000	Total equity £'000
Group								
Balance at 1.1.09	1,716	31,558	7,570	8,024	3,150	52,018	37,116	89,134
Transactions with owners:								
Allotment of shares	2,392	7,179	-	-	-	9,571	-	9,571
Share issue costs	-	(555)	-	-	-	(555)	-	(555)
Total transactions with owners	**2,392**	**6,624**	**-**	**-**	**-**	**9,016**	**-**	**9,016**
Loss/(profit) for year	-	-	-	(2,929)	-	(2,929)	71	(2,858)
Disposal	-	-	-	-	(1,575)	(1,575)	-	(1,575)
Revaluation of CERs	-	-	-	-	(192)	(192)	-	(192)
Exchange differences	-	-	(3,526)	-	-	(3,526)	(3,377)	(6,903)
Total comprehensive income/(loss)	**-**	**-**	**(3,526)**	**(2,929)**	**(1,767)**	**(8,222)**	**(3,306)**	**(11,528)**
Balance at 31.12.09	**4,108**	**38,182**	**4,044**	**5,095**	**1,383**	**52,812**	**33,810**	**86,622**
Balance at 1.1.10	4,108	38,182	4,044	5,095	1,383	52,812	33,810	86,622
Transactions with owners:								
Disposal	-	-	-	-	-	-	(34,520)	(34,520)
Allotment of shares	305	1,220	-	-	-	1,525	-	1,525
Share issue costs	-	(73)	-	-	-	(73)	-	(73)
Total transactions with owners	**305**	**1,147**	**-**	**-**	**-**	**1,452**	**(34,520)**	**(33,068)**
Profit for year	-	-	-	571	-	571	710	1,281
Disposal	-	-	(2,633)	15,111	-	12,478	-	12,478
Revaluation of CERs	-	-	-	-	(191)	(191)	-	(191)
Exchange differences	-	-	(126)	-	-	(126)	-	(126)
Total comprehensive income/(loss)	**-**	**-**	**(2,759)**	**15,682**	**(191)**	**12,732**	**710**	**13,442**
Balance at 31.12.10	**4,413**	**39,329**	**1,285**	**20,777**	**1,192**	**66,996**	**-**	**66,996**

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital £'000	Share Premium £'000	Retained earnings £'000	Total equity £'000
Company				
Balance at 1.1.09	1,716	31,558	(646)	32,628
Transaction with owners				
Allotment of shares	2,392	7,179	-	9,571
Share issue costs	-	(555)	-	(555)
Total transactions with owners	**2,392**	**6,624**	**-**	**9,016**
Profit for year	-	-	1,246	1,246
Total comprehensive income	**-**	**-**	**1,246**	**1,246**
Balance at 31.12.09	**4,108**	**38,182**	**600**	**42,890**
Balance at 1.1.10	4,108	38,182	600	42,890
Transaction with owners				
Allotment of shares	305	1,220	-	1,525
Share issue costs	-	(73)	-	(73)
Total transactions with owners	**305**	**1,147**	**-**	**1,452**
Loss for year	-	-	(1,523)	(1,523)
Total comprehensive loss	**-**	**-**	**(1,523)**	**(1,523)**
Balance at 31.12.10	**4,413**	**39,329**	**(923)**	**42,819**

1 GENERAL INFORMATION, BASIS OF PREPARATION AND NEW ACCOUNTING STANDARDS

1a General information

Rurelec PLC is the Group's ultimate parent company. It is incorporated and domiciled in England and Wales. The address of Rurelec's registered office is given on the information page. Rurelec's shares are traded on the AIM market of the London Stock Exchange PLC. The nature of the Group's operations and its principal activities are the generation of electricity in South America.

1b Basis of preparation, including going concern

The Company and the consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union and company law applicable to companies reporting as at 31 December 2010.

The results of Guaracachi, which were consolidated in prior years, have been shown as discontinued operations in the Consolidated Statement of Comprehensive Income.

A detailed review of the Group's business activities and recent developments is set out in the Chairman's Statement and the Chief Executive's Report.

On 31 March 2011, the Company issued 200m new ordinary shares of 2p each raising £16.0m after expenses and capitalising £1.7m of company indebtedness. £15.0m of these funds were used to repay all but £1.6m of the Group's borrowings, including the loan by Standard Bank to Energia del Sur S.A. ("EdS"), leaving £1.0m available for working capital.

These funds, together with the improved trading performance of EdS, mean that the directors consider that the Company and the Group has sufficient working capital for at least the next 12 months and accordingly, the directors continue to adopt the going concern basis in preparing these financial statements.

1c New accounting standards

The Group has adopted the following new interpretations, revisions and amendments to IFRSs issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 January 2010:

- IAS 1 Presentation of Financial Statements (Revised 2007)
- Amendments to IFRS 7 Financial Instruments: Disclosures – improved disclosures about financial instruments
- IFRS 8 Operating Segments

The adoption of IAS 1 Presentation of Financial Statements (Revised 2007) requires, in some circumstances, presentation of a comparative balance sheet at the beginning of the first comparative period. Management considers that this is not required in these financial statements as the 31 December 2007 balance sheet is the same as that previously published.

The following new standards, amendments and interpretations are effective for the first time in these financial statements but none have had a material effect on the group:

- IAS27 (revised) Consolidated Financial Statements
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- IFRIC 17 Distributions of Non-cash Assets to Owners
- Revised IFRS 1 First-time Adoption of international Financial Reporting Standards
- IFRIC 18 Transfer of Assets from Customers
- Improvements to IFRSs (2009)
- Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)
- Additional Exemptions for First-time Adopters (Amendments to IFRS 1)

New standards and interpretations currently in issue but not effective for accounting periods commencing on 1 January 2010 are:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- Amendment to IAS 32 Classification of Rights Issues* (effective 1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14* (effective 1 January 2011)
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7* (effective 1 July 2011)
- Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes* (effective 1 January 2012)

The Directors do not anticipate that the adoption of these standards and interpretations in future periods will have any material impact on the financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of consolidation

The Group financial statements consolidate the results of the Company and its 50% interest in EdS.

The results for the prior year also include the Group's 50.00125% interest in Empresa Electrica Guaracachi S.A. ("Guaracachi") which, as noted above, was nationalised by the Bolivian Government on 1 May 2010.

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Joint ventures are arrangements in which the Group has a long-term interest and shares control under a written contractual agreement. The Group reports its interests in jointly controlled entities using proportionate consolidation such that the Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line by line basis.

Goodwill, or the excess of interest in acquired assets, liabilities and contingent liabilities over cost, arising on the acquisition of the Group's interest in subsidiary or jointly controlled entities is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

Unrealised gains on transactions between the Group and subsidiary and joint venture entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiary and joint venture entities have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries and joint venture entities are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the acquired company, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the entity prior to acquisition. On initial recognition, the assets and liabilities of the acquired entity are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Investments in subsidiaries and joint ventures are stated at cost in the balance sheet of the Company.

In a business combination achieved in stages (a "step acquisition"), any revaluation of the Group's existing interest in the identifiable assets and liabilities of the company, which may arise following recognition of the fair value of the identifiable assets and liabilities of the acquired company at the most recent acquisition date, is taken directly to a revaluation reserve.

2.2 Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is stated after separating out identifiable assets and liabilities. Goodwill is carried at cost less accumulated impairment losses. Any excess of interest in acquired assets, liabilities and contingent liabilities over cost ("negative goodwill") is recognised immediately after acquisition through the income statement.

2.3 Foreign currency translation

The financial information is presented in pounds sterling, which is also the functional currency of the parent company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions ("spot exchange rate"). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of remaining balances at year-end exchange rates are recognised in the income statement in administrative expenses.

In the consolidated financial statements, all separate financial statements of subsidiary and jointly controlled entities, originally presented in a currency different from the Group's presentation currency, have been converted into sterling. Assets and liabilities have been translated into sterling at the closing rate at the balance sheet date. Income and expenses have been converted into sterling at the average rates over the reporting period. Any differences arising from this procedure have been charged/(credited) to the Foreign Currency Reserve.

2.4 Income and expense recognition

Revenue is recognised upon the performance of services or transfer of risk to the customer. Revenues represent the total amount receivable by the Group for electricity sales, excluding VAT. Electricity sales includes the income from the sale of electricity generated and the income received for keeping power plants operating and available for despatch into the grid as required. During the year under review and the prior year, no revenues were derived from the sale of equipment purchased with a view to subsequent resale.

Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin. All other income and expenses are reported on an accrual basis.

2.5 Dividends

Dividends paid/receivable are recognised on a cash paid/cash received basis. No dividends were paid or received during the year (2010 – nil).

2.6 Borrowing costs

All borrowing costs are expensed as incurred except where the costs are directly attributable to specific construction projects, in which case the interest cost is capitalised as part of those assets.

2.7 Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction.

All operational buildings and plant and equipment in the course of construction are recorded as plant under construction until such time as they are brought into use by the Group. Plant under construction includes all direct expenditure and may include capitalised interest in accordance with the accounting policy on that subject. On completion, such assets are transferred to the appropriate asset category.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations and overhauls is included in the carrying amount of the assets where it is probable that the economic life of the asset is significantly enhanced as a consequence of the work. Major renovations and overhauls are depreciated over the expected remaining useful life of the work.

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land by equal annual instalments over their estimated useful economic lives. The periods generally applicable are:

Buildings	25 to 50 years
Plant and equipment	3 to 15 years

Material residual values are updated as required, but at least annually. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

2.8 Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.9 Taxation

Current income tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement or through the statement of changes in equity.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised in respect of non-tax deductible goodwill. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided for in full with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided that they are enacted or substantially enacted at the balance sheet date.

Deferred tax is provided on differences between the fair value of assets and liabilities acquired in an acquisition and the carrying value of the assets and liabilities of the acquired entity and on the differences relating to investments in subsidiary and joint venture companies if the difference is a temporary difference and is expected to reverse in the foreseeable future.

Changes in deferred tax assets and liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

2.10 Financial assets

The Group's financial assets include cash and cash equivalents, loans and receivables.

Cash and cash equivalents include cash at bank and in hand as well as short term highly liquid investments such as bank deposits.

Loans and receivables are non-derivative financial assets with fixed or determinable payment dates that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Receivables are measured initially at fair value and subsequently re-measured at amortised cost using the effective interest method, less provision for impairment. Any impairment is recognised in the income statement.

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated cash flows.

2.11 Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All transaction costs are recognised immediately in the income statement.

A financial liability is derecognised only when the obligation is extinguished, that is when the obligation is discharged, cancelled or expires.

Bank and other loans are raised for support of long term funding of the Group's operations. They are recognised initially at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

2.12 Inventories

Inventories comprise spare parts and similar items for use in the Group's plant and equipment. Inventories are valued at the lower of cost and net realisable value on a first-in, first-out basis.

2.13 CERs

CERs (Carbon Emission Reduction credits) are recognised at fair value on acquisition of a subsidiary, associate or joint venture company and are revalued by reference to an active market at each balance sheet date. A liability is recognised in respect of any payments received for CERs in advance of their generation. CERs arising subsequent to an acquisition are credited to the revenue in the period that they are generated.

2.14 Shareholders' equity

Equity attributable to the shareholders of the parent company comprises the following:

"Share capital" represents the nominal value of equity shares.
"Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
"Foreign currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.
"Retained earnings" represents retained profits.
"Other reserves" comprises unrealised revaluations of plant and machinery and Carbon Emission Reduction credits.

2.15 Pensions

During the year under review, the Group did not operate or contribute to any pension schemes (2009 – nil).

2.16 Employee indemnity provision

This provision is determined in accordance with current legislation in Bolivia and reflects the liability accrued at the year-end.

2.17 Segment reporting

In identifying its operating segments, management follows the Group's geographic locations. The activities undertaken by segments are the generation of electricity in their country of incorporation within South America.

Each of the operating segments is managed separately as the rules and regulations vary from country to country.

The measurement policies used by the Group for segment reporting under IFRS 8 are the same as those used in the financial statements.

3 KEY ASSUMPTIONS AND ESTIMATES

When preparing the financial statement, management make a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities income and expenses. The actual results may differ from the judgements, estimates and assumptions made and will seldom equal the estimated results. The areas which management consider are likely to be most affected by the significant judgements, estimates and assumptions on recognition and measurement of assets, liabilities, income and expenses are:

a) Useful lives of depreciable assets – management reviews, with the assistance of external expert valuers, the useful lives of depreciable assets at each reporting date. Actual results, however, may vary due to changes in technology and industry practices.

b) Impairment – management reviews tangible and intangible assets at each balance sheet date to determine whether there is any indication that those assets have suffered an impairment loss. This review process includes making assumptions about future events, circumstances and operating results. The actual results may vary from those expected and could therefore cause significant adjustments to the carrying value of the Group's assets.

c) Deferred tax assets and liabilities and pre-paid VAT – there exists an element of uncertainty regarding both the timing of the reversing of timing differences and the tax rate which will be applicable when the reversing of the asset or liability occurs and also the recoverability, in Argentina, of pre-paid VAT.

d) The amount which will be recovered from the claim for compensation following the Nationalisation of the Group's interest in Guaracachi. Further details are set out in note 12b.

4 SEGMENT ANALYSIS

The Group has adopted IFRS 8 'Operating Segments' with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Board.

Management currently identifies the Group's two geographic operating segments, Argentina and Bolivia, and the head office in the UK as operating segments as further described in the accounting policy note. These operating segments are monitored and strategic decisions are made on the basis of segment operating results.

4 SEGMENT ANALYSIS (continued)

The following tables provide an analysis of the operating results, total assets and liabilities, capital expenditure and depreciation for 2010 and 2009 for each geographic segment. In both Argentina and Bolivia, the main customer (accounting for over 90% of revenues) is a body which is subject to supervision by the Government electricity regulator.

a) 12 months to 31.12.2010	Argentina £'000	Bolivia £'000	UK £'000	Consolidation Adjustments £'000	Total £'000
Revenue	10,835	-	-	-	10,835
Cost of sales	(6,981)	-	-	-	(6,981)
Gross profit	**3,854**	**-**	**-**	**-**	**3,854**
Administrative expenses	(2,345)	(50)	(1,042)	-	(3,437)
Exchange (loss)/gain	(350)	-	545	-	195
Operating profit/(loss)	**1,159**	**(50)**	**(497)**	**-**	**612**
Finance income	1,035	-	(404)	-	631
Finance expense	(474)	-	(624)	-	(1,098)
Profit/(loss) before tax	**1,720**	**(50)**	**(1,525)**	**-**	**145**
Tax credit/(expense)	(285)	-	1	-	(284)
(Loss)/profit for the year from continuing operations	**1,435**	**(50)**	**(1,524)**	**-**	**(139)**
Total assets	32,711	47,312	7,409	-	87,432
Total liabilities	18,967	1	8,788	(7,320)	20,436
Capital expenditure	1,199	-	-	-	1,199
Depreciation	618	-	-	-	618

b) 12 months to 31.12.2009	Argentina £'000	Bolivia £'000	UK £'000	Consolidation adjustments £'000	Total £'000
Revenue	7,352	28,812	-	-	36,164
Cost of sales	(6,469)	(25,223)	-	-	(31,692)
Gross profit	**883**	**3,589**	**-**	**-**	**4,472**
Administrative expenses	(1,324)	(1,854)	(957)	-	(4,135)
Exchange gain/(loss)	(1,464)	(242)	21	-	(1,685)
Operating profit/(loss)	**(1,905)**	**1,493**	**(936)**	**-**	**(1,348)**
Other income	-	1,056	1,317	1,045	3,418
Finance income	-	67	2,021	(1,647)	441
Finance expense	(2,538)	(1,111)	(1,156)	1,647	(3,158)
Profit/(loss) before tax	**(4,443)**	**1,505**	**1,246**	**1,045**	**(647)**
Tax expense	(773)	(1,438)	-	-	(2,211)
(Loss)/profit for the year	**(5,216)**	**67**	**1,246**	**1,045**	**(2,858)**
Total assets	29,486	144,036	51,230	(40,313)	184,439
Total liabilities	20,682	76,052	8,340	(7,257)	97,817
Capital expenditure	5,503	13,426	-	-	18,929
Depreciation	632	4,744	-	-	5,376

5 EXCHANGE RATE SENSITIVITY ANALYSIS

The Group's electricity generating assets are located in Argentina (2009 – Argentina and Bolivia) and as a result, the Group's reported results are affected by currency movements.

The key exchange rates applicable to the results were as follows:

	31.12.10	31.12.09
i) Closing rate		
Boliviano to £	n/a	11.42
AR $ to £	6.15	6.09
US $ to £	1.55	1.59
ii) Average rate		
Boliviano to £	n/a	11.22
AR $ to £	6.06	5.86
US $ to £	1.55	1.57

If the exchange rate of sterling at 31 December 2010 had been stronger or weaker by 10% with all other variables held constant, shareholder equity at 31 December 2010 would have been £1.4m (2009 – £7.3m) lower or higher than reported.

If the average exchange rate of sterling during 2010 had been stronger or weaker by 10% with all other variables held constant, the profit for the year, would have been £1.4m (2009 – £0.5m) higher or lower than reported.

6 COST OF SALES

	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Expenditure incurred in cost of sales is as follows:		
Cost of fuel	5,950	19,616
Transmission fees	-	3,043
Depreciation	631	5,376
Maintenance	365	1,142
Other	35	2,515
	6,981	**31,692**

7 ADMINISTRATIVE EXPENSES

	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Expenditure incurred in administrative expenses is as follows:		
Payroll and social security	1,553	1,818
Services, legal and professional	843	1,002
Office costs and general overheads	986	1,228
Audit and non-audit services	55	87
	3,437	**4,135**
Exchange (gains)/losses	(195)	1,685
	3,242	**5,820**

Audit and non-audit services include £30k paid to the auditors for the audit of the Company and the Group financial statements and £5k paid to the Company's auditors for non-audit professional services provided to the Company in connection with the review of overseas activities. Fees paid to other auditors, in respect of the audit of joint venture companies (2009 – joint venture and subsidiary companies), amounted to £20k (2009 – £38k).

8 EMPLOYEE COSTS

a) Group	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Aggregate remuneration of all employees and directors, including social security costs	1,553	2,627

The average number of employees in the Group, including directors, during the year was as follows:

Management	14	17
Operations	19	87
Total	**33**	**104**

b) Company	£'000	£'000
Aggregate remuneration of all employees and directors, including social security costs	380	373

The average number of employees in the Company, including directors, during year was as follows:

Management	7	7

8 EMPLOYEE COSTS (continued)

c) Directors remuneration

The total remuneration paid to the directors, excluding social security costs, was £275k (2009 – £284k). The total remuneration of the highest paid director was £61k (2009 – £57k).

	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
P Earl	53	57
M Eyre	61	57
E Shaw	61	57
J West	21	44
Sir R Christopher	18	16
A Morris	40	8
M Blanco	21	19
F Fisher	-	26
Total	**275**	**284**

9 OTHER INCOME

	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Profit on sale of 50% interest in PEL[1]	-	2,361
Profit on sale of land by Guaracachi	-	1,057
	-	**3,418**

[1] In June 2009, the Company sold 50% of its interest in PEL.

10 FINANCE INCOME AND EXPENSE

	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Interest received on bank deposits	-	67
Inter-group interest[1]	631	374
	631	**441**
Interest paid/payable on bank borrowings and loans	1,098	2,354
Imputed interest on loans	-	182
Interest accrued on deferred consideration[2]	-	622
	1,098	**3,158**

[1] Inter-group interest arises on loans by the Company to its 50% owned joint venture (PEL). The loans by the Company to PEL exceed the loans of the other 50% shareholder. The credit in the current year represents a one-off adjustment arising from a waiver of interest payable by PEL to the Company.

Sensitivity analysis arising from changes in borrowing costs is set out in note 25.

11 TAX EXPENSE

The relationship between the expected tax expense at the basic rate of 28% (31 December 2009 – 28%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	Year ended 31.12.10 £000	**Year ended 31.12.09 £'000**
Result for the year before tax	145	(647)
Standard rate of corporation tax in UK	28%	28%
Expected tax charge/(credit)	41	(181)
Adjustment for different basis of calculating overseas tax[1]	38	1,020
UK losses carried forwards	426	-
Adjustment in respect of prior year	(221)	-
Overseas losses carried forwards	-	843
Tax adjustment in Argentina[2]	-	529
Actual tax expense	**284**	**2,211**
Comprising:		
Current tax expense	284	2,877
Deferred tax net credit	-	(666)
Total expense	**284**	**2,211**

[1] In Argentina and Bolivia, companies are required to pay a transaction tax which is levied on turnover. This tax is treated as a credit towards tax payable on trading profits but no refund is given in the event that the transaction tax paid exceeds the profit tax liability.

[2] The tax adjustment in Argentina in 2009 relates to an agreement reached with the tax authorities in 2009 in respect of a claim for tax on the capitalisation of a loan in earlier years before the Group had an interest in EdS which has been deemed taxable by the tax authorities. The tax is payable in equal quarterly instalments with the final instalment due in August 2019. The liability outstanding at 31 December 2010 was £440k (31 December 2009 – £445k).

12 DISCONTINUED OPERATIONS

On 1 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 May Day 2010 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 1 May (the "Decree"). On 13 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 1 December 2010, the Notice of Arbitration has being issued and the arbitration process is continuing.

a) Trading profit
In accordance with IFRS 5, the results of Guaracachi during the period from 1 January to 30 April, which are based on Guaracachi's management accounts for the period from 1 January 2010 to 28 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, the directors are unable to verify these amounts.

The amount of £1.4m represents 100% of the estimated trading profit, of which 50% is attributable to minorities.

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 £47.0m 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 £47.0m 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.

	£'000
Compensation as described above	47,000
Deduct: net assets consolidated in the Group's financial statements at 31 December 2009 (note 28)	(33,812)
Add: cumulative foreign currency adjustments at 31 December 2009	2,633
	15,821
Deduct: Group's share of trading profit in current period	(710)
Other income	**15,111**

13 HOLDING COMPANY'S RESULT FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, the holding company's income statement is not shown separately in the financial statements. The loss for the year was £1.5m (2009 – profit £1.2m).

14 EARNINGS PER SHARE

Basic loss per share is calculated by dividing the loss for the period attributable to shareholders by the weighted average number of shares in issue during the period. For diluted loss per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential ordinary shares.

	Year ended 31.12.10	Year ended 31.12.09
Average number of shares in issue	213,520,135	154,978,754
i) Results for the year	£15.7m	£(2.9m)
Profit/(loss) attributable to equity holders of the parent		
Basic earnings per share	7.34p	(1.89p)
Diluted earnings per share	7.02p	(1.86p)
ii) Continuing operations		
Loss attributable to equity holders	£(0.1m)	£(2.9m)
of the parent from continuing operations		
Basic earnings per share	(0.06p)	(1.89p)
Diluted earnings per share	(0.06p)	(1.86p)

15 PROPERTY, PLANT AND EQUIPMENT

a) Group	Land £'000	Plant and equipment £'000	Plant under construction £'000	Total £'000
Cost at 1 January 2009	**6,167**	**96,082**	**77,363**	**179,612**
Disposal of 50% of PEL	(97)	(4,217)	(16,857)	(21,171)
Exchange adjustments	(577)	(9,466)	(9,898)	(19,941)
Additions	-	2,847	16,082	18,929
Re-classification	-	17,907	(17,907)	-
Disposals	(857)	-	-	(857)
Cost at 31.12.09	**4,636**	**103,153**	**48,783**	**156,572**
Disposal of Guaracachi	(4,530)	(81,078)	(48,616)	(134,224)
Exchange adjustments	(1)	(232)	-	(233)
Additions	-	1,199	-	1,199
Re-classification	-	167	(167)	-
Cost at 31.12.10	**105**	**23,209**	**-**	**23,314**
Depreciation at 1 January 2009	**-**	**11,559**	**-**	**11,559**
Disposal of 50% of PEL	-	(1,418)	-	(1,418)
Exchange adjustments	-	(1,290)	-	(1,290)
Charge for year	-	5,376	-	5,376
Depreciation at 31.12.09	**-**	**14,227**	**-**	**14,227**
Disposal of Guaracachi	-	(12,598)	-	(12,598)
Exchange adjustment	-	(17)	-	(17)
Charge for the year	-	618	-	618
Depreciation at 31.12.10	**-**	**2,230**	**-**	**2,230**
Net book value – 31.12.10	**105**	**20,979**	**-**	**21,084**
Net book value – 31.12.09	**4,636**	**88,926**	**48,783**	**142,345**

15 PROPERTY, PLANT AND EQUIPMENT (continued)

i) All property, plant and equipment is located in Argentina (2009 – Argentina and Bolivia).The value of property, plant and equipment recognised upon the initial acquisition of 50% of EdS in Argentina in 2005 was £4.2m. This amount included a negative fair value adjustment of £0.5m resulting from a professional valuation carried out at the date of the acquisition. The value of property, plant and equipment recognised upon the acquisition of the remaining 50% of EdS in June 2008 was £19.7m. This included a positive fair value adjustment of £5.0m based on the directors' estimate of the fair value of the plant under construction. Following the sale of 50% of EdS in June 2009, the fair value adjustment of £5.0m has been reduced to £2.5m.

b) Company – the Company had no property, plant and equipment.

16 INTANGIBLE ASSETS

	Goodwill £'000	CERs £'000	Total £'000
At 1 January 2009	6,335	3,000	9,335
Fair value adjustment on disposal of 50% of PEL	(3,167)	(1,500)	(4,667)
Fair value adjustment on sale of CERs	-	(550)	(550)
At 31 December 2009	3,168	950	4,118
Fair value adjustment on sale of CERs	-	(265)	(265)
At 31 December 2010	3,168	685	3,853

Goodwill represents 50% of the difference between the Group's share of the fair value of the net identifiable assets acquired and the consideration transferred on the acquisition of 50% of PEL in June 2008.

The Group tests goodwill and other intangible assets annually or more frequently if there are indications that the intangible asset might be impaired. The recoverable amounts are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the future cash flows, which are based on management projections, taking into account experience, expected revenues and operating margins, and the discount rate applied to those cash flows. The discount rate applied is 15%.

CERs (Carbon Emission Reduction credits) represent the fair value of the CERs in EdS. In June 2008, following the acquisition of the outstanding 50% of EdS, the value of the CERs was based on the Directors' estimate of the discounted value of the expected future income. During 2009, EdS entered into a contract under which EdS is required to deliver 475,000 CERs at a fixed price of €11.18 per CER during the period to 31 December 2012. In addition, EdS agreed an advanced payment, which was paid in February 2010, in respect of 172,350 CERs. The carrying value at 31 December 2010 of £685k represents 50% of the discounted value of the remaining CERs. The discount rate applied is 25% per annum.

17 TRADE AND OTHER RECEIVABLES

	31.12.10 £'000	31.12.09 £'000
17a) Group – non-current		
Trade receivables[1]	123	1,108
Amounts due from joint venture companies[2]	8,992	4,385
Other receivables and prepayments[3]	1,824	1,961
	10,939	**7,454**

[1] Non-current trade receivables includes £123k (2009 – £225k) of retentions by the Electricity Regulator in Argentina. It is expected that the retention will either be released or contributed towards ongoing capital projects.

[2] Amounts due from joint venture companies represent 50% of the excess of the amounts lent by the Company, in excess of the amounts lent by the other 50% shareholder, to PEL and credit support provided to suppliers and Standard Bank on behalf of EdS. Interest on the amounts lent to PEL has been accrued at 14% per annum.

[3] Other receivables includes £1.5m (2009 – £1.6m) of input Vat which has been paid by EdS and is recoverable as a deduction against future Vat liabilities and £0.3m (2009 – £0.3m) of future income tax paid by EdS which is expected to be recovered as an offset against future profits.

	31.12.10 £'000	31.12.09 £'000
17b) Group –current		
Trade receivables	2,801	6,023
Other receivables and prepayments[1,2,3,4]	840	14,227
	3,641	**20,250**

Major items within other receivables and prepayments include:

[1] £nil (2009 – £0.9m) relating to the 'Stabilisation Fund' in Guaracachi. Under Resolution No. 014/2002, the Superintendent of Electricity in Bolivia set up a stabilisation fund to stabilise the electricity tariffs paid by end users. The purpose of these funds is to help smooth the impact on consumers of changes in spot prices.

[2] £nil (2009 – £1.8m) re sale of surplus land by Guaracachi.

[3] £nil (2009 – £4.9m) of Vat paid which will be recovered in future periods. In both Bolivia and Argentina, input tax on capital projects is not repaid but is treated as an advance and is recoverable against future Vat liabilities once the relevant project has been completed. In 2010, the Vat receivable has been classified as non-current receivables (see note 17a above).

[4] £nil (2009 – £3.9m) due from joint venture companies represent 50% of the excess of the amounts lent by the Company, in excess of the amounts lent by the other 50% shareholder, to PEL and advances paid to suppliers and amounts paid to Standard Bank on behalf of EdS. In 2010, these amounts have been classified as non-current receivables (see note 17a above).

17 TRADE AND OTHER RECEIVABLES (continued)

	31.12.10 £'000	31.12.09 £'000
17c) Company – non-current		
Amounts owed by subsidiary companies	20,890	20,890
Amounts owed by joint venture companies	14,733	14,117
	35,623	**35,007**

The amounts owed by subsidiary and joint venture companies are unsecured and payable on demand but are not expected to be fully received within the next twelve months. £10.1m of the amount due from the joint venture companies is interest bearing at 14% per annum. All other balances are non-interest bearing.

Included within amounts due by subsidiary companies is an inter-company loan of £20.6m which was supported by the Group's investment in Guaracachi and which the Directors consider will be recovered in full as part of the compensation claim against the Bolivian Government.

	31.12.10 £'000	31.12.09 £'000
17d) Company – current		
Amounts due from joint venture companies	7,424	7,700
Other receivables and prepayments	19	31
	7,443	**7,731**

The £7.4m (2009 – £7.7m) due from joint venture companies is unsecured, interest free and payable on demand.

All trade and other receivables are unsecured and are not past their due by dates. The fair values of receivables are not materially different to the carrying values shown above.

18 DEFERRED TAX

	31.12.10 £'000	31.12.09 £'000
a) Asset at 1 January 2010	1,722	1,112
Exchange translation	(3)	(101)
Disposal of Guaracachi	(1,449)	-
Credit to tax expense	93	711
Asset at 31 December 2010	**363**	**1,722**

The Group deferred tax asset in 2010 arises principally from temporary differences on accelerated depreciation in Argentina (2009 – Argentina and Bolivia).

No deferred tax asset has been recognised in respect of the parent company's tax losses of £2.1m at 31 December 2010 (2009 – £0.6m) in view of the uncertainty over the timing of the utilisation of these tax losses.

18 DEFERRED TAX (continued)

	31.12.10 £'000	31.12.09 £'000
b) Liability at 1 January 2010	2,299	4,052
Reduction in liability on sale of 50% of PEL	-	(1,675)
Disposal of Guaracachi	(1,274)	-
Exchange translation	(12)	(123)
Charged to tax expense	76	45
Liability at 31 December 2009	**937**	**2,299**

The Group deferred tax liability arises from

i) accelerated tax allowances on plant and equipment expenditure in Bolivia – £nil (2009 – £1.3m)

ii) deferred tax provision on the fair value adjustments arising on the acquisition of 50% of PEL in June 2008 – £0.9m (2009 – £1.0m).

19 INVENTORIES

	31.12.10 £'000	31.12.09 £'000
Spare parts and consumables	395	3,202

Spare parts and consumables are valued at cost. The decrease since 31 December 2009 arises following the disposal of Guaracachi.

20 CURRENT TAX ASSETS

	31.12.10 £'000	31.12.09 £'000
Pre-paid profits tax	-	1,172
	-	**1,172**

Pre-paid profits tax in 2009 related to taxes paid in Bolivia which were off-settable against future tax liabilities.

21 CASH AND CASH EQUIVALENTS

	31.12.10 £'000	31.12.09 £'000
a) Group		
Cash at bank and in hand	157	266
Short-term bank deposits	-	3,910
	157	**4,176**
b) Company		
Cash at bank and in hand	71	22
	71	**22**

Cash and short-term bank deposits are held, where the balance is material, in interest bearing bank accounts, accessible at between 1 and 30 days notice. The effective average interest rate is less than 1%. The Group holds cash balances to meet its day-to-day requirements.

22 SHARE CAPITAL

	31.12.10 £'000	31.12.09 £'000
In issue, called up and fully paid 220,671,505 ordinary shares of 2p each (2009 – 205,421,505)	4,413	4,108

Reconciliation of movement in share capital	Number	£'000
Balance at 1 January 2009	**85,788,775**	**1,716**
Allotment in April 2009	10,000,000	200
Allotment in June 2009	109,632,730	2,192
Balance at 31 December 2009	**205,421,505**	**4,108**
Allotment in May 2010	11,000,000	220
Allotment in September 2010	4,250,000	85
Balance at 31 December 2010	**220,671,505**	**4,413**

The prices per share of the allotments referred to above were: April and June 2009 – 8p, May and September 2010 – 10p. The difference between the total consideration arising from shares issued and the nominal value of the shares issued has been credited to the share premium account. Costs associated with the allotments have been debited to the share premium account. The allotment in May 2010 included 3.25m shares at 10p per share allotted in exchange for conversion of liabilities.

In addition to the issued share capital, the Company issued, in September 2009, 10m warrants to subscribe for ordinary shares at 25p per share. Further details are set out in note 25(1). At the balance sheet date, none of the warrants had been exercised. The warrants have since lapsed.

Changes since the balance sheet date are set out in note 33.

23 TRADE AND OTHER PAYABLES

	31.12.10 £'000	31.12.09 £'000
a) Group – non-current		
Staff indemnity provision[1]	-	319
CER liability[2]	470	745
	470	**1,064**
b) Group – current		
Trade payables	3,565	17,782
Accruals	1,351	2,482
	4,916	**20,264**
c) Company – current		
Trade payables	234	134
Accruals	410	199
	644	**333**

23 TRADE AND OTHER PAYABLES (continued)

[1] The staff indemnity provision related to statutory long service entitlements due to employees in Guaracachi.

[2] The future CER liability represents the present value of CERs which were sold by EdS in 2009 for delivery between 2010 and 2012 and which had not been delivered at 31 December 2010. The liability is credited to the income statement as the CERs are generated.

24 CURRENT TAX LIABILITIES

	31.12.10 £'000	31.12.09 £'000
Profits taxes	59	1,728

The liability at 31 December 2010 related to taxes payable in Argentina (2009 – Argentina and Bolivia).

25 BORROWINGS

	31.12.10 £'000	31.12.09 £'000
a) Group – non current		
Loan note[1]	-	2,500
Loan from CAMMESA[2]	1,081	1,349
Bank loans – Guaracachi[4]	-	28,481
Loan notes – Guaracachi[5]	-	25,104
	1,081	**57,434**
b) Group – current		
Loan note	2,500	-
Loan from CAMMESA[2]	517	387
Bank loans – EdS[3]	3,931	4,183
Bank loans – Guaracachi[4]	-	4,506
Other loans[6]	5,644	5,507
	12,592	**14,583**
Group – total borrowings	**13,673**	**72,017**
The Group's borrowings are repayable as follows:		
2011 (at 31.12.09 – 2010)	12,592	14,583
2012 (at 31.12.09 – 2011)	521	9,193
2013 to 2015 (at 31.12.09 – 2012 to 2014)	560	14,875
2016 and beyond (at 31.12.09 – 2015 and beyond)	-	33,366
	13,673	**72,107**
c) Company – non-current		
Loan note[1]	-	2,500
d) Company – current		
Loan note[1]	2,500	-
Other loans[6]	5,644	5,507
	8,144	**5,507**
Company – total borrowings	**8,144**	**8,007**
The Company's borrowings are repayable as follows:		
2011 (31.12.09 – 2010)	8,144	5,507
2012 (31.12.09 – 2011)	-	2,500
	8,144	**8,007**

[1] The loan note was issued in September 2009 at par and is due and was repaid in March 2011. Interest is payable quarterly at the rate of 12% per annum. Holders of the loan notes were entitled to a total of 10m warrants to subscribe for ordinary shares at 25p per share. The warrants lapsed after the year end. The loan note is unsecured.

[2] CAMMESA, the Argentine wholesale market administrator, has advanced funds to EdS to support capital expenditure. The loan bears interest at 7% per annum. The loan is repayable in instalments with the final repayment due in August 2014.

25 BORROWINGS (continued)

[3] The EdS bank loan bears interest at 3 month US LIBOR plus 6%. The loan was originally repayable in instalments between 2010 and 2012 but is currently repayable on demand and was repaid in April 2011.

[4] The Guaracachi bank loans comprised a number of different bank loans bearing interest at rates between 4.5% and 9.75%, with a weighted average rate of 7.05%. The loans were primarily US$ based. Non US$ based loans were based in Bolivianos or Euros.

[5] The Guaracachi loan notes comprised two bond issues. The first bond was issued in December 2007 and at 31 December 2009 US$16.0m had been allotted. The bond bore interest at 8.55% and was repayable in 3 equal instalments during 2015, 2016 and 2017. The second bond was issued during 2009 and at 31 December 2009, US$24m had been allotted. The bond bore interest at 9.7% and was not repayable until after 2017.

[6] Other loans comprise short term loans, repayable within 12 months, at interest rates of between 3 month LIBOR plus 3% and 12%. The weighted average interest rate is 5,75%.

Sensitivity analysis to changes in interest rates:

If interest rates on the Group's borrowings during the year had been 0.5% higher or lower with all other variables held constant, the interest expense and pre-tax profits would have been £0.2m lower or higher than reported.

Sensitivity analysis to changes in exchange rates:

The Group's borrowings are denominated in £, US$ and AR$. As a result, the liability to the Group's lenders will change as exchange rates change. The Group's borrowings are substantially related to specific electricity generating assets and therefore the effect on the net equity of the Group is limited. The overall effect on the Group's net equity which would arise from changes in exchange rates is set out in note 5 above.

The effect on borrowings alone if exchange rates weakened or strengthened by 10% with all other variables held constant would be to reduce or increase the value of the Group's borrowings and equity by £0.7m (2009 – £6.0m).

The Company's borrowings are denominated is US$ and £. The effect of a 10% change in the value of the US$ relative to the £ would increase or decrease the parent company's borrowings by £0.1m (2009 – £0.3m).

26 RECONCILIATION OF (LOSS)/PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

a) Group	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
Profit/(loss) for the year before tax	145	(647)
Net finance expense	467	2,717
Adjustments for:		
Depreciation	618	5,376
Profit on sale of 50% of PEL	-	(2,361)
Profit on sale of land	-	(1,057)
Unrealised exchange gain on loans to associate	(224)	
Movement in working capital:		
Change in inventories	-	(215)
Change in trade and other receivables	1,103	(7,830)
Change in trade and other payables	(900)	(84)
Cash generated from/(used in) operations	**1,209**	**(4,101)**

b) Company	Year ended 31.12.10 £'000	Year ended 31.12.09 £'000
(Loss)/profit for the year before tax	(1,524)	1,246
Net finance expense/(income)	1,028	(865)
Adjustments for:		
Profit on sale of 50% of PEL	-	(1,317)
Unrealised exchange gains on loans	(545)	(3)
Movement in working capital:		
Change in trade and other receivables	12	8
Change in trade and other payables	148	(170)
Cash used in operations	**(881)**	**(1,101)**

27 INVESTMENTS

	31.12.10 £'000	31.12.09 £'000
Cost at 1 January 2010	8,470	16,649
Disposal of 50% of PEL	-	(8,179)
Balance at 31 December 2010	**8,470**	**8,470**

In June 2009, the Company sold 50% of its interest in PEL.

At 31 December 2010, the Company held the following investments:

i) 100% (2009 – 100%) of the issued share capital of Energia para Sistemas Aislados S.A. ("Energais"), a company registered in Bolivia under registration number 107752. This company was acquired in October 2004. Energais is in the process of negotiating the installation of its small generating units in rural areas in Bolivia.

27 INVESTMENTS (continued)

ii) 100% (2009 – 100%) of the issued share capital of Bolivia Integrated Energy Limited ("BIE"), a company registered in the British Virgin Islands, under registration number 510247. Until 1 May 2010, BIE owned, through an intermediary holding company, 50.00125% of the issued share capital of Empresa Electrica Guaracachi S.A. ("Guaracachi"), a company registered in Bolivia. Guaracachi is a generator and supplier of electricity to the national grid in Bolivia. The investment in BIE was acquired in January 2006.

iii) 50% (2009 – 50%) of the issued share capital of Patagonia Energy Limited ("PEL"), a company registered in the British Virgin Islands under registration number 620522. PEL owns 100% of the issued share capital of Energia del Sur S.A. ("EdS"), a company registered in Argentina. EdS is a generator and supplier of electricity to the national grid in Argentina. The original 50% investment in PEL was acquired in July 2005.

28 DISPOSAL

As set out in note 12, on 1 May 2010 the Bolivian Government nationalised by force the Group's controlling stake in Guaracachi. The table below shows the value of the assets and liabilities of Guaracachi included in the Group's balance sheet at 31 December 2009.

	£'000
Property, plant and machinery	121,626
Deferred tax asset	1,449
Inventories	2,803
Trade and other receivables	12,710
Current tax assets	1,172
Cash	3,915
Trade and other payables	(15,012)
Current tax liabilities	(1,676)
Borrowings	(58,091)
Deferred tax liability	(1,274)
Net assets disposed	**67,622**
Less: Amount attributable to minorities	(33,810)
Owner's interest in net assets disposed	**33,812**

29 FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated to secure the Group's short to medium term cash flows by minimising its exposure to financial markets. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant risks to which the Group is exposed are described below:

29 FINANCIAL RISK MANAGEMENT (continued)

a) Foreign currency risk
The Group is exposed to translation and transaction foreign exchange risk. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group. The Group's principal trading operations are based in South America and as a result the Group has exposure to currency exchange rate fluctuations in the principal currencies used in South America. The Group also has exposure to the US$ and the Euro as a result of borrowings denominated in these currencies.

b) Interest rate risk
Group funds are invested in short term deposit accounts, with a maturity of less than three months, with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

c) Capital management policies and liquidity risk
The Group's key objectives when managing capital are to ensure that the Group and the Company has sufficient funds to meet current and future business requirements, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

d) Credit risk
Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying value. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

e) Fair values
In the opinion of the directors, there is no significant difference between the fair values of the Group's and the Company's assets and liabilities and their carrying values and none of Group's and the Company's trade and other receivables are considered to be impaired.

29 FINANCIAL RISK MANAGEMENT (continueD)

The financial assets and liabilities of the Group and the Company are classified as follows:

31 December 2010	Group			Company		
	Fair value through profit and loss £'000	Loans and receivables £'000	Borrowings and payables at amortised cost £'000	Fair value through profit and loss £'000	Loans and receivables £'000	Borrowings and payables at amortised cost £'000
Trade and other receivables > 1 year	-	10,939	-	-	35,623	-
Trade and other receivables < 1 year	-	3,641	-	-	7,443	-
Cash and cash Equivalents	-	157	-	-	71	-
Trade and other payables > 1 year	-	-	(470)	-	-	-
Trade and other payables < 1 year	-	-	(4,916)	-	-	(644)
Borrowings > 1 year	-	-	(1,091)	-	-	-
Borrowings < 1 year	-	-	(12,592)	-	-	(8,144)
Totals	**-**	**14,737**	**(19,069)**	**-**	**43,137**	**(8,788)**

31 December 2009	Group			Company		
	Fair value through profit and loss £'000	Loans and receivables £'000	Borrowings and payables at amortised cost £'000	Fair value through profit and loss £'000	Loans and receivables £'000	Borrowings and payables at amortised cost £'000
Trade and other receivables > 1 year	-	7,454	-	-	35,007	-
Trade and other receivables < 1 year	-	20,250	-	-	7,731	-
Cash and cash Equivalents	-	4,176	-	-	22	-
Trade and other payables > 1 year	-	-	(1,064)	-	-	-
Trade and other payables < 1 year	-	-	(20,264)	-	-	(333)
Borrowings > 1 year	-	-	(57,434)	-	-	(2,500)
Borrowings < 1 year	-	-	(14,583)	-	-	(5,507)
Totals	**-**	**31,880**	**(93,345)**	**-**	**42,760**	**(8,340)**

30 CAPITAL COMMITMENTS

The Group had outstanding capital commitments of £0.2m (2009 – £0.5m).

31 CONTINGENT LIABILITIES

EdS has entered into a long term maintenance agreement with a third party who provides for the regular service and replacement of parts of two turbines. The agreement runs until 2022. The Group's 50% share of the total payable under the agreement until the year 2022 amounts to US$8m/£5m (2009 – US$9m/£5.7m). In the event that EdS wish to terminate the agreement before 2022, a default payment would become payable. The Group does not anticipate early termination and therefore no provision has been made in this regard.

32 RELATED PARTY TRANSACTIONS

During the year the Company and the Group entered into material transactions with related parties as follows:

a) Company
i) paid £0.12m to IPC under a "Shared Services Agreement". P R S Earl and E R Shaw are directors of IPC and were, until 18 June 2010, shareholders. An amount of £0.08m was outstanding at 31 December 2010.

ii) IPC participated in the share allotment in May 2010 and converted £0.25m of outstanding loan and other liabilities into 2.5m ordinary shares at a price of 10p per share. The Company accrued interest of £0.05m during the year on the loan balance. The amount of loan outstanding, including accrued interest, at 31 December 2010 was £1.2m (2009 – £1.2m). Interest on the loan is being charged at 3.75%.

iii) accrued interest of £0.2m on the loan from Secteur Holdings Ltd, a company of which Mrs P Earl is a director, and paid interest of £0.1m. The amount of loan outstanding, including accrued interest, at 31 December 2010 was £3.6m (2009 – £3.6m). Interest on the loan is being charged at 12%.

iv) paid salaries to key management amounting to £0.35m (2009 – £0.32m).

v) paid in 2009, on behalf of EdS, a total of £7.7m to suppliers and Standard Bank in order to provide credit support to EdS. The amount outstanding at 31 December 2010 was £7.4m (2009 – £7.8m).

vi) Waived interest totalling £1.7m which had been accrued on loans to PEL at 31 December 2009 and charged interest during 2010 of £1.2m. Loans, including accrued interest, due by PEL to the Company at 31 December 2010 amounted to £14.2m (2009 – £14.0m). Interest is being accrued on £10.2m of this balance at 14% per annum.

b) Group
Guaracachi paid £0.2m (2009 – £0.2m) to Independent Power Operations Limited, a wholly owned subsidiary of IPC, for engineering services. An amount of £0.01m was owing at 31 December 2010 (2009 – £0.01m).

33 POST BALANCE SHEET DATE EVENTS

In March 2011, the Company allotted 200,000,000 Ordinary 2p shares at 9p per share raising £18.0m before expenses. The Company used £16.5m of these proceeds to a) acquire, from Standard Bank, their loan to EdS, b) repay the £2.5m loan note and c) repay other borrowings of the Company amounting to £5.6m. Following these repayments, the Group's borrowings comprise only the loan to EdS by Cammesa (£1.6m).

COMPANY INFORMATION

Directors
J G West (non-executive Chairman) resigned 14 June 2010
Sir D R C Christopher (non executive) resigned 23 February 2011
M Blanco
P R S Earl
J M Eyre Resigned 5 April 2011
A J S Morris (non-executive) appointed chairman 14 June 2010
E R Shaw
L S Coben (non-executive) appointed 1 May 2011

Secretary
S A Laker

Company number
4812855

Registered office and business address
5th Floor
Prince Consort House
27-29 Albert Embankment
London
SE1 7TJ

Nominated Advisor
Daniel Stewart & Company PLC
Becket House
36 Old Jewery
London
EC2R 8DD

Broker
Religare Capital Markets PLC
100 Cannon Street
London
EC4N 6EU

Auditors
Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Bankers
Coutts & Co
440 Strand
London
WC2R 0QS

Solicitors
Squire, Sanders & Dempsey LLP
7 Devonshire Square
Cutlers Gardens
London
EC2M 4YH

Public Relations
Blythe Weigh Communications Ltd
Southbank House
Black Prince Road
London
SE1 7SJ

RURELEC PLC

Prince Consort House
27 – 29 Albert Embankment
London SE1 7TJ
United Kingdom
Telephone: +44(0)20 7793 5610
Facsimile: +44(0)20 7793 7654

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