RURELEC PLC

ANNUAL REPORT 2009

Rurelec PLC, the power plant developer and owner operator of power generation assets in Latin America, announces final results for the year ended 31 December 2009.

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HIGHLIGHTS

"Solid progress made during 2009 has been overshadowed by recent events in Bolivia. The seizure and expropriation of our interest in Guaracachi is an unwelcome blow to the Company.

However, the Company retains a significant asset in the form of its interest in EdS as well as the firm expectation that Bolivia will honour its pledge to pay fair compensation for our controlling stake in Guaracachi."

Jimmy West, Chairman

Highlights

- Annual output increases to over 2,100 GWh
- Group after tax loss of £2.9m (2008 loss – £4.2m)
- Basic loss per share 1.89p (2008 loss – 5.23p)
- Net asset value per share (based on the number of shares in issue at 24 May 2010) 24.4p

Post year end highlights

- Rurelec's controlling stake in Guaracachi nationalised on 1st May 2010
- Bolivian Government has confirmed that it must pay fair market value by way of compensation
- Fair market value is far higher than the £50m of value as calculated by reference to Bolivian book value of Guaracachi together with the previously declared and approved dividends owed to Rurelec.
- Energia del Sur ("EdS") in full operation and close to launching US $40 million refinancing of the completed Comodoro Rivadavia CCGT plant

Centre picture front cover courtesy of El Deber, Santa Cruz, Bolivia

CHAIRMAN'S STATEMENT

The Group's strategy is to own and operate modern, low emission power generation plants in Latin America, paying dividends to shareholders based on strong cash flows and at the same time, developing and constructing new power generation capacity with judicious use of project and local subsidiary company debt.

2009 saw further progress for Rurelec in improving the generating fleet in spite of the continuing difficult climate for infrastructure finance. The nationalisation of our interest in Empresa Electrica Guaracachi S.A. ("Guaracachi") after the year-end has no impact on our reporting this year. However, I must draw shareholders' attention to the qualification our auditors are forced to place in their opinion on the Group consolidated financial statements as a result of the new General Manager at Guaracachi, appointed by the Bolivian Government after the nationalisation on May 1st 2010, obstructing Grant Thornton's access to the working papers of PricewaterhouseCoopers, Guaracachi's auditors, and thereby preventing Grant Thornton from completing their audit review of Guaracachi's results in the usual way. The audit report on the parent company financial statements is not qualified.

In the twelve months ended 31st December 2009, Rurelec is reporting an after tax loss, excluding minority interests, of £2.9m (2008 loss – £4.2m).

The Group's operating results showed a loss of £1.3m (2008 loss £0.2m) which, after interest and tax charges, widened to the consolidated after tax loss of £2.9m. Revenue reductions at Guaracachi due to engineering work associated with the combined cycle expansion, higher operating costs in Energia del Sur S.A. ("EdS") and increased financing costs are the main components of the change.

The Group is reporting a basic loss per share of 1.89p (2008 loss – 5.23p).

The Board does not anticipate declaring and paying a dividend during 2010 but will review its position later in the year depending on events in Bolivia.

Guaracachi, Bolivia's largest generating company and the only private power company to have installed significant new capacity in the country in recent years, was nationalized by Supreme Decree on 1st May 2010, along with two other electricity generating companies, a distribution company and the transmission company. In the Decree the President pledged to pay fair value to the holders of the expropriated shares. As our investment is protected by bilateral investment treaties with both the UK and the USA, Rurelec and its subsidiary Guaracachi America Inc. have notified President Morales of a dispute with Bolivia arising under these treaties which may be submitted to international arbitration in the event that suitable compensation

"In the latter half of 2009 EdS increased its output as combined cycle operations commenced. EdS is expected to move forward strongly in 2010 following finalisation of the premium electricity contracts awarded to it."

CHAIRMAN'S STATEMENT

(continued)

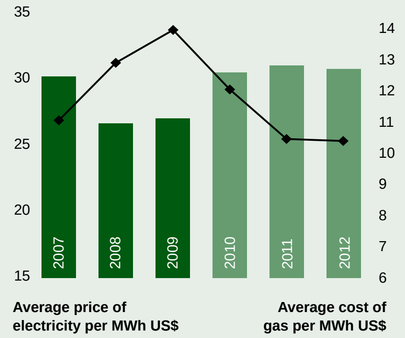
settlement is not agreed. International law requires the payment of compensation amounting to the full market value of the expropriated investment prior to any threat of expropriation. Although book value is not the standard to be applied in this case, I note for information purposes that as at 31st December 2009, the stake had a net asset value in Bolivia of US $67 million. Guaracachi also owes Rurelec US $5.5 million in declared but as yet unpaid dividends.

In the latter half of 2009, EdS increased its output as combined cycle operations commenced. EdS is expected to move forward strongly in 2010 following finalisation of the premium electricity contracts awarded to it, which are expected to commence before the end of the first half of 2010. The long awaited refinancing of the plant following completion of a debt rating is intended to release funds back to Rurelec as debt funded by shareholders is returned to the UK. Rurelec is currently owed US $36 million by EdS for amounts bridged by Rurelec during the conversion to combined cycle in the absence of project finance following the 2008 global financial crisis.

The seizure and expropriation of our interest in Guaracachi is an unwelcome blow to the Company. However, the Company retains a significant asset in the form of its interest in EdS as well as the firm expectation that Bolivia will honour its pledge to pay fair compensation for our controlling stake in Guaracachi.

Once again, I am proud of the hard work management and employees have put in over the year and I plan to work with the remuneration committee to encourage the Board to introduce a share option scheme which I feel would be an appropriate form of incentive for senior management at this stage of the Group's development. I would also like to thank you, our shareholders, for your continued support in trying circumstances.

Jimmy West
Chairman
2 June 2010



Guaracachi price/gas cost per MWh

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

At the end of April, I was looking forward to reporting to shareholders a year of considerable consolidation for Rurelec as we saw our 136 MW Comodoro Rivadavia power plant in Argentina achieve its full potential with all of the consents necessary to earn premium tariffs and with the ability to secure a debt refinancing. I also intended to state that the disruption caused by bringing forward the maintenance of two of our GE 6FA units ahead of completing our most significant project in Bolivia was behind us as Guaracachi's 240 MW combined cycle plant finally achieved mechanical completion as well as the successful sale of US $7 million a year of CER carbon credits arising from the combined cycle expansion projects in both Argentina and Bolivia.

The last month has, however, overshadowed the achievements of the previous year since May Day 2010 began at 6 am Bolivian time with the surprise nationalisation of Rurelec's 50.00125 per cent stake in Guaracachi. Rurelec has owned this interest since 2006 and during that time has been instrumental in ensuring the construction of 185 MW of new high efficiency power plant capacity to add to the 360 MW in existence at the time of our acquisition.

The Supreme Decree nationalising our shares in Guaracachi had not yet been signed by President Evo Morales when armed military police broke into our head office in Santa Cruz for the benefit of the television cameras. Nonetheless, no resistance was offered and our general manager and finance director were courteous and polite as they cleared their desks and were escorted from the building later by the military. I was not in Bolivia at the time but I remained in constant touch with them and later with the British Ambassador in La Paz over the May Bank Holiday weekend as events unfolded.

There had been rumours of a pending act of nationalisation during the previous week. However because of the excellent relations which Rurelec enjoyed with successive energy ministers under the Morales Administration, and because we were the only power company to have invested heavily in Bolivia during the Morales Presidency with over $110 million of new projects completed, I did not think that the armed militia would be visiting our premises. Indeed, at 9.43 pm London time the night before, the Foreign and Commonwealth Office had received an e-mail from the Bolivian Ambassador to the United Kingdom confirming that she was not aware of any plans for a compulsory expropriation of Rurelec's interest in Guaracachi. Rather she wished that Rurelec's approach of a public/private partnership with Bolivia would lead to further Rurelec investment in the country for mutual benefit.

This made the shock of the nationalisation all the more intense and upsetting.

Fortunately, Her Majesty's government had the foresight in 1988 to negotiate, sign and promulgate an excellent treaty which affords full protection to British companies investing in Bolivia. In order to protect shareholders' interests, the Board of Rurelec has already served a formal

> "Between 2006 and 2009 peak demand in Bolivia has grown by 15.5%. Without the installation of unit GCH 11 in 2007 and the combined cycle expansion initiated in 2008, Bolivia's electricity supply would not have been able to satisfy the increase in demand."

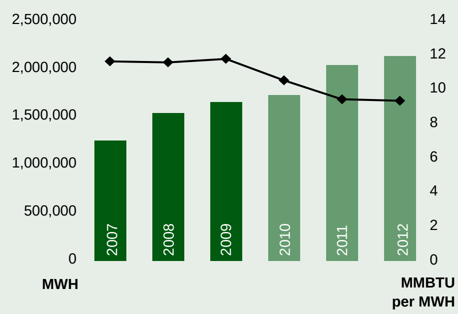
CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

(continued)

notice to President Morales under the treaty notifying an investment dispute arising from the expropriation of our shares. The treaty grants us the internationally enforceable right to submit the dispute to international arbitration in the event that we are unable to agree with the Bolivian Government upon payment of fair compensation for our expropriated interests within the six month period prior to commencement of formal proceedings. Your Directors are working hard to ensure that every opportunity is taken to achieve an early resolution to this dispute. However, if agreement cannot be reached, Rurelec will exercise its right to resort to international arbitration under the UNCITRAL arbitration rules of the United Nations. In this action, Rurelec is well supported by Freshfields Bruckhaus Deringer LLP who have acted for other companies whose businesses have been nationalised in Bolivia and who have secured satisfactory negotiated settlements. If the Government of Bolivia does not settle by 13th November 2010 to the satisfaction of the Board of Rurelec, we intend to have the matter settled by international arbitration pursuant to the treaty where our claim will be based on fair market value which is far higher than the £50m of value as calculated by reference to Bolivian book value of Guaracachi together with the previously declared and approved dividends owed to Rurelec.

The importance of Rurelec's influence in helping the Bolivian economy in recent years must not be minimised. Between 2006 and 2009 peak demand in Bolivia has grown by 15.5%. Guaracachi's output has increased from just over 1,234 GWh in 2007 to over 1,624 GWh in 2009. Without the installation of unit GCH 11 in 2007 and the combined cycle expansion initiated in 2008, Bolivia's electricity supply would not have been able to satisfy the increase in demand. Since 2006, as a result of the nationalisation of the hydrocarbons sector, which brought state-owned YPFB in as Guaracachi's counterparty to replace private sector gas vendors, the cost of gas used for electricity generation has risen by over 11.5%. These two factors would normally result in a sharp increase in power prices and yet the average price per MWh Guaracachi received has fallen by 10.5% between 2007 and 2009. Nonetheless, from mid 2010 onwards all Guaracachi's financial projections showed a doubling of EBITDA as a result of efficiency gains from the US$86 million investment programme spearheaded by Rurelec which has now created Bolivia's first combined cycle plant. These forecasts are now set out in the adjacent graph to emphasise the step change in Guaracachi's earnings that were expected as a result of the new combined cycle capacity.

Cashflow at our business in Argentina has been an issue during 2009. We sold 50% of our interest in EdS back to Basic Energy and raised further funds to finance the completion of the plant. This caused significant dilution for shareholders, but secured the funding necessary to enable EdS to pursue new power purchase agreements for the new power capacity it has constructed. At present the holding company,



Guaracachi – Output and Heat Rates

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS
(continued)

Rurelec PLC, has made loans and credit facilities of approximately US$36 million available to EdS, a significant proportion of which we expect to recoup over the coming year as the company is refinanced.

On a more promising note, EdS saw completion of its construction programme during the year, and the 136 MW combined cycle plant is now operating at full capacity without auxiliary firing. During November and December 2009 the plant evacuated an average of 91 MW into the Argentine grid. Gross energy output during 2009 was 517 GWh, up approximately 5 per cent. from 2008. Gas consumption (MMBTU/MWh) over the same period has fallen by nearly 20 per cent. as a result of the plant operating in combined cycle for just under half the year. In dollar terms, the average price per MWh that EdS achieved during the year (for Spot and contract sales) was US$31.23. This compares with a price of US$32.98 in 2008, when the Argentine Peso was stronger, though since 2007 the price has risen some 13 per cent., in spite of the dollar weakness (rates moved from approximately AR$3 to the US dollar in 2007 to AR$3.15 in 2008 and AR$3.77 in 2009). The average cost of gas per MWh generated has stayed static between 2007 and 2009 even though the price per MMBTU has increased by over 28 per cent. as the regulated price of gas has been allowed to increase in order to keep the Argentine exploration industry going. The price increase has thus been offset by the improved heat rate of the combined cycle.
In 2010 EdS will see the benefit of a full year of operation in combined cycle, both in terms of output and efficiency, and we expect the new Resolution 220 power purchase contract with CAMMESA, the Argentine wholesale market operator, to be in operation at least during the latter half of this year. With the contract in place we will be in a position to further increase output over 2009 by using auxiliary firing something that is not an economic option at current spot prices.

In recent days we have issued 11 million new Rurelec shares to provide additional working capital and to fund the costs of preparing our arbitration claim. At the same time we are looking to complete our plans for refinancing EdS, thereby releasing to the holding company in London a significant portion of the US $36 million which is currently being used by EdS. These cash resources will be used to pay down holding company borrowings and the balance will be available to be redeployed or returned to shareholders.

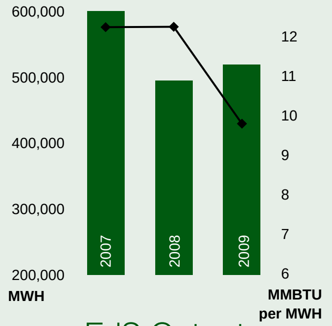
Between the Bolivian compensation claim and the refinancing of bridge loans, Rurelec expects to receive £65 million of cash at the holding company level by early 2011 and use some £5 million to pay down debt. Rurelec will also continue to own its interest in half of the 136 MW combined cycle plant owned and operated by EdS. As at the time of writing, Rurelec has a market capitalisation of £19 million and borrowings at the parent company level of only £8 million.

"Gas consumption (MMBTU/MWh) at EdS over the same period has fallen by nearly 20 per cent. as a result of the plant operating in combined cycle for just under half the year."

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

(continued)

Since 2004, Rurelec has blazed a trail. It was the first electricity company and the first utility to be admitted to AIM. It has grown from a company with just 12 MW to a company controlling some 700 MW of power generation capacity as at April 2010. It has developed complex new projects which it has financed in the teeth of a meltdown of traditional project finance. It has secured United Nations approval and registration for some 500,000 CERs a year (ironically the latest full registration of Guaracachi's CERs was confirmed 48 hours after the military took over the Santa Cruz plant) and it has completed financings and carbon credit deals with sovereign states and multilateral institutions. The Bolivian nationalisation is a set-back for our plans but I believe that the real asset of Rurelec is the experience and knowledge of its team to develop, own and operate clean tech power plants in a world where these skills are now seen to be at a premium. I hope that by the time the current year ends, we will have resumed our growth trajectory with a return to dividends based on a fair and honourable settlement with the Government of Bolivia.



EdS Output and Heat Rates

Peter Earl
Chief Executive
2 June 2010

GROUP DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 31 December 2009.

Principal activities and review of the business

The principal activities of the Group comprise the acquisition and development of power generation assets in markets in Latin America. In addition, and as opportunities arise, the Group 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.

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 recent decision by the Government of Bolivia to nationalise the Group's interest in Guaracachi, there exists significant political risk in certain 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 2009 are set out in the Consolidated Statement of Comprehensive Income.

No dividend was paid during the year to 31 December 2009.

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 the foreseeable future.

Since the year-end, the Company has raised, before expenses, £1.1m of new equity and this, together with the anticipated refinancing of EdS, the Group's joint venture company, is expected to provide the Company and the Group with adequate resources for the foreseeable future. With regards to the nationalisation of the Group's interest in Guaracachi there is uncertainty as to quantum and timing of receipt of funds until the compensation negotiations have been completed.

Key Performance Indicators

The Directors use a range of performance indicators to monitor progress in the delivery of the Group's strategic

GROUP DIRECTORS' REPORT

(continued)

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 and such targets 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 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, 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:

James West (63)

Chairman and Non-Executive Director

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 is also a director of IPSA Group PLC. As well as being Chairman of the Company, he is Chairman of the Remuneration and Nominations' committees.

Peter Earl (55)

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 and a non-executive director of Strategic Natural Resources PLC. He is an Oxford University graduate and was a Kennedy Scholar at Harvard University.

GROUP DIRECTORS' REPORT

(continued)

Elizabeth Shaw (49)
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 and of Strategic Natural Resources PLC. She is a graduate of Exeter University.

Mike Eyre (57)
Technical Director
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 and managing director of IPC's operations subsidiary, Independent Power Operations Limited.

Sir Robin Christopher KBE CMG (64)
Non-Executive Director
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.

Marcelo Blanco (46)
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.

Andrew Morris (48)
Non-Executive Director
Andrew joined the Board on 7 July 2009 and is Chairman of the audit committee. Andrew is currently the Commercial and Financial director of Advanced Plasma Power Limited where he was instrumental in raising £7m of 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.

Frederick G Fisher
Non-Executive Director
Freddie resigned from the Board on 22 May 2009.

GROUP DIRECTORS' REPORT
(continued)

Directors' interests
The directors' beneficial interests in the shares of the Company were as stated below:

	24.5.2010	31.12.2009	31.12.2008
J G West	2,870,230	2,370,230	1,125,000
Sir D R C Christopher	33,333	33,333	33,333
P R S Earl[1]	33,444,486	30,944,486	11,812,721
J M Eyre	250,000	250,000	250,000
E R Shaw	275,000	275,000	250,000

[1] P R S Earl's interest in the shares of the Company include his personal holding, his wife's holding and the holding of IPC. IPC is controlled by P R S Earl and 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 2010, being the last practicable date for reporting this information.

	Number of shares	% holding
Nortrust Nominees Ltd	40,183,843	18.57%
HSBC Global Custody (Nominee) (UK) Ltd	33,312,095	15.39%
Lynchwood Nominees Ltd	22,574,800	10.43%
Bank of New York Nominees Ltd	13,016,772	6.01%
Credit Suisse Client Nominees Ltd	10,821,531	5.00%

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 2009 was 50 days (31 December 2008 – 45 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.

GROUP DIRECTORS' REPORT
(continued)

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
2 June 2010

CORPORATE GOVERNANCE STATEMENT

Policy statement

The Company is committed to applying high standards of corporate governance, integrity and business ethics 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 has therefore taken steps to aspire to comply with the Code in so far as is practicable as a smaller company.

Internal controls

The Board of Directors has responsibility for the Group's system of internal control and for reviewing its effectiveness. No risk management process or systems of internal control can eliminate the risk of material misstatement or loss. However, 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 of directors has a duty to promote the success of the Company for its shareholders. The Board comprising a non-executive chairman, four executive directors and two non-executive directors 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 matters specifically 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 ten times during 2009. The Directors are free to seek external advice as they consider necessary.

The Chairman of the Board is Jimmy West, who is also a non-executive director of a number of other companies. The other non-executive directors are Sir Robin Christopher and Andrew Morris, who joined the board in July 2009. All are regarded by the Board as independent in character and judgement.

The executive directors are Peter Earl. who is Managing Director, Elizabeth Shaw, who is Finance Director, Mike Eyre, who is Technical Director and Marcelo Blanco, who has special responsibility for regional financing in Latin America. All directors are involved in significant decisions.

Relations with shareholders

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 and their participation is encouraged. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the annual report and accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

The Company website is also maintained to aid communication with investors, employees, customers, suppliers and the general public.

Accountability and audit

The Board seeks to present a balanced and understandable assessment of the Group's position and prospects in all interim and price-sensitive reports, reports to regulators and the information required to be presented by statute.

The Audit Committee comprises Andrew Morris (Chairman) and Jimmy West.

The Audit Committee has terms of reference which outline its objectives and responsibilities. These include keeping under review the scope and results of the external audit and its cost effectiveness. The Committee also reviews the independence and objectivity of the external auditors and reviews the nature and extent of non-audit services supplied by the external auditors to the Group, seeking to balance objectivity and value for money.

CORPORATE GOVERNANCE STATEMENT

(continued)

Assessment of business risk

The Company believes that the identification and management of risk is central to achieving the success of the Company for its shareholders. Each year, the Board reviews and considers the risk profile for the whole business. This risk profile covers both operational and strategic risks. A system of business risk identification, assessment, and evaluation is in place within the management process throughout the Group. Strategic risks are regularly reviewed by the Board. Risks relating to the key activities within the subsidiary operating units are assessed continuously by their respective boards of directors.

Control environment

The Group's operating procedures include a comprehensive system for reporting financial and non-financial information to the Board including:

- preparation and review of annual budgets
- review of the business at each Board meeting, focussing on any new risks arising (for example key changes in the market)

Control procedures

Detailed operational procedures have been developed to safeguard shareholders' investments and the Group's assets that embody key controls and these are reviewed annually by the Board. The implications of changes in law and regulations are taken into account within these procedures.

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.

Monitoring process

There are clear procedures for monitoring the system of key controls and for identifying and assessing risks and the effectiveness of controls.

The Board has considered the need for an internal audit function but has decided that is not justified at present. However, it will keep the decision under review on at least an annual basis.

Directors' remuneration

The Board recognises that directors' remuneration is of legitimate concern to the shareholders and it is committed to following current best practice. The particulars of the directors' interests in the share capital of the Company are set out in the Directors' report.

The Remuneration Committee comprises Sir Robin Christopher, who is chairman of this committee, Jimmy West and Andrew Morris. The Committee makes recommendations to the Board on the Company's framework of executive remuneration and determines specific remuneration packages for each of the executive directors.

Details of directors' remuneration are set out in note 8 of the notes to the financial statements. For the year to 31 December 2009, the total remuneration, excluding national insurance, paid to the directors of Rurelec was £310k (2008 – £203k).

Appointment of directors

The Nomination Committee presently comprises Jimmy West (Chairman) and Andrew Morris. 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 does not use an external consultant in the appointment of directors.

Susan Laker
Company Secretary
2 June 2010

REPORT OF THE INDEPENDENT AUDITORS

to the members of Rurelec PLC

We have audited the group financial statements of Rurelec PLC for the year ended 31 December 2009 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, the consolidated and parent company statements 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities statement set out in the Directors' Report, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the 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/UKNP.

Opinion – disclaimer on view given by the group 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"), the audit evidence available to us was limited because 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. Significant limitations were placed on the scope of our work following the recent nationalisation of Guaracachi 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. Therefore we have not obtained sufficient, appropriate audit evidence concerning the financial position of Guaracachi and consequently the consolidated financial position of Rurelec plc.

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern basis of preparation

In forming our opinion on the group financial statements, we have considered the adequacy of the disclosures made in note 1b to the financial statements concerning the group's ability to continue as a going concern. As explained in note 1b, the Directors are seeking to raise loan finance to provide additional working capital for the development of the group. These conditions, along with the other matters explained in note 1b to the financial statements, indicate the existence of a material uncertainty which may cast doubt about the group's ability to continue as a going concern. The group financial statements do not include the adjustments that would result if the group were unable to continue as a going concern. The group financial statements have been prepared on a going concern basis.

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.

REPORT OF THE INDEPENDENT AUDITORS

to the members of Rurelec PLC (continued)

Matters on which we are required to report by exception

In respect solely of 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 2009. That report is modified by the inclusion of emphases of matters.

Charles Hutton-Potts
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
2 June 2010

REPORT OF THE INDEPENDENT AUDITORS

to the members of Rurelec PLC

We have audited the parent company financial statements of Rurelec PLC for the year ended 31 December 2009 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 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/UKNP.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern basis of preparation

In forming our opinion on the parent company financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1b to the financial statements concerning the company's ability to continue as a going concern. As explained in note 1b, the Directors are seeking to raise loan finance to provide additional working capital for the development of the company. These conditions, along with the other matters explained in note 1b to the financial statements, indicate the existence of a material uncertainty which may cast doubt about the company's ability to continue as a going concern. The parent company financial statements do not include the adjustments that would result if the company were unable to continue as a going concern. The parent company financial statements have been prepared on a going concern basis.

Emphasis of matter – carrying value of inter-company loan relating to Empresa Electrica Guaracachi SA

In forming our opinion on the parent company financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 17c to the financial statements concerning the Group's ability to reach an agreement with the Bolivian Government in relation to the nationalisation of Guaracachi. The Directors remain confident that they will secure the appropriate fair value compensation from the Bolivian Government to enable the company to recover the value of the inter-company loans. However, as at the date of this report, such an agreement has not been reached and therefore there is a possibility that the inter-company loans may not be recovered. These conditions, along with the other matters explained in note 17c to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the carrying value of the assets relating to Guaracachi. The parent company financial statements do not include any adjustments that would result from a non-satisfactory settlement of the compensation due to the Group.

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.

REPORT OF THE INDEPENDENT AUDITORS

to the members of Rurelec PLC (continued)

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 2009. The opinion in that report is qualified and is modified by the inclusion of an emphasis of matter.

Charles Hutton-Potts
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

London
2 June 2010

RURELEC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	Notes	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Revenue	4	**36,164**	**29,133**
Cost of sales	6	(31,692)	(24,719)
Gross profit		**4,472**	**4,414**
Administrative expenses	7	(5,820)	(4,564)
Operating loss		**(1,348)**	**(150)**
Other income	9	3,418	–
Finance income	10	441	203
Finance expense	10	(3,158)	(3,283)
Loss before tax		**(647)**	**(3,230)**
Tax expense	11	(2,211)	(923)
Loss for the year		**(2,858)**	**(4,153)**
Attributable to:			
Minority interests		71	4
Equity shareholders		(2,929)	(4,157)
		(2,858)	(4,153)
Basic loss per share	14	(1.89p)	(5.23p)
Other comprehensive income for the year			
Exchange differences on translation of foreign operations		(6,903)	24,407
Revaluation on acquisition		–	2,800
Adjustment on disposal of 50% of PEL		(1,575)	–
Revaluation of CERs		(192)	–
Total other comprehensive income		**(8,670)**	**27,207**
Attributable to:			
Minority interests		(3,377)	10,937
Equity shareholders		(5,293)	16,270
		(8,670)	**27,207**
Total comprehensive loss for year			
Attributable to:			
Minority interests		(3,306)	10,941
Equity shareholders		(8,222)	12,113
		(11,528)	**23,054**

All activities relate to continuing activities.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2009

	Notes	31.12.09 £'000	31.12.08 £'000
Assets			
Non-current assets			
Property, plant and equipment	15	142,345	168,053
Intangible assets	16	4,118	9,335
Trade and other receivables	17a	7,454	4,793
Deferred tax assets	18	1,722	1,112
		155,639	**183,293**
Current assets			
Inventories	19	3,202	3,817
Trade and other receivables	17b	20,250	9,939
Current tax assets	20	1,172	4,154
Cash and cash equivalents	21	4,176	5,031
		28,800	**22,941**
Total assets		**184,439**	**206,234**
Equity and liabilities			
Shareholders' equity			
Share capital	22	4,108	1,716
Share premium account		38,182	31,558
Foreign currency reserve		4,044	7,570
Other reserves		1,383	3,150
Retained earnings		5,095	8,024
Total equity attributable to shareholders of Rurelec PLC		**52,812**	**52,018**
Minority interests		33,810	37,116
Total equity		**86,622**	**89,134**
Non-current liabilities			
Trade and other payables	23a	1,064	290
Future tax liabilities	11	445	–
Deferred tax liabilities	18	2,299	4,052
Borrowings	25a	57,434	47,264
		61,242	**51,606**
Current liabilities			
Trade and other payables	23b	20,264	27,185
Current tax liabilities	24	1,728	2,347
Borrowings	25b	14,583	35,962
		36,575	**65,494**
Total liabilities		**97,817**	**117,100**
Total equity and liabilities		**184,439**	**206,234**

The financial statements were approved by the Board of directors on 2 June 2010 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 2009

	Notes	31.12.09 £'000	31.12.08 £'000
Assets			
Non-current assets			
Investments	27	8,470	16,649
Trade and other receivables	17c	35,007	34,075
		43,477	**50,724**
Current assets			
Trade and other receivables	17d	7,731	1,288
Cash and cash equivalents	21	22	42
		7,753	**1,330**
Total assets		**51,230**	**52,054**
Equity and liabilities			
Shareholders' equity			
Share capital	22	4,108	1,716
Share premium account		38,182	31,558
Retained earnings		600	(646)
Total equity		**42,890**	**32,628**
Non-current liabilities			
Loan note	25c	2,500	–
		2,500	**–**
Current liabilities			
Trade and other payables	23c	333	592
Borrowings	25d	**5,507**	**18,834**
		5,840	**19,426**
Total liabilities		**8,340**	**19,426**
Total equity and liabilities		**51,230**	**52,054**

The financial statements were approved by the Board of directors on 2 June 2010 and were signed on its behalf by P Earl (Chief Executive) and E Shaw (Finance Director).W

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Notes	Year ended 31.12 09 £'000	Year ended 31.12.08 £'000
Cash flows from operating activities			
Cash (used in)/generated from operations	26	(4,101)	3,478
Interest received		67	203
Interest paid		(2,446)	(1,418)
Taxation paid		(1,569)	(915)
Net cash (used in)/generated from operating activities		**(8,049)**	**1,348**
Cash flows from investing activities			
Purchase of plant and equipment	15	(18,929)	(29,186)
Sale of plant and equipment		1,913	1,250
Loans to joint venture company		(1,663)	–
Costs relating to disposal	28	(125)	–
Acquisition (net of cash)		–	(5,989)
Net cash used in investing activities		**(18,804)**	**(33,925)**
Net cash outflow before financing activities		**(26,853)**	**(32,577)**
Cash flows from financing activities			
Issue of shares (net of costs)		7,016	7,825
Loan drawdowns		21,731	31,350
Issue of loan note		2,500	–
Loan repayments		(5,249)	(7,515)
Dividend paid to minorities		–	(2,506)
Equity dividend paid	12	–	(2,145)
Net cash generated from financing activities		**25,998**	**27,009**
Decrease in cash and cash equivalents		**(855)**	**(5,568)**
Cash and cash equivalents at start of year		5,031	10,599
Cash and cash equivalents at end of year		**4,176**	**5,031**

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Notes	Year ended 31.12 09 £'000	Year ended 31.12 08 £'000
Cash flows from operating activities			
Cash (used in)/generated from operations	26	(1,101)	674
Interest received		–	87
Tax paid		–	(22)
Interest paid		(161)	–
Net cash (used in)/generated from operations		**(1,262)**	**739**
Cash flows from investing activities			
Dividend received (net of tax)		–	1,591
Acquisition		–	(6,219)
Costs relating to disposal	28	(125)	
Loans to joint venture company		(7,714)	(10,986)
Net cash (used in)/generated from investing activities		**(7,839)**	**(15,614)**
Net cash outflow before financing activities		**(9,101)**	**(14,875)**
Cash flows from financing activities			
Issue of shares (net of costs)		7,016	7,825
Issue of loan note		2,500	–
Loan (repayments)/drawdowns		(434)	7,720
Equity dividend paid	12	–	(2,145)
Net cash generated from financing activities		**9,082**	**13,400**
Decrease in cash and cash equivalents		**(19)**	**(1,475)**
Cash and cash equivalents at start of year		42	1,517
Cash and cash equivalents at end of year		**23**	**42**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	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
Balance at 1.1.08	1,466	23,983	(5,550)	14,326	–	34,225	28,681	62,906
Transactions with owners:								
Allotment of shares	250	7,875	–	–	–	8,125	–	8,125
Share issue costs	–	(300)	–	–	–	(300)	–	(300)
Minority dividend	–	–	–	–	–	–	(2,506)	(2,506)
Equity dividend	–	–	–	(2,145)	–	(2,145)	–	(2,145)
Total transactions with owners	**250**	**7.575**	**–**	**(2,145)**	**–**	**5,680**	**(2,506)**	**3,174**
(Loss)/profit for year	–	–	–	(4,157)	–	(4,157)	4	(4,153)
Exchange differences	–	–	13,120	–	350	13,470	10,937	24,407
Revaluation on acquisition	–	–	–	–	2,800	2,800	–	2,800
Total comprehensive income/(loss)	**–**	**–**	**13,120**	**(4,157)**	**3,150**	**12,113**	**10,941**	**23,054**
Balance at 31.12.08	**1,716**	**31,558**	**7,570**	**8,024**	**3,150**	**52,018**	**37,116**	**89,134**
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**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Share capital £'000	Share Premium £'000	Retained earnings £'000	Total equity £'000
Company				
Balance at 1.1.08	1,466	23,983	736	26,185
Transactions with owners:				
Allotment of shares	250	7,875	–	8,125
Share issue costs	–	(300)	–	(300)
Equity dividend	–	–	(2,145)	(2,145)
Total transactions with owners	**250**	**7.575**	**(2,145)**	**5,680**
Profit for the year	–	–	763	763
Total comprehensive income	**–**	**–**	**763**	**763**
Balance at 31.12.08	**1,716**	**31,558**	**(646)**	**32,628**
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**

NOTES TO THE FINANCIAL STATEMENTS

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 2009.

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.

As explained in the Chairman's statement, Grant Thornton, the Group's auditors, have been denied access to the working papers of the auditors of the Company's 50.00125% subsidiary in Bolivia, Empresa Electrica Guaracachi S.A., ("Guaracachi") following that company's nationalisation on 1 May 2010. However, Guaracachi's financial statements, which were approved and signed, with an unqualified audit report, on 18 March 2010 by PricewaterhouseCoopers, Guaracachi's auditors, were available to the Company in the usual way and accordingly, these financial statements have been prepared using Guaracachi's audited figures adjusted, as in prior periods, for relevant IFRSs and recurring adjustments to align the accounting policies to those of the Group.

Going concern

The recent nationalisation of the Company's 50.00125% subsidiary in Bolivia, Guaracachi means that the expected dividend receipt from Guaracachi is unlikely to be received in the short term and although the Bolivian Government has pledged to pay fair value to the Company as compensation, the quantum and timing of the receipt of compensation is uncertain.

As a result, the directors have recently raised £1.1m before expenses to ensure that the Company and the Group has sufficient working capital for the short term.

In addition, Energia del Sur S.A. ("EdS"), the Company's joint venture company in Argentina, is in negotiations to obtain local finance by the issue of a US$40m bond which will enable EdS to commence repayment of the loans advanced by the Company during the past 4 years.

Until such time as either additional equity is raised or the planned EdS bond issue is successfully concluded, or fair value compensation is received from the Government of Bolivia, there remains a material degree of uncertainty that casts significant doubt upon the Company and the Group's ability to continue as a going concern.

However, the directors do consider that there is a reasonable expectation that the Group and the Company will be successful in securing additional resources and for this reason continue to adopt the going concern basis in preparing these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

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 2009:

- 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.

New standards and interpretations currently in issue but not effective for accounting periods commencing on 1 January 2009 are:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective 1 July 2009)
- Group Cash-settled Share-based Payment Transactions - Amendment to IFRS 2 (effective 1 January 2010)
- Improvements to IFRSs 2009 (various effective dates, earliest of which is 1 July 2009, but mostly 2010)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (effective prospectively for transfers on or after 1 July 2009)
- 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)
- Amendment to IFRS 1 Additional Exemptions for First-time Adopters (effective 1 January 2010)
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)

The following standards and interpretations are in issue but not yet adopted by the EU:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective 1 January 2011)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Amendment to IFRS 1 Additional Exemptions for First-time Adopters (effective 1 January 2010)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

2 Summary of significant accounting policies

2.1 Basis of consolidation

The Group financial statements consolidate the results of the Company, its subsidiary in Bolivia (Guaracachi) and, for the first six months of the year, its wholly owned subsidiary in Argentina (EdS) and for the second six months, its 50% interest in EdS.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

2 Summary of significant accounting policies continued

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 unless the temporary difference can be controlled and will probably not 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

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

Carbon Emission Reduction credits (CERs) 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

2 Summary of significant accounting policies continued

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 (31 December 2008 – 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

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) Carrying value of the assets and liabilities of Guaracachi - the announcement of the compulsory purchase of the Group's interest in Guaracachi means that there is a degree of uncertainty as to whether the compensation to be agreed with the Bolivian Government will be commensurate with the carrying values of Guaracachi's assets and liabilities included in these financial statements. A pro-forma balance sheet excluding the assets and liabilities of Guaracachi as at 31 December 2009 is provided in note 32 together with a note on the assumption made by management with respect to the minimum expected compensation.

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.

The following tables provide an analysis of the operating results, total assets and liabilities, capital expenditure and depreciation for 2009 and 2008 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 31.12.2009	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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

4 Segment analysis continued

b) 12 months to 31.12.2008	Argentina £'000	Bolivia £'000	UK £'000	Consolidation Adjustments £'000	Total £'000
Revenue	6,211	21,672	1,250	–	29,133
Cost of sales	(5,327)	(18,719)	(673)	–	(24,719)
Gross profit	**884**	**2,953**	**577**	**–**	**4,414**
Administrative expenses	(1,125)	(1,317)	(732)	–	(3,174)
Exchange (loss)/gain	(1,545)	653	(498)	–	(1,390)
Operating profit/(loss)	**(1,786)**	**2,289**	**(653)**	**–**	**(150)**
Finance income	–	116	1,033	(946)	203
Finance expense	(1,899)	(1,143)	(1,187)	946	(3,283)
Dividend received	–	–	1,819	(1,819)	–
Profit/(loss) before tax	**(3,685)**	**1,262**	**1,012**	**(1,819)**	**(3,230)**
Tax credit/(expense)	505	(1,179)	(249)	–	(923)
Profit/(loss) for the Year	**(3,180)**	**83**	**763**	**(1,819)**	**(4,153)**
Total assets	63,691	141,820	52,054	(51,331)	206,234
Total liabilities	60,203	67,509	19,426	(30,038)	117,100
Capital expenditure	11,395	17,791	–	–	29,186
Depreciation	616	3,435	–	–	4,051

5 Exchange rate sensitivity analysis

The Group's electricity generating assets are located in 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:

	31.12.09	31.12.08
i) Closing rate		
Boliviano to £	11.42	10.43
AR $ to £	6.09	5.00
US $ to £	1.59	1.45
ii) Average rate		
Boliviano to £	11.22	13.70
AR $ to £	5.86	5.87
US $ to £	1.57	1.86

If the exchange rate of sterling at 31 December 2009 had been stronger or weaker by 10% with all other variables held constant, shareholder equity at 31 December 2009 would have been £7.3m (2008 – £5.7m) lower or higher than reported.

If the average exchange rate of sterling during 2009 had been stronger or weaker by 10% with all other variables held constant, the loss for the year, would have been £0.52m (2008 – £0.29m) higher or lower than reported, including minority interests, and £0.52m (2008 – £0.29m) higher or lower excluding minority interests.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

6 Cost of sales

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Expenditure incurred in cost of sales is as follows:		
Cost of fuel	19,616	14,636
Cost of equipment sold	–	673
Transmission fees	3,043	2,395
Depreciation	5,376	4,012
Maintenance	1,142	1,171
Other	2,515	1,832
	31,692	**24,719**

7 Administrative expenses

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Expenditure incurred in administrative expenses is as follows:		
Payroll and social security	1,818	1,473
Services, legal and professional	1,002	468
Office costs and general overheads	1,229	1,189
Audit and non-audit services	87	44
	4,136	**3,174**
Exchange losses	1,684	1,390
	5,820	**4,564**

Audit and non-audit services include £39k paid to the auditors for the audit of the Company and the Group financial statements and £10k 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 subsidiary and joint venture companies, amounted to £38k (2008 – £38k).

8 Employee costs

a) Group	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Aggregate remuneration of all employees and directors, including social security costs	2,627	2,004

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

Management	17	19
Operations	87	99
Total	**104**	**118**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

8 Employee costs continued

b) Company	£'000	£'000
Aggregate remuneration of all employees and directors, including social security costs	373	261

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

Management	7	7

c) Directors' remuneration

The total remuneration paid to the directors, excluding social security costs, was £310k (2008 – £203k). The total remuneration of the highest paid director was £57k (2008 – £44k).

9 Other income

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'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. Further details are set out in note 28.

10 Finance income and expense

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Interest received on bank deposits	67	203
Inter-group interest[1]	374	–
	441	**203**
Interest paid/payable on bank borrowings and loans	2,354	2,309
Imputed interest on loans	182	153
Interest accrued on deferred consideration[2]	622	821
	3,158	**3,283**

[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.

[2] Interest accrued on deferred consideration relates to interest payable on loan notes issued in June 2008 to the vendors of 50% of PEL. This interest was offset against part of the purchase consideration payable by the original vendors following their repurchase of the 50% interest in June 2009.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

11 Tax expense

The relationship between the expected tax expense at the basic rate of 28% (31 December 2008 – 30%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	Year ended 31.12.09 £000	Year ended 31.12.08 £'000
Result for the year before tax	(647)	(3,230)
Standard rate of corporation tax in UK	28%	28%
Expected tax credit	(181)	(904)
Adjustment for different basis of calculating overseas tax[1]	1,020	1,174
UK losses carried forwards	–	226
Overseas losses carried forwards	843	200
Tax adjustment in Argentina[2]	529	–
Tax on overseas dividends, less double tax relief	–	227
Actual tax expense	**2,211**	**923**
Comprising:		
Current tax expense	2,877	1,205
Deferred tax net credit	(666)	(282)
Total expense	**2,211**	**923**

[1] In Bolivia and Argentina, 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 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 2009 was £445k (31 December 2008 – nil).

12 Dividends

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Amounts recognised as distributions to equity shareholders during the year:		
Final dividend paid in August 2008 of 2.5p per share	–	2,145

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

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 profit for the year was £1.2m (31 December 2008 – profit £0.8m).

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 31.12.09	Year ended 31.12.08
Loss attributable to equity shareholder of the Company	£2.9m	£4.2m
Average number of issued shares	154,978,754	79,538,775
Basic loss per share	1.89p	5.23p
Diluted loss per share	1.86p	5.23p

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

15 Property, plant and Equipment

	Land £'000	Plant and equipment £'000	Plant under construction £'000	Total £'000
a) Group				
Cost at 1 January 2008	4,390	65,284	22,202	91,876
On acquisition of 50% of PEL	90	3,695	13,059	16,844
Exchange adjustments	1,687	24,871	15,821	42,379
Additions	–	2,232	26,954	29,186
Disposals	–	–	(673)	(673)
Cost at 31.12.08	**6,167**	**96,082**	**77,363**	**179,612**
On 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**
Depreciation at 1 January 2008	–	4,641	–	4,641
On acquisition of 50% of PEL	–	983	–	983
Exchange adjustments	–	1,884	–	1,884
Charge for the year	–	4,051	–	4,051
Depreciation at 31.12.09	**–**	**11,559**	**–**	**11,559**
On 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**
Net book value – 31.12.09	**4,636**	**88,926**	**48,783**	**142,345**
Net book value – 31.12.08	**6,167**	**84,523**	**77,363**	**168,053**

i) The value of property, plant and equipment recognised upon the initial acquisition of 50% of EdS in 2005 was £4.15m. This amount included a negative fair value adjustment of £0.45m 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 £5m 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 £5m has been reduced to £2.5m.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

15 Property, plant and Equipment continued

ii) The value of property, plant and equipment recognised upon the initial inclusion of Guaracachi in the financial statements in 2006 was £69.9m. This amount included a positive fair value adjustment of £14.3m resulting from a professional valuation carried out at the date of the acquisition.

iii) Plant under construction comprises Guaracachi's 96 MW combined cycle gas turbine ("CCGT") conversion and expansion project in Santa Cruz, Bolivia, which is due for completion in early 2010 and, at 31 December 2008, EdS's CCGT project in Patagonia, Argentina where capacity has been increased from 76 MW to 136 MW and which is now in service.

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

16 Intangible assets

	Goodwill £'000	CERs £'000	Total £'000
At 1 January 2008	–	–	–
Goodwill arising on acquisition	6,335	–	6,335
Fair value on acquisition	–	3,000	3,000
At 31 December 2008	**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**

Goodwill represents 50% (2008 – 100%) 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 2009 of £950k represents 50% of the discounted value of the remaining 302,650 CERs. The discount rate applied is 25% per annum.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

17 Trade and other receivables

	31.12.09 £'000	31.12.08 £'000
17a) Group – non-current		
Trade receivables[1]	1,108	1,543
Amounts due from joint venture companies[2]	4,385	–
Other receivables and prepayments[3]	1,961	3,250
	7,454	**4,793**

[1] Non-current trade receivables represents 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 rates of between 17.5% and 25%.

[3] Other receivables includes £1.6m (2008 – £3.25m) of input Vat which has been paid by EdS and is recoverable as a deduction against future Vat liabilities and £0.3m (2008 – £nil) of future income tax paid by EdS which is expected to be recovered as an offset against future profits.

	31.12.09 £'000	31.12.08 £'000
17b) Group – current		
Trade receivables	6,023	6,291
Other receivables and prepayments[1,2,3,4]	14,227	3,648
	20,250	**9,939**

Major items within other receivables and prepayments include:

[1] £0.9m (31 December 2008 – £nil) 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] £1.82m (31 December 2008 – £nil) re sale of surplus land by Guaracachi. This was received after the year end.

[3] £4.9m (31 December 2008 – £2.6m) 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.

[4] £3.85m 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. Interest on the amounts lent to PEL has been accrued at rates of between 17.5% and 25%.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

17 Trade and other receivables continued

	31.12.09 £'000	31.12.08 £'000
17c) Company – non-current		
Amounts owed by subsidiary companies	20,890	20,870
Amounts owed by joint venture companies (2008 – subsidiary company)	14,117	13,205
	35,007	34,075

The amounts owed by subsidiary and joint venture companies (2008 – subsidiary companies) are unsecured and payable on demand but are not expected to be fully received within the next twelve months. £11m of the amount due from the joint venture companies is interest bearing at rates of between 17.5% and 25%. All other balances are non-interest bearing.

Included within amounts due by subsidiary companies is an inter-company loan of £20.6m which is 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.

	31.12.09 £'000	31.12.08 £'000
17d) Company – current		
Trade receivables	–	1,250
Amounts due from joint venture companies	7,700	–
Other receivables and prepayments	31	38
	7,731	**1,288**

The £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 is not materially different to the carrying values shown above.

18 Deferred tax

	31.12.09 £'000	31.12.08 £'000
a) Asset at 1 January 2009	1,112	650
Exchange translation	(101)	180
Credited to tax expense	711	282
Asset at 31 December 2009	**1,722**	**1,112**

The Group deferred tax asset arises principally from temporary differences on accelerated depreciation in Bolivia.

No deferred tax asset has been recognised in respect of the parent company's tax losses of £602k at 31 December 2009 (£1.8m at 31 December 2008) in view of the uncertainty over the timing of the utilisation of these tax losses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

	31.12.09 £'000	31.12.08 £'000
b) Liability at 1 January 2009	4,052	978
Additional liability arising on acquisition	–	2,400
Reduction in liability on sale of 50% of PEL	(1,675)	
Exchange translation	(123)	674
Charged to tax expense	45	–
Liability at 31 December 2009	**2,299**	**4,052**

The Group deferred tax liability arises from:

i) accelerated tax allowances on plant and equipment expenditure in Bolivia – £1.3m (2008 – £1.4m)
ii) deferred tax provision on the fair value adjustments arising on the acquisition of 50% of PEL in June 2008 – £1.0m (2008 – £2.7m) adjusted for the 50% sold in June 2009.

19 Inventories

	31.12.09 £'000	31.12.08 £'000
Spare parts and consumables	3,202	3,817

Spare parts and consumables are valued at cost.

20 Current tax assets

	31.12.09 £'000	31.12.08 £'000
Sales taxes/VAT	–	–
Pre-paid profits tax	1,172	4,154
	1,172	**4,154**

Pre-paid profits tax relates to taxes paid in Bolivia (2008 – Bolivia and Argentina) which are off-settable against future tax liabilities.

21 Cash and cash equivalents

	31.12.09 £'000	31.12.08 £'000
a) Group		
Cash at bank and in hand	266	486
Short-term bank deposits	3,910	4,545
	4,176	**5,031**
b) Company		
Cash at bank and in hand	22	35
Short-term bank deposits	–	7
	22	**42**

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

22 Share capital

	31.12.09 £'000	31.12.08 £'000
In issue, called up and fully paid 205,421,505 ordinary shares of 2p each (31 December 2008 – 85,788,775)	4,108	1,716

Reconciliation of movement in share capital	Number	£'000
Balance at 1 January 2008	73,288,775	1,466
Allotment in June 2008	12,500,000	250
Balance at 31 December 2008	**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**

The prices per share of the allotments referred to above were: June 2008 – 65p, April 2009 – 8p and June 2009 – 8p. 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 June 2008 included 25m shares at 8p per share allocated in exchange for conversion of £2m of debt (see also note 32a(ii)).

In addition to the issued share capital, the Company issued 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.

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

23 Trade and other payables

	31.12.09 £'000	31.12.08 £'000
a) Group – non-current		
Staff indemnity provision[1]	319	290
CER liability[2]	745	–
	1,064	**290**
b) Group – current		
Trade payables	17,782	24,914
Accruals	2,482	2,271
	20,264	**27,185**
c) Company – current		
Trade payables	134	372
Accruals	199	220
	333	**592**

[1] The staff indemnity provision represents statutory long service entitlements due to employees in Guaracachi. The entitlement is payable on leaving service.

[2] The future CER liability represents the present value of CERs which were sold by EdS in 2009 for delivery between 2010 and 2012. The liability will be credited to the income statement as the CERs are generated.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

24 Current tax liabilities

	31.12.09 £'000	31.12.08 £'000
Profits taxes	1,728	2,347

25 Borrowings

	31.12.09 £'000	31.12.08 £'000
a) Group – non-current		
Loan note[1]	2,500	–
Loan from CAMMESA[2]	1,349	1,743
Bank loan – EdS[3]	–	7,106
Bank loans – Guaracachi[4]	28,481	27,374
Loan notes – Guaracachi[5]	25,104	11,041
	57,434	**47,264**
b) Group – current		
Loan from CAMMESA[2]	387	896
Bank loans – EdS[3]	4,183	4,034
Bank loans – Guaracachi[4]	4,506	7,162
Other loans[6]	5,507	14,234
Deferred consideration payable[7]	–	9,636
	14,583	**35,962**
Group – total borrowings	**72,017**	**83,226**
The Group's borrowings are repayable as follows:		
2010	14,583	35,962
2011	9,193	6,009
2012 to 2014	14.875	18,031
2015 and beyond	33,366	23,224
	72,017	**83,226**
c) Company – non-current		
Loan note[1]	2,500	–
d) Company – current		
Other loans[6]	5,507	9,198
Deferred consideration payable[7]	–	9,636
	5,507	**18,834**
Company – total borrowings	**8,007**	**18,834**
The Company's borrowings are repayable as follows:		
2010	5,507	18,834
2011	2,500	–
	8,007	**18,834**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

25 Borrowings continued

[1] The loan note was issued in September 2009 at par and is due to be repaid in March 2011. Interest is payable quarterly at the rate of 12% per annum. Holders of the loan notes are entitled to a total of 10m warrants to subscribe for ordinary shares at 25p per share. 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 2012.

[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 pending renegotiations. The comparative figures for 2008 show the Group's 100% share of the loans.

	31.12.09 £'000	31.12.08 £'000
2010	4,183	4,034
2011	–	2,842
2012	–	4,264
	4,183	**11,140**

[4] The Guaracachi bank loans comprise 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 are primarily US$ based. Non US$ based loans are based in Bolivianos or Euros. The maturity dates of the loans are as follows:

	31.12.09 £'000	31.12.08 £'000
2010	4,506	7,162
2011	6,430	2,312
2012 to 2014	14,075	11,929
2015 and beyond	7,976	13,133
	32,987	**34,536**

[5] The Guaracachi loan notes comprise two bond issues. The first bond was issued in December 2007 and at 31 December 2009 US$16m has been allotted. The bond bears interest at 8.55% and is repayable in 3 equal instalments during 2015, 2016 and 2017. The second bond was issued during 2009 and at 31 December 2009, US$24m has been allotted. The bond bears interest at 9.7% and is 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%.

[7] Deferred consideration related to the deferred portion of the purchase price in respect of the purchase of 50% of PEL in June 2008. As part of the agreement in June 2009 to sell this 50% of PEL back to the original vendors, the deferred consideration and accrued interest was waived.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

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 £6m (2008 – £8m).

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 £0.3m (2008 – £1.4m).

26 Reconciliation of (loss)/profit before tax to cash generated from operations

a) Group	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Loss for the year before tax	(647)	(3,230)
Net finance expense	2,717	3,080
Adjustments for:		
Depreciation	5,376	4,051
Profit on sale of 50% of PEL	(2,361)	–
Profit on sale of land	(1,057)	–
Profit on sale of equipment	–	(577)
Movement in working capital:		
Change in inventories	(215)	80
Change in trade and other receivables	(7,830)	(4,209)
Change in trade and other payables	(84)	4,283
Cash (used in)/generated from operations	**(4,101)**	**3,478**

b) Company	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Profit for the year before tax	1,246	1,011
Net finance (income)/expense	(865)	154
Adjustments for:		
Profit on sale of 50% of PEL	(1,317)	–
Dividend received	–	(1,591)
Tax paid on dividend received	–	(227
Unrealised exchange (gain)/loss on loans	(3)	2,163
Movement in working capital:		
Change in trade and other receivables	8	(1,252)
Change in trade and other payables	(170)	416
Cash (used in)/generated from operations	**(1,101)**	**674**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

27 Investments

	31.12.09 £'000	31.12.08 £'000
Cost at 1 January 2009	16,649	3,777
Disposal of 50% of PEL	(8,179)	–
Addition of 50% of PEL	–	12,872
Balance at 31 December 2009	**8,470**	**16,649**

In June 2008, the Company acquired a further 50% interest in PEL thereby increasing the Company's interest in PEL to 100%.

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

At 31 December 2009, the Company held the following investments:

i) 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.

ii) 100% of the issued share capital of Bolivia Integrated Energy Limited ("BIE"), a company registered in the British Virgin Islands, under registration number 510247. BIE owns, 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% (2008 – 100%) 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

28 Disposal

In June 2009, the Company sold 50% of its interest in PEL. The table below shows the fair value of the assets and liabilities sold:

	£'000
Property, plant and machinery	19,753
Intangible assets	4,667
Inventories	485
Trade and other receivables	4,828
Cash	130
Trade and other payables	(5,197)
Borrowings	(15,186)
Deferred tax liability	(1,060)
Total net assets sold	**8,420**
Consideration – cancellation of loan notes and accrued interest	9,331
Deduct: net assets sold	(8,420)
Transfer from their reserves	1,575
Legal fees on sale	(125)
Profit on sale	**2,361**

If the Company had sold the 50% interest at the beginning of the year, the Group loss for the year would have been £1.2m lower.

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:

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

29 Financial risk management continued

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 the Group's and the Company's trade and other receivables are considered to be impaired.

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

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)

31 December 2008

	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	–	4,793	–	–	34,075	–
Trade and other receivables < 1 year	–	9,939	–	–	1,288	–
Cash and cash equivalents	–	5,031	–	–	42	–
Trade and other payables > 1 year	–	–	(290)	–	–	–
Trade and other payables < 1 year	–	–	(27,185)	–	–	(592)
Borrowings > 1 year	–	–	(47,264)	–	–	–
Borrowings < 1 year	–	–	(35,962)	–	–	(18,834)
Totals	–	19,763	(110,701)	–	35,405	(19,426)

30 Capital commitments

The Group is engaged in developing new turbines in Bolivia and Argentina. At 31 December 2009, the Group had outstanding capital commitments of £0.5m (31 December 2008 – £1.0m).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 (continued)

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$9m/£5.7m (2008 – 100% share, US$20m/£13.8m). In the event that EdS wished to terminate the agreement before 2022, a default payment may become payable. The Group does not anticipate early termination and therefore no provision has been made in this regard.

Guaracachi has received a claim in 2007 in respect of VAT amounting to US$1.7m. The Bolivian tax authorities maintain that the VAT, which was associated with an insurance claim, is payable to the tax authorities. Guaracachi's management do not consider the claim to be valid and accordingly no provision has been made in respect of this claim.

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 shareholders and directors of IPC. An amount of £0.02m was outstanding at 31 December 2009.

ii) IPC participated in the share allotment in June 2009 and converted £2m of outstanding loan into 25m ordinary shares at a price of 8p per share. The Company accrued interest of £0.19m during the year on the loan balance. The amount of loan outstanding, including accrued interest, at 31 December 2009 was £1.62m (31 December 2008 – £3.7m)

iii) accrued interest of £0.28m on the loan from Secteur Holdings Ltd, a company of which Mrs P Earl is a director, and paid interest of £0.15m and repaid £0.08m of principal. The amount of loan outstanding, including accrued interest, at 31 December 2009 was £3.55m (31 December 2008 – £3.87m).

iv) paid salaries to key management amounting to £0.32m (2008 – £0.26m).

v) paid, 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 2009 was £7.8m (31 December 2008 – £0.1m).

b) Group

Guaracachi paid £0.2m (2008 – £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 2008 (£0.01m at 31 December 2008).

33 Post balance sheet date events

i) Issue of share capital

In June 2010, the Company allotted 11,000,000 Ordinary 2p shares at 10p per share raising £1.1m before expenses.

ii) Nationalisation of Guaracachi

As detailed in Chairman's Statement and Chief Executive's review of operations, on 1 May 2010 the Bolivian Government announced that it was making a compulsory purchase of the Group's 50.00125% interest in the share capital of Guaracachi.

At the date of signing these financial statements, the Company has filed a formal notice of claim as requested by the Bolivian Government. No adjustment has been made to the carrying value of the assets and liabilities as at 31 December 2009 since the event occurred after the balance sheet date.

The following table provides a pro-forma illustration of the Group balance sheet at 31 December 2009 after excluding the assets and liabilities of Guaracachi and including a figure of £50m as a proxy for the value of Guaracachi representing the minimum compensation which is expected to be offered by the Bolivian Government for the 50.00125% interest acquired by the Company in January 2006 based on the audited book value of Guaracachi at 31 December 2009, and declared but unpaid dividend. If the Group had not owned its 50.00125% interest in Guaracachi during 2009, the Group loss for the year after tax would have been £3.07m as compared to the actual loss of £2.93m.

PRO-FORMA CONSOLIDATED ILLUSTRATION OF FINANCIAL POSITION

as at 31 December 2009 excluding Guaracachi and including minimum expected compensation

	31.12.09 Actual £'000	Eliminate Guaracachi £'000	Bolivian GAAP Book Value Guaracachi £'000	31.12.09 Excluding Guaracachi £'000
Assets				
Non-current assets				
Property, plant and equipment	142,345	(121,626)	–	20,719
Intangible assets	4,118	–	–	4,118
Trade and other receivables	7,454	–	–	7,454
Deferred tax assets	1,722	(1,448)	–	274
	155,639	**(123,074)**	**–**	**32,565**
Current assets				
Inventories	3,202	(2,803)	–	399
Trade and other receivables	20,250	(12,710)	–	7,540
Compensation claim1	–	–	50,000	50,000
Current tax assets	1,172	(1,172)	–	–
Cash and cash equivalents	4,176	(3,914)	–	262
	28,800	**(20,599)**	**50,000**	**58,201**
Total assets	184,439	(143,673)	50,000	90,766
Equity and liabilities				
Shareholders' equity				
Share capital	4,108	–	–	4,108
Share premium account	38,182	–	–	38,182
Foreign currency reserve	4,044	(2,633)	–	1,411
Other reserves	1,383	–	–	1,383
Retained earnings	5,095	(31,180)	50,000	23,915
Total equity attributable to shareholders of Rurelec PLC	**52,812**	**(33,813)**	**50,000**	**68,999**
Minority interests	33,810	(33,810)	–	–
Total equity	**86,622**	**(67,623)**	**50,000**	**68,999**
Non-current liabilities				
Trade and other payables	1,064	(319)	–	745
Future tax liabilities	445	–	–	445
Deferred tax liabilities	2,299	(1,275)	–	1,024
Borrowings	57,434	(52,224)	–	5,210
	61,242	**(53,818)**	**–**	**7,424**
Current liabilities				
Trade and other payables	20,264	(14,688)	–	5,576
Current tax liabilities	1,728	(1,677)	–	51
Borrowings	14,583	(5,867)	–	8,716
	36,575	**(22,232)**	**–**	**14,343**
Total liabilities	**97,817**	**(76,050)**	**–**	**21,767**
Total equity and liabilities	**184,439**	**(143,673)**	**50,000**	**90,766**
Net asset value per share (based on number of shares in issue at 31.12.09)	**25.7p**	**(16.4p)**	**24.3**	**33.6p**
Net asset value per share (based on number of shares in issue at 24.05.10)	**24.4p**	**(15.6p)**	**23.1p**	**31.9p**

[1] The figure for the compensation claim is calculated by reference to the book value of Guaracachi. It has been assumed that no tax will be payable on this receipt.

COMPANY INFORMATION

Directors
J G West (non-executive Chairman)
Sir D R C Christopher (non-executive)
M Blanco
P R S Earl
J M Eyre
A J S Morris (non-executive)
E R Shaw

Secretary
S A Laker

Company number
4812855

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