RURELEC

INTERIM REPORT 2020

FOR THE 6 MONTHS ENDED 30 JUNE 2020

Stock Code: RUR

HIGHLIGHTS

Rurelec PLC ("Rurelec" or "the Company") (AIM: RUR), the owner, operator and developer of power generation capacity internationally, today announces its unaudited interim results for the six months ended 30 June 2020.

FINANCIAL HIGHLIGHTS:

- Post tax (loss) / profit — £0.68 million profit (2019: £(0.45 million loss)
- Profit / (loss) per share — 0.12 pence profit (2019: (0.08) pence loss)
- Net asset value per share — 3.9 pence (2019: 4.3 pence)
- Net cash balance — £0.60 million (2019: £0.31 million)

OPERATIONAL AND POST HALF-YEAR HIGHLIGHTS:

- The main factor behind the change in operating profitability from £0.45 million loss for 2019 to a £0.68 million profit for 2020 is the movement in the GBP/USD exchange rate which favourably affected foreign exchange movements on operating items and also affected the translation of foreign operations, resulting in an overall comprehensive profit for the period of £1.40 million (2019: £(0.14) million).
- Further cash was generated by the Group, enabling a significant reduction in liabilities, including a reduction in trade payables, halving from £0.76 million in 2019 to £0.38 million in 2020.
- Despite reductions in creditors, cash reserves were also boosted, period-end cash nearly doubling from £310k in 2019 to £604 k in 2020.
- Loans due from joint venture companies were replaced in 2019 with Amended Loan Notes, as previously announced on 21.11.19. As a result, there has been a reclassification of receivables from current assets to long term assets (investments and receivables). In the prior year, the loans were due on demand and were shown as current assets.
- Group secured borrowings have now been eliminated (2019 - £0.15 million) and the P&L account consequently shows no interest payable (2019 - £50k).
- Reserve movements reflect the first stage of the group capital reconstruction in the period, being the transfer of the £45.00 million Other Reserve to Retained Losses. In August 2020, the second and final stage of this process saw a £28.37 million movement from undistributable to distributable reserves. The purpose of the Capital Restructure is to create the capacity to pay dividends in the future, dependent upon the availability of future cash flows and the Company's working capital requirements at the time. In addition, as previously announced, the year 2019 saw a marked improvement in the Group's liquidity position and the improvements in the performance of the Argentinian asset. The relationship with the Company's joint venture partner, have also been encouraging. However, uncertainty around the timing of any future material asset disposals together with the effect of the current poor state of the Argentinian economy and the uncertainty around the renegotiation of the Resolution 220 PPA later this year do cast a shadow over future performance and therefore there cannot be any guarantee as to when, or if, the Company will have the funds to make a dividend payment or undertake a share buy-back in the future should there be sufficient cash to do so.
- Chile – The Rurelec Board continues to explore options for the Chilean operations and the Group's two 128 MW Turbines.

HIGHLIGHTS

Commenting on the results, Simon Morris and Andy Coveney, Rurelec's Executive Directors, said:

"The Board continues to pursue measures to restore value to the Company and its shareholders through prioritisation of receiving cash receipts from the power generation plant in Argentina, selling or developing its assets in Chile and reviewing options for its turbine assets, whilst looking for opportunities to reduce costs throughout the Group."

Review of Operations

Argentina

Following the 2019 US$6 million major overhaul and repair of its steam turbine and the refurbishment of one gas turbine, EdS resumed a steady and consistent output which continued throughout the first 6 months of 2020. This enabled EdS to generate sufficient cash to make unsecured loan repayments to Patagonia Energy Limited ("PEL"), (the joint venture company which owns EdS and in which Rurelec has a 50% share), with US $1.82 million being remitted during the period to PEL, of which Rurelec received US $1.44 million or £1.12 million act actual exchange rates in partial repayment of the Amended and Restated Loan Notes (the "loan notes") that were created as part of a new agreement with the joint venture partner in November 2019. This agreement set out how future cash receipts in PEL will be allocated between the joint venture partners and represented a major step forward in our mutual working relationship.

The rate of cash remittances from EdS was lower than in the same period last year as a result of continuing uncertainties in the Argentinian economy and difficulties experienced in the market for wholesale electricity generation there. In 2020 remittances of secured and unsecured debt repayments to Rurelec totalled £1.12 million (2019: £1.63 million).

Despite the plant performing well, the economic situation in Argentina remained in crisis:

1. High inflation and a decline in the value of the Argentinian peso against the US Dollar led to the Argentinian Central Bank tightening exchange controls in September 2019. The exchange controls on US Dollars have a direct effect on the cash remittances by EdS to PEL, the latter not being resident in Argentina. The cost of transferring money out of Argentina has increased dramatically since February 2020. In Q2 2020 the loss suffered on transferring US Dollars out of Argentina rose to over 40 per cent. of the underlying face value. The duration and severity of these controls remains uncertain.

2. Delays have been experienced by EdS along with other generators in Argentina in receiving payments of revenue from CAMMESA (the wholesale electricity market regulator and administrator).

3. In March 2020, the Argentinian Government announced a policy change whereby energy spot prices will no longer be linked to US Dollars but to Argentinian Pesos retroactively to February 2020 and will be updated monthly from March 2020. This increased the foreign exchange risk of operating in Argentina.

4. The above policy change will not affect the revenue derived from EdS's Resolution 220 Power Purchase Agreement ("PPA"), which will remain linked to the US Dollar. However, this PPA expires in September 2020, and may be superseded by a new tariff or, at worst, the output will be sold on the energy spot market. The discussions with the Argentinian authorities have commenced regarding what rate will be put in place from September 2020, but the situation remains highly uncertain. The response to this situation by includes an extensive review of the operating cost base of the EdS plant and it administrative headquarters.

The balance outstanding on the loan notes at 30 June 2020 is US $15.48 million, with the first US $5 million of repayment shared 80/20 between Rurelec and Basic Energy Limited ("Basic"), the ultimate shareholders of PEL, and the balance paid 72:28 thereafter (Rurelec:Basic).

Chile

In Chile, the necessary environmental consents and land leases were maintained in order to extend the project and the Board continues to review options in the light of the risks versus rewards of undertaking this project.

Head office

A tight rein continues to be maintained on overheads in the UK and administration costs for the period fell slightly to £501k (2019: £515k).

Debt repayments and Cash flow

As expected, Rurelec was able to pay off the last remaining balance of BPAC debt in December 2019 and during the first six months of 2020 has remained free of any secured debt and was consequently in the position of not having to pay any interest.

Rurelec was able to reduce unsecured trade creditors significantly – trade payables fell from £0.76 million to £0.38 million. Despite this, Rurelec was able to nearly double its cash reserves compared to the previous year such that at the end of the period the balance was £604k (2019: £310k).

Although there were improvements in the Group's finances in the period, liquidity remains a significant issue for the Group. The Group has been able to cope with variability in the timing and quantum of cash receipts from Argentina due to long term reductions in Group operating costs which in 2019 and 2020 have stabilised at lower levels than in previous years. The cash position is expected to recover further in line with expected remittances from EdS and PEL and when sales of remaining assets are achieved by the Group. However, there can be no guarantee as to the timing of any such asset sales, nor regarding when any further cash will be received from Argentina owing to the multiple uncertainties outlined above. In particular, there is no guarantee that the remuneration level of the tariff/PPA/spot prices after September 2020 will be favourable to EdS or that EdS will remain economical. The Directors however remain optimistic as to a sensible resolution.

Given the cash balances held by the Group and expected cash remittances from our Argentine operation, the directors continue to adopt the going concern basis of accounting.

Review of future strategy

The strategy of the Group continues to be focussed on stabilising the financial position, keeping costs under tight control, whilst certain assets are sold. The underlying strategy is to preserve the value of the Group assets, which will in turn enable all creditors of Rurelec to be repaid and will maximise returns to shareholders.

COVID-19

To date, the COVID-19 pandemic has had little direct impact on the Group's ability to operate. The Group's Head Office in London and the EdS head office in Buenos Aires have operated on a remote basis and the EdS plant in Argentina is situated in a region which has to 13 September 2020 had relatively low incidence of the virus with 2,084 positive cases, of which 831 are active cases, 42 are in Comodoro Rivadavia and only 18 deaths [1]. EdS's power generation is considered part of an essential industry, and it has implemented procedures and protocols to allow as near to normal safe working practices in place. Notwithstanding the

[1] Source: http://www.ministeriodesalud.chubut.gov.ar/archivos/2020/09/Reporte-Diario-Coronavirus-13092020.pdf

above, it is not considered possible to estimate the long-term financial impact of COVID-19 on the Argentinian Government will impose or the level to which the further weakening of an already weak economy will already week Argentinean economy at the present time, not to anticipate the economic and fiscal measures that influence the Government's decisions to drive down the prices which it is prepared to pay for electricity after September 2020.

The Directors performed stress testing of Rurelec's cashflow in the Going Concern section of the Audited results for the year ended 31 December 2019, following which it concluded that any impact of the COVID-19 pandemic would have little adverse effect on the Directors' view on going concern of the Group. However the effects of the COVID-19 pandemic in Argentina are less clear in the future and the Directors cannot rule out liquidity issues impacting on the Group in future periods if the Argentinian government loses control of the disease to the extent where it does have a material adverse impact on the operations of EdS or demands for electricity.

Simon Morris and Andy Coveney
Executive Directors

RURELEC PLC
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)
for the half year ended 30 June 2020
(expressed in thousands of pounds)

	Notes	6 months to 30/06/20 £'000	6 months to 30/06/19 £'000	Audited 12 months to 31/12/19 £'000
Administrative expenses		(583)	(541)	(1,168)
Other income		-	107	130
Other expense		-	-	(2,029)
Operating Loss		**(583)**	**(434)**	**(3,067)**
Foreign exchange gains		1,259	30	(1,287)
Finance income		-	-	6
Finance expense		-	(50)	(70)
Profit /(Loss) before tax		**676**	**(454)**	**(4,418)**
Tax expense		-	-	-
Profit /(Loss) for the period		**676**	**(454)**	**(4,418)**
Profit / (Loss) per share	**3**	0.12p	(0.08p)	(0.79p)
Other comprehensive income				
Items that will be subsequently reclassified to Profit & Loss:				
Exchange differences on translation of foreign operations		722	595	136
Total other comprehensive income		**722**	**595**	**136**
Total comprehensive profit / (loss) for the period		**1,398**	**141**	**(4,282)**

RURELEC PLC
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)
for the half year ended 30 June 2020
(expressed in thousands of pounds)

	Notes	30/06/20 £'000	30/06/19 £'000	Audited 31/12/19 £'000
Assets				
Non-current assets				
Property, plant and equipment		8,229	10,048	7,685
Investment in Joint Venture		3,474	-	3,474
Trade and Other Receivables		6,665	-	6,424
		18,368	**10,048**	**17,582**
Current assets				
Trade and other receivables		3,333	15,503	3,272
Cash and cash equivalents		604	310	137
		3,937	**15,813**	**3,409**
Total assets		**22,305**	**25,861**	**20,991**
Equity and liabilities				
Shareholders' equity				
Share capital		11,228	11,228	11,228
Share premium account		22,754	22,754	22,754
Foreign currency reserve		1,645	1,382	923
Other reserve	4	-	45,000	45,000
Profit and loss reserve		(13,709)	(55,421)	(59,385)
Total equity		**21,918**	**24,943**	**20,520**
Current liabilities				
Trade and other payables		382	762	465
Current tax liabilities		5	5	6
Borrowings		-	151	-
		387	**918**	**471**
Total liabilities		**387**	**918**	**471**
Total equity and liabilities		**22,305**	**25,861**	**20,991**

RURELEC PLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)
for the half year ended 30 June 2020
(expressed in thousands of pounds)

	Share capital £'000	Share premium £'000	Foreign currency reserve £'000	Retained earnings £'000	Other reserve £'000	Total equity £'000
Balance at 01.01.19	**11,228**	**22,754**	**787**	**(54,967)**	**45,000**	**24,802**
Loss for the first 6 months	-	-	-	(454)	-	(454)
Exchange differences on translation	-	-	595	-	-	595
Total comprehensive loss	**-**	**-**	**595**	**(454)**	**-**	**141**
Balance at 30.06.19	**11,228**	**22,754**	**1,382**	**(55,421)**	**45,000**	**24,943**
Loss for the Period	-	-	-	(3,964)	-	(3,964)
Exchange differences	-	-	(459)	-	-	(459)
Total comprehensive loss	**-**	**-**	**(459)**	**(4,144)**	**-**	**(4,423)**
Balance at 31.12.19	**11,228**	**22,754**	**923**	**(59,385)**	**45,000**	**20,520**
Loss for the first 6 months	-	-	-	676	-	676
Transfer from Other Reserve				45,000	(45,000)	-
Exchange differences on translation	-	-	722		-	722
Total comprehensive loss	**-**	**-**	**722**	**45,676**	**-**	**1,398**
Balance at 30.06.20	**11,228**	**22,754**	**1,645**	**(13,709)**	**-**	**21,918**

RURELEC PLC
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)
for the half year ended 30 June 2020
(expressed in thousands of pounds)

			Audited
	6 months to 30/06/20	6 months to 30/06/19	12 months to 31/12/19
Result for the period before tax from operations	676	(454)	(4,418)
Net finance income	-	(50)	64
Adjustments for:			
Unrealised exchange (gains) / losses	(1,259)	(30)	1,287
Write down of loans	-	-	235
Impairment of Arica Turbine	-	-	236
Impairment of Illapa Turbines	-	-	1,982
Write down of investment in SEA Energy (reversal)	-	-	(188)
Change in trade and other receivables	19	78	88
Change in trade and other payables	(84)	(118)	(308)
Cash used in operating activities	**(648)**	**(574)**	**(1,260)**
Taxation paid	-	-	-
Net cash used in operating activities	**(648)**	**(574)**	**(1,260)**
Cash flows from investing activities			
Proceeds from sale of subsidiary	-	-	60
Repayments from joint venture company	1,115	1,633	2,246
Net cash generated from investing activities	**1,115**	**1,633**	**2,306**
Net cash inflow before financing activities	**467**	**1,059**	**1,046**
Cash flows from financing activities			
Loan Principal Repayments	-	(1,050)	(1,200)
Loan Interest Repayments	-	(50)	(60)
Net cash used in financing activities	**-**	**(1,100)**	**(1,260)**
Increase / (Decrease)in cash and cash equivalents	**467**	**(41)**	**(214)**
Cash and cash equivalents at start of period	137	351	351
Cash and cash equivalents at end of period	**604**	**310**	**137**

NOTES TO THE INTERIM STATEMENTS
for the six months ended 30 June 2020

1. BASIS OF PREPARATION

These condensed consolidated interim financial statements do not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The comparative figures for the year ended 31 December 2019 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The financial information contained in this interim statement has been prepared in accordance with all relevant International Reporting Standards as adopted by the European Union and expected to apply to the Group's results for the year ending 31 December 2020 and on interpretations of those Standards released to date.

2. ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies set out in the Group's financial statements for the year ended 31 December 2019.

3. EARNINGS PER SHARE

	6 months to 30/06/20	6 months to 30/06/19	12 months to 31/12/19
Basic and diluted			
Average number of shares in issue during the period	561m	561m	561m
(Loss) / Profit attributable to equity holders of the parent from continuing operations	£0.68m	(£0.45m)	£(4.42m)
Basic and diluted (loss) / profit per share on continuing operations	0.12p	(0.08p)	(0.79p)

4. OTHER RESERVE

The Capital Reduction that took place during December 2014 resulted in the creation of a non-distributable reserve. The condition for this reserve to become distributable is for the outstanding creditors in December 2014 to be settled. The Board of Directors consider that these amounts have been settled and therefore the £45 million has been transferred from the Other Reserve to Retained Losses.

5. The Board of Directors approved this interim statement on 15 September 2020. This interim statement has not been audited.

6. Copies of this statement are available at the Company's website www.rurelec.com

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