RURELEC

INTERIM REPORT 2021

FOR THE 6 MONTHS ENDED 30 JUNE 2021

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:

- Operating loss: £0.44 million (2020 £0.58 million)
- Post tax (loss) / profit: £0.88 million loss (2020: £0.68 million profit)
- (Loss) / profit per share: 0.16 pence loss (2020: 0.12 pence profit)
- Net asset value per share: 2.5 pence (2020: 3.9 pence)
- Net cash balance: £0.28 million (2020: £0.60 million)

OPERATIONAL AND POST HALF-YEAR HIGHLIGHTS:

- 24 per cent. reduction in operating losses compared to the same 6 months in 2020, and a significant reduction compared to £2.91 million operating loss for the full year ended 31 December 2020. However, this improvement does not result in improved cash generation owing to issues in receiving cash remittances caused by changes in power generation tariffs in Argentina (see details below).
- The significant reduction in operating losses compared to the full-year result for the year ended 31 December 2020 is due to a charge of £1.83 million in the previous year within Other Operating Expenses following the year end impairment review of the investment in Patagonia Energy Limited ("PEL"), (the joint venture company which owns EdS and in which Rurelec has a 50 per cent. share). This review was necessary as a result of a revised assessment of the ability of EdS (the Group's share in an Argentinian power generation business) to generate future cash to remit to PEL, the joint venture vehicle through which the Group's investment in EdS is held. No additional impairment was deemed necessary at 30 June 2021.
- Compared to the same period in 2020, the main factors behind the reduction in administration expenses from £0.58 million in 2020 to a £0.44 million in 2021 is a reduction in Directors and staff costs of £84k and the prior period Chilean bond renewal costs of £55k.
- At a pre-tax level, the results for the six months ended 30 June 2021 are adversely affected by exchange rate movements of £0.43 million compared to a foreign exchange gain of £1.26 million in the first six months of 2020. This is the key reason behind the swing in profitability from a profit before tax of £0.68 million for the first six months of 2020 to a loss before tax of £0.88 million for the same period in 2021.
- Cash balances held at 30 June 2021 were £0.28 million (30 June 2020: £0.60 million). As a result of delays to, and downgrades in the level of, the new tariffs at which EdS's power generation is remunerated, no cash was received from PEL in the first 6 months of 2021 compared to £1.12 million in the same period in 2020. Since the period end the Company has received US$ 0.48 million/£0.35 million from its Joint Venture. The reduction in current and non-current receivables was largely the result of impairments made against loans made by the Company to PEL as referred to above.
- Reserve movements reflect the second stage of the Company's capital reconstruction, completed in the prior year, this process enabled a £28.37 million movement from non-distributable to distributable reserves.
- Chile –The Board continues to explore options for the Chilean operations following the successful sale of the Frame 6B turbine sale for US$1.0 million/£0.72 million which was agreed on 9 September 2021.

- Two Siemens Westinghouse 701 128 MW gas turbine generators (“701s”) -The board continues to seek buyers for these generators, which are probably most suited to power projects in emerging markets. Having been overhauled to zero hours, and their ability to run on multiple fuels means that they should be attractive to the right project, but suitable projects with credible financing are not commonplace, and therefore this initiative requires patience and tenacity. As previously announced the disposal of these assets would likely be a fundamental disposal pursuant to AIM Rule 15, and accordingly such sale would be conditional on matters including shareholder approval.

Commenting on the results, Andy Coveney, Rurelec's Executive Director, said:

"The Board continues to pursue measures to restore value to the Company and its shareholders through selling or developing assets, and from cash receipts from the power generation plant in Argentina. To this end our JV partners, with whom we have a constructive and close relationship, are working hard under pressure from us, to negotiate for an enhanced tariff in Argentina. Meanwhile the recent sale of the Frame 6B turbine sale for US $1.0 million is in line with our strategy and improves the liquidity of the Company. We continue to look for ways to reduce costs throughout the Group, but future savings are likely only to be small and opportunistic, as the business has already had to adapt to its difficult circumstances.”

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 2021.

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 2020 the loss suffered on transferring US Dollars out of Argentina was approximately 43 per cent of the underlying face value and a similar situation persisted in the first 6 months of 2021. 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 Resolution 220 Power Purchase Agreement ("PPA"), which governed the tariff by which the output of the Steam Turbine was remunerated, expired in September 2020, after which, amidst severe economic weakness in Argentina and a political stance of a new Government which is generally unfavourable to the power producing companies, the output was remunerated under Resolution SE 31/2021 ("Resolution 31") which governed spot prices. That spot tariff was significantly lower than the previous Resolution 220 tariff.

5. The Argentinian economy remained weak, and the Argentinian Government continues to struggle with COVID-19 related problems. The Directors also understand that the effects of COVID-19 were a material factor in delays to the finalisation of the Resolution 31 tariff.

Since the expiry of the Resolution 220 PPA, the management of EdS, together with support from external advisers and the Rurelec Board, were engaged in extensive negotiations to establish a new tariff for EdS's power generation. These negotiations were held with CAMMESA, and the Secretariat of Energy who have ultimate responsibility for the policies and tariffs that control the generation and regulation of electricity supply in Argentina. During these negotiations, EdS management had access to the very highest levels of national and regional Government and also within CAMMESA. EdS's management believes it was granted this access because it is a strategically important supplier of power in the region around Comodoro Rivadavia in southern Patagonia. However, in the meantime, until a new tariff was operational, capacity and offtake revenue generated from the Steam Turbine was remunerated at Resolution 31/2021 spot prices. This had significant adverse implications for EdS's revenue and cash generation, and adversely affected cash payments due from EdS to PEL and ultimately to Rurelec.

Between the expiry of the Res 220 PPA in September 2020 and 30 June 2021, the only cash the Company received from EdS via PEL was US $224k/£174k on 23 October 2020. In the 6 months to 30 June 2020 EdS generated sufficient cash to make unsecured loan repayments to PEL of US $1.82 million/£1.40 million, of which Rurelec received US $1.44 million/£1.12 million, 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 cash receipts in PEL will be allocated between the joint

venture partners and represented a major step forward in our mutual working relationship. After the end of the period under review, on 14 July 2021, Rurelec received a further payment of US $0.48 million/£0.35 million from PEL by way of partial repayment of the Loan Notes.

On 2 June 2021, the Rurelec Board announced that the Argentinian Secretary of Energy had issued a new tariff under Resolution SE 440/2021 ("Resolution 440") which replaced Resolution 31 which had governed spot prices. This impacts the price at which EdS can charge for the electricity it generates. Resolution 440 introduces the following changes to the existing Resolution 31 tariff:

- Spot generation tariffs increased by 29 per cent. on average. This increase was retroactively applied from February 2021.
- Spot prices were no longer linked to the US Dollar, but instead are linked to the Argentine peso.
- Steam turbine and gas turbines capacity and offtake revenue were both to be remunerated under the Resolution 440 tariff. Previously just gas turbine offtake was remunerated under Resolution 31.

Despite the increases in Resolution 440, the income generated under this new tariff is significantly lower than under Resolution 220. Accordingly, the Directors anticipate that EdS's revenue has been significantly adversely impacted by this change.

In response to the decline in tariffs, the Directors of Rurelec understand that EdS's management has formulated contingency plans to reduce costs including options to shut down parts of the EdS operation (e.g. the Steam turbine) if necessary. Whilst this is intended to restore EdS to viability it is uncertain whether EdS will generate sufficient cash to remit to Rurelec via PEL.

The adverse overall impact of the tariff changes may, however, improve following the conclusion of the "enhanced tariff" negotiations which continue to take place between EdS management and the Argentinian Secretariat of Energy, albeit there is no certainty when these negotiations will be concluded or what their impact will be. Until then, EdS's revenue and cash generation will continue to be affected, which in turn will influence the timing and amounts of any cash payments from EdS to PEL in repayment of the Loan Notes and ultimately to Rurelec. Accordingly, Rurelec will continue to have to be extremely cautious with working capital particularly in the absence of asset sales.

The balance outstanding on the Loan Notes at 30 June 2021 was US $14.95 million (2020: US $15.48 million), with the first US $5.0 million of repayment shared 80:20 between Rurelec and Basic Energy Limited, the ultimate shareholders of PEL, and 72:28 thereafter.

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.

Asset disposals

Asset disposals to boost Rurelec's cash reserves are an important part of our strategy. On 9 September 2021 the Company agreed the disposal of its Frame 6B Gas Turbine that has been stored in Chile for US$1.0 million /£0.72million. The turbine was held at US$0.50 million/£0.37 million in Rurelec's Group 2020 accounts.

Head office

A tight rein continues to be maintained on overheads in the UK and administration costs for the period fell slightly to £416k (2020: £491k).

Debt repayments and Cash flow

As expected, Rurelec remained free of any secured debt and was consequently in the position of not having to pay any interest.

Due to the lack of receipts from PEL from 1 January 2021 to 30 June 2021, cash reserves fell compared to the previous year such that at the end of the period the balance was £275k (2020: £604k).

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 throughout 2019, 2020 and 2021 are 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, if 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 will be further improved by the "enhanced tariff" negotiations that continue to take place with CAMMESA and the Argentinian Secretariat of Energy or that EdS will remain economical. The Directors consider that there is a reasonable prospect of a better tariff resulting from the negotiations in Argentina.

Given the cash balances held by the Group, expected cash remittances from our Argentine operation and potential asset disposals, 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 and to generate cash. Given the Group is debt-free, this will in turn enable Rurelec to maximise returns to its shareholders though, as reported in the Audited Accounts for the year ended 31 December 2020, the ability of Rurelec to build up sufficient cash reserves to fund dividend payments remains very uncertain unless the returns from the Argentinian operations improve or further asset disposals are achieved.

There was a change to the Board of Directors during the period covered by these condensed financial statements, Non-Executive Director Brian Rowbotham resigned on 13 April 2021.

Coronavirus Pandemic (COVID-19)

The COVID-19 pandemic spread globally in Quarter 1 2020. Widespread measures have been implemented globally by governments to control the virus and to support economies in the markets where the Group operates. However, it is uncertain whether those measures will be successful in the long-term eradication of the virus or in achieving recovery in those economies and over what timescale. The magnitude and duration of the disruption and decline in business in the markets in which the Group operates is currently uncertain.

EXECUTIVE DIRECTORS STATEMENT

The Argentinian Government imposed a tight lockdown on 19 March 2020. Argentina's Government, viewing EdS's output as an essential service, issued instructions whereby the power plant should operate with the smallest number of people possible, covering operational shifts and preventive cleaning work with specific teams. All but essential staff have been working remotely and not been coming to the plant unless there is an equipment-related problem to address at the plant. A wide range of preventative measure were implemented to protect and safeguard staff. Furthermore, the importance of EdS in the generation of electricity in the Chubut province means that its output remains strategically important and a high priority for CAMMESA.

Notwithstanding the above, it is still not considered possible to estimate the long-term financial impact of COVID-19 on the Argentinian economy at the present time, nor to anticipate the economic and fiscal measures that the Argentinian Government will impose in response. The pandemic is considered a non-adjusting balance sheet event.

Andy Coveney

Executive Director

EXECUTIVE DIRECTORS STATEMENTRURELEC PLC
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)
for the half year ended 30 June 2021
(expressed in thousands of pounds)

	Notes	6 months to 30/06/21 £'000	6 months to 30/06/20 £'000	Audited 12 months to 31/12/20 £'000
Administrative expenses		(443)	(583)	(1,110)
Other income		-	-	22
Other expense		-	-	(1,826)
Operating Loss		**(443)**	**(583)**	**(2,914)**
Foreign exchange (losses)/ gains		(432)	1,259	(456)
Finance income		-	-	819
Finance expense		-	-	(2,783)
(Loss) / Profit before tax		**(875)**	**676**	**(5,334)**
Tax expense		-	-	-
(Loss) / Profit for the period		**(875)**	**676**	**(5,334)**
(Loss) / Profit per share	**3**	(0.16p)	0.12p	(0.95p)
Other comprehensive income				
Items that will be subsequently reclassified to Profit & Loss:				
Exchange differences on translation of foreign operations		77	722	(130)
Total other comprehensive income/(expense)		**77**	**722**	**(130)**
Total comprehensive (loss) / profit for the period		**(798)**	**1,398**	**(5,464)**

RURELEC PLC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

for the half year ended 30 June 2021

(expressed in thousands of pounds)

	Notes	30/06/21 £'000	30/06/20 £'000	Audited 31/12/20 £'000
Assets				
Non-current assets				
Property, plant and equipment		7,230	8,229	7,371
Investment in Joint Venture		1,648	3,474	1,648
Trade and Other Receivables		4,496	6,665	4,586
		13,374	**18,368**	**13,605**
Current assets				
Trade and other receivables		1,032	3,333	1,142
Cash and cash equivalents		275	604	668
		1,307	**3,937**	**1,810**
Total assets		**14,681**	**22,305**	**15,415**
Equity and liabilities				
Shareholders' equity				
Share capital		5,614	11,228	5,614
Share premium account		22,754	22,754	-
Foreign currency reserve		1,645	1,645	793
Profit and loss reserve		(13,709)	(13,709)	8,648
Total equity		**21,918**	**21,918**	**15,055**
Current liabilities				
Trade and other payables		420	382	353
Current tax liabilities		4	5	7
Borrowings		-	-	-
		424	**387**	**360**
Total liabilities		**424**	**387**	**360**
Total equity and liabilities		**14,681**	**22,305**	**15,415**

RURELEC PLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)
for the half year ended 30 June 2021
(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 01.01.20	**11,228**	**22,754**	**923**	**(59,386)**	**45,000**	**20,519**
Transfer from Other Reserve	-	-	-	45,000	(45,000)	-
Total transaction with owners	**-**	**-**	**-**	**45,000**	**(45,000)**	**-**
Profit for the first 6 months	-	-	-	676	-	676
Exchange differences on translation	-	-	722	-	-	722
Total comprehensive profit	**-**	**-**	**722**	**45,676**	**(45,000)**	**1,398**
Balance at 30.06.20	**11,228**	**22,754**	**1,645**	**(13,709)**	**-**	**21,918**
Reduction in Share Capital	(5,614)	-	-	5,614	-	-
Reduction in Share Premium	-	(22,754)	-	22,754	-	-
Total transaction with owners	**(5,614)**	**(22,754)**	**-**	**28,368**	**-**	**-**
Loss for the Period	-	-	-	(6,011)	-	(6,011)
Exchange differences	-	-	(852)	-	-	(723)
Total comprehensive loss	**(5,614)**	**(22,754)**	**(852)**	**22,352**	**-**	**(6,863)**
Balance at 31.12.20	**5,164**	**-**	**793**	**8,648**	**-**	**15,055**
Loss for the first 6 months	-	-	-	(875)	-	(875)
Exchange differences on translation	-	-	77	-	-	77
Total comprehensive loss	**-**	**-**	**77**	**(877)**	**-**	**(798)**
Balance at 30.06.21	**5,614**	**-**	**870**	**7,773**	**-**	**14,257**

RURELEC PLC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

for the half year ended 30 June 2021

(expressed in thousands of pounds)

			Audited
	6 months to 30/06/21	6 months to 30/06/20	12 months to 31/12/20
Result for the period before tax from operations	(875)	676	(5,334)
Net finance income	-	-	1,964
Adjustments for:			
Unrealised exchange losses / (gains)	429	(1,259)	456
Write down on investments	-	-	1,826
Change in trade and other receivables	-	19	(73)
Change in trade and other payables	53	(84)	(112)
Cash used in operating activities	**(393)**	**(648)**	**(1,273)**
Taxation paid	-	-	-
Net cash used in operating activities	**(393)**	**(648)**	**(1,273)**
Cash flows from investing activities			
Repayments from joint venture company	-	1,115	1,804
Net cash generated from investing activities	**-**	**1,115**	**1,804**
Net cash inflow before financing activities	**(393)**	**467**	**531**
Cash flows from financing activities			
Loan Principal Repayments	-	-	-
Loan Interest Repayments	-	-	-
Net cash used in financing activities	**-**	**-**	**-**
Increase / (Decrease)in cash and cash equivalents	**(393)**	**467**	**531**
Cash and cash equivalents at start of period	668	137	137
Cash and cash equivalents at end of period	**275**	**604**	**668**

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 2020 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 compliance with International Financial Reporting Standards ("IFRSs") and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and expected to apply to the Group's results for the year ending 31 December 2021 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 2020.

3. EARNINGS PER SHARE

	6 months to 30/06/20	6 months to 30/06/19	12 months to 31/12/20
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	(£0.88m)	£0.68m	(£5.33m)
Basic and diluted (loss) / profit per share on continuing operations	(0.16p)	0.12p	(0.95p)

4. SUBSEQUENT EVENTS

As announced on 9 September 2021, Termoelectrica del Norte SA, an indirectly held 100% subsidiary, agreed the sale of its Frame 6B, originally purchased for the Arica project. for US $1.0 million. Net cash proceeds of US $ 0.9/£0.7 million will be used for the Group's working capital requirements.

The COVID-19 pandemic spread globally in Quarter 1 2020. Widespread measures have continued to be implemented globally by governments to control the virus and to support economies in the markets where the Group operates. However, it remains uncertain whether those measures will be successful in the long-term eradication of the virus or in achieving a full recovery in those economies and over what timescale. The magnitude and duration of the disruption and decline in business in the markets in which Rurelec operates is uncertain. The Argentinian Government imposed a tight lockdown on 19 March 2020. Argentina's Government, viewing EdS's output as an essential service, issued instructions whereby the power plant should operate with the smallest number of people possible, covering operational shifts and preventive cleaning work with specific teams. All but essential staff have been working remotely and not been coming to the plant unless there is an equipment-related problem to address at the plant. A wide

range of preventative measure were implemented to protect and safeguard staff. Furthermore, the importance of EdS in the generation of electricity in the Chubut province means that its output remains strategically important and a high priority for CAMMESA.

Notwithstanding the above, it is still not considered possible to estimate the long-term financial impact of COVID-19 on the Argentinian economy at the present time, nor to anticipate the economic and fiscal measures that the Argentinian Government will impose in response. The pandemic is considered a non-adjusting balance sheet event.

Changes to the Board of Directors, Executive Director Simon Morris resigned on 17 August 2021 and a new Non-Executive Director, Paul Shackleton, was appointed on 26 July 2021.

5. The Board of Directors approved this interim statement on 30 September 2021. This interim statement has not been audited.

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

RURELEC PLC

5 St. John's Lane, London EC1M 4BH, United Kingdom
Tel: +44 (0)20 7459 2839/40

Visit us online at
www.rurelec.com