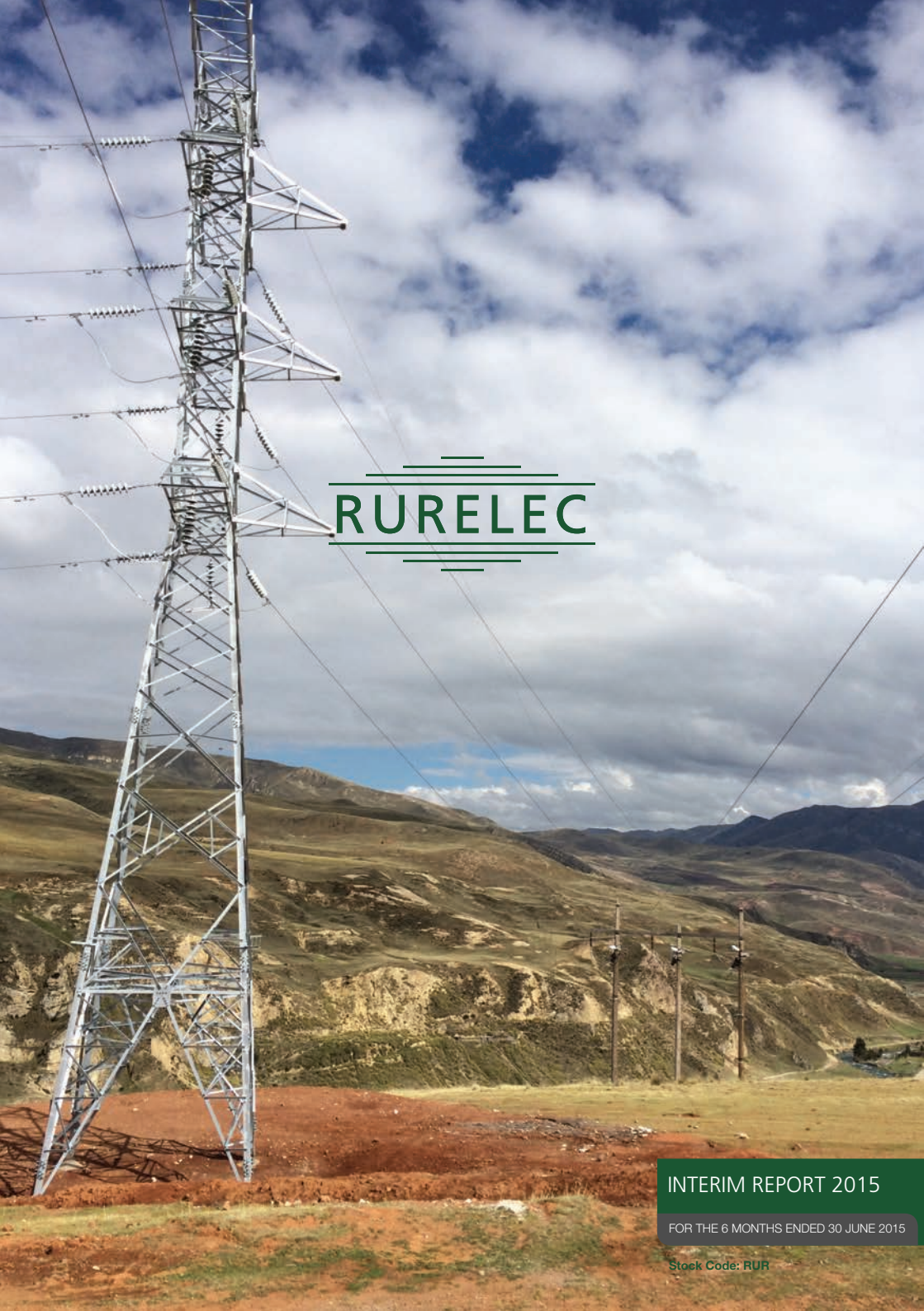

RURELEC

INTERIM REPORT 2015

FOR THE 6 MONTHS ENDED 30 JUNE 2015

Stock Code: RUR

CHAIRMAN'S STATEMENT

During the first half of this year, the Company has undergone some material changes including the departure of the CEO and two other executive directors, with the newly appointed executive board of directors being Simon Morris FCA and Mark Keegan. Simon Morris is a chartered accountant and former Chief Operating Officer of Grant Thornton UK LLP. Mark Keegan was formerly chief executive of New Hibernia Investments Ltd, and has considerable experience working in the Republic of Argentina, the location of the Company's principal asset.

The new executive board is undertaking a comprehensive review of the Company's history and assets to determine a strategy to preserve and restore shareholder value, following the long sequence of unsatisfactory strategies and projects, the culmination of which was the disastrous settlement following the nationalisation of the Company's plant in Bolivia.

During this time the share price collapsed as a result of the Bolivian settlement, the inability to raise debt or equity capital, and the absence of profit; this has created uncertainties which need to be addressed.

REVIEW OF OPERATIONS:

In Argentina, our 50 per cent. owned operating entity, Energia del Sur S.A., and its parent company Patagonia Energy Limited, have outstanding borrowings and interest of £30.7 million due to the Group. The company is operating well at the local level however management costs have been allowed to inflate unnecessarily.

In Peru, the Company embarked on a project of high capital commitment with low returns. The total commitment to date has been £12.6 million of which £4.2 million has been recovered from the sale of the first completed plant, leaving £8.4 million of continued exposure to the Peru project. Having disposed of the Canchayllo income producing base, the group now faces a loss on the balance of the project estimated at £3.8 million.

In Chile, the ongoing project development is being managed by two executives based in the UK, who, have brought the project to a point of readiness for financing displaying considerable expertise, which may enable to Company to recover some value.

In the absence of any qualified industry engineers on the board the Company has had to rely heavily on outside consultants. Despite ongoing payments to professionals within the industry and local management, overheads in London to manage the three remaining projects remained disproportionately high.

Following the departure of the former executive board in July measures have been taken to reduce overheads, to revise internal procedures and to place the remaining assets in a position where they can be used to recover shareholder value.

Given the progress on the sale of the Group's assets and the fact that the Directors are pursuing alternative sources of finance, the Directors continue to adopt the going concern basis of accounting.

REVIEW OF FUTURE STRATEGY:

The future strategy and operations of the Company and the application of its assets are currently being considered by the board, which will depend to a degree on the level of realisations and sources of capital being identified in the coming months.

While the medium term prospects for the Group are reasonable, the Company is acutely short of cash resources; the board is confident that the Company will secure short term funding. However, there can be no guarantee of success.

SUMMARY:

This is an extremely difficult time for the Company for the reasons outlined above. The Relationship Agreement between the Company, the major shareholder and the former NOMAD prevented intervention in the Company's operations. It was only

CHAIRMAN'S STATEMENT

at the AGM in July when shareholders were able to reject the resolutions for the reappointment of the board without infringing the Relationship Agreement.

The Directors consider that the coming months will be challenging but they are determined to repair shareholders value. They look forward to working closely with employees, advisers, shareholders, and other stakeholders for a positive and constructive outcome.

Colin Emson
Chairman

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

for the half year ended 30 June 2014 (expressed in thousands of pounds)

	Notes	6 months to 30/06/15 £'000	Restated 6 months to 30/06/14 £'000	12 months to 31/12/14 £'000
Revenue		**620**	**252**	**302**
Cost of sales		(133)	(107)	(231)
Gross profit		**487**	**145**	**72**
Administrative expenses		(2,779)	(2,235)	(4,349)
Operating profit/(loss)		**(2,292)**	**(2,090)**	**(4,277)**
Foreign exchange gains (losses)		(1,599)	(1,447)	2,180
Other (expense)/income	5,6	(10,982)	267	(3,094)
Finance income		1,308	1,948	2,568
Finance expense		(563)	(481)	(312)
(Loss)/profit before tax		**(14,128)**	**(1,804)**	**(2,936)**
Tax expense		(3)	(5)	(8)
(Loss) for the period		**(14,131)**	**(1,809)**	**(2,944)**
Basic (loss) per share	3	(2.52)p	(0.32)p	(0.52)p
Other comprehensive income				
Items that will be subsequently reclassified to Profit & Loss				
Exchange differences on translation of foreign operations		831	145	(2,249)
Total other comprehensive income		831	145	(2,249)
Total comprehensive (loss) for the period		**§(13,300)**	**(1,664)**	**(5,193)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

at 30 June 2015 (expressed in thousands of pounds)

	Notes	30/06/15 £'000	Restated 30/06/14 £'000	31/12/14 £'000
Assets				
Non-current assets				
Property, plant and equipment		21,978	28,149	22,169
Intangible assets		400	1,818	1,321
Trade and other receivables		22,299	20,734	23,213
Deferred tax assets		–	–	–
		44,677	**50,701**	**46,702**
Current assets				
Trade and other receivables		4,382	17,972	9,601
Cash and cash equivalents		304	4,166	283
		4,686	**22,138**	**9,883**
Assets Classified as held for sale	**4**	**13,266**	**–**	**17,895**
Total assets		**62,629**	**72,839**	**74,480**
Equity and liabilities Shareholders' equity				
Share capital		11,228	11,228	11,228
Share premium account		22,754	67,836	22,754
Foreign currency reserve		(2,380)	(1,849)	(3,211)
Share option reserve		147	107	147
Plant reserves		1,050	1,050	1,050
Other reserve	7	45,000	–	45,000
Profit and loss reserve		(34,547)	(20,082)	(20,426)
Total equity attributable to shareholders of Rurelec PLC		**43,252**	**58,290**	**56,541**
Non–controlling interest		–	127	–
Total equity		**43,252**	**58,417**	**56,541**
Non-current liabilities				
Future tax liabilities		–	18	–
Deferred tax liabilities		–	–	–
Borrowings		–	6121	–
		–	**6,139**	**–**
Current liabilities				
Trade and other payables		4,446	5,392	4,423
Current tax liabilities		85	192	70
Borrowings		4,253	2,698	3,164
		8,784	**8,282**	**7,657**
Liabilities Classified as held for sale		**10,593**	**–**	**10,282**
Total liabilities		**19,377**	**14,421**	**17,939**
Total equity and liabilities		**62,629**	**72,839**	**74,480**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

for the half year ended 30 June 2015 (expressed in thousands of pounds)

	Share capital £'000	Share premium £'000	Foreign currency reserve £'000	Share option reserve £'000	Retained earnings £'000	Other reserve £'000	Plant reserve £'000	Total £'000	Non-controlling interest £'000	Total equity £'000
Balance at 01.01.14	**11,145**	**67,369**	**(962)**	**107**	**(17,199)**	**–**	**1,050**	**61,510**	**142**	**61,652**
Issue of share	83	467	–	–	–	–	–	550	–	550
Non-controlling interest	–	–	–	–	–	–	–	–	–	–
Total transactions with owners	83	467	–	–	–	–	–	550	–	550
Loss for year	–	–	–	–	(2,282)	–	–	(2,282)	–	(2,282)
Exchange differences	–	–	(2,394)	–	–	–	–	(2,394)	–	(2,394)
Total comprehensive Loss	–	–	(2,394)	–	(2,282)	–	–	(4,676)	–	(4,676)
Original Balance at 30.06.14	**11,228**	**67,836**	**(3,356)**	**107**	**(19,481)**	**–**	**1,050**	**57,384**	**142**	**57,526**
Issue of share	–	–	–	–	–	–	–	–	–	–
Share issue costs	–	(82)	–	–	–	–	–	(82)	–	(82)
Charge for share options	–		–	40	–	–	–	40	–	40
Transfer to Other reserve	–	(45,000)	–	–	–	45,000	–	–	–	–
Non-controlling interest transfer to Assets for Sale	–	–	–	–	283	–	–	283	(142)	141
Total transactions with owners	–	(45,082)	–	40	283	45,000	–	241	(142)	99
Loss for the Period	–	–	–	–	(945)	–	–	(945)	–	(945)
Exchange differences			145					145		145
Total comprehensive Loss	–	–	145	–	(945)	–	–	(800)	–	(800)
Balance at 31.12.14	**11,228**	**22,754**	**(3,211)**	**147**	**(20,143)**	**45,000**	**1,050**	**56,825**	**–**	**56,825**
Loss for year	–	–	–	–	(14,404)	–	–	(14,404)	–	(14,404)
Exchange differences	–	–	831	–	–	–	–	831	–	831
Total comprehensive Loss	–	–	831	–	(14,404)	–	–	(13,573)	–	(13,573)
Balance at 30.06.15	**11,228**	**22,754**	**(2,380)**	**147**	**(34,547)**	**45,000**	**1,050**	**43,252**	**–**	**43,252**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

for the half year ended 30 June 2015 (expressed in thousands of pounds)

	Notes	6 months to 30/06/15	Restated 6 months to 30/06/14	12 months to 31/12/14
Result for the period before tax from continuing operations		(14,128)	(1,804)	(2,936)
Net finance (income)/costs		(745)	(1,466)	(2,255)
Adjustments for:				
Depreciation		245	4	12
Unrealised exchange (gains)/losses		1,599	1,447	(2,180)
Movement in share option reserve		–	–	40
Impairment of Goodwill		921	–	691
Impairment Assets held for sale		4,940	–	–
Change in trade and other receivables		6,131	(465)	5,426
Change in trade and other payables		(24)	2,659	(3,687)
Cash generated from/(used in) operations		**(1,062)**	**375**	**(4,890)**
Taxation paid		(3)	(5)	(8)
Interest paid		(560)	(481)	(312)
Net cash generated from/(used in) operations		**(1,625)**	**(112)**	**(5,210)**
Cash flows from investing activities				
Purchase of plant and equipment		–	(3,030)	(5,135)
Settlement of expropriated assets		–	18,863	18,863
Repayments from/(loans to) joint venture companies		904	1,441	3,381
Net cash used in investing activities		**904**	**17,274**	**17,109**
Net cash outflow before financing activities		**(721)**	**17,162**	**11,899**
Cash flows from financing activities				
Issue of shares		–	550	468
Deferred Consideration		–	–	(125)
Loan drawdowns		926	1,583	3,170
Repayment of loans		(184)	(18,859)	(18,859)
Net cash generated from financing activities		**742**	**(16,726)**	**(15,346)**
(Decrease)/increase in cash and cash equivalents		**21**	**436**	**(3,447)**
Cash and cash equivalents at start of period		283	3,730	3,730
Cash and cash equivalents at end of period		**304**	**4,166**	**283**

NOTES TO THE INTERIM STATEMENTS

for the six months ended 30 June 2015

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 2014 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. Those accounts were unqualified. 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 2015 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 2014.

3. EARNINGS PER SHARE

	6 months to 30/06/15	Restated 6 months to 30/06/14	12 months to 31/12/14
Basic and diluted			
Average number of shares in issue during the period	561m	561m	561m
Loss attributable to equity holders of the parent from continuing operations	£(14.1m)	£(1.8m)	£(2.9m)
Basic and diluted loss per share on continuing operations	(2.52p)	(0.32p)	(0.52p)

4. ASSETS HELD FOR SALE

As reported in the December 2014 financial statements, the assets held for sale relate to entities within Peru, which have been held for sale following the commitment of the Group to restructure the business. Two disposals have been identified, one of which is the Canchayllo run-of-river hydro plant with the rest of the assets included within the second group.

The Company completed the construction of the 5.3 MW Canchayllo run-of–river hydro-electric project in Peru during December 2014 and the plant entered commission during January this year. In July, the Company completed the sale of the plant to Energias Renovables de los Andes SAC for US $6.8 million. In addition, a further US $1 million is due to be received by way of reimbursement of amounts advanced towards the completion of the plant.

At 30 June the Group has been in discussions with a number of potential buyers for the rest of the Group's Peruvian assets and based on this a provision has been made of £3.8 million against the carrying value of these assets.

NOTES TO THE INTERIM STATEMENTS

for the six months ended 30 June 2015

5. SPIN OUT OF INDEPENDENT POWER CORPORATION PLC

In June, the subsidiary Independent Power Corporation PLC ("IPC") was spun out from the rest of the Group in an agreement with Peter Earl, the former CEO of Rurelec. The principal assets and liabilities of IPC have been transferred to Rurelec, in addition £500,000 of annual overheads were transferred with this agreement to IPC. This transaction has caused an impairment of the assets of the Group to reflect the write off of the investment in IPC of £1.3 million and the balance of £1.1 million of goodwill that arose on the original purchase of the business. This is countered by the transfer of £1.4 million of assets to Rurelec.

6. IMPAIRMENT OF THE LOANS TO PATAGONIA ENERGY LIMITED ("PEL") AND ENERGIA DEL SUR SA ("EDS")

The Board of Directors have considered the value of the investment and loans in PEL and EdS which total £38.9 million and have undertaken an impairment review to assess their carrying value. This exercise has resulted in a £3.9 million write down of the value of the assets due to the deteriorating ability to receive repayment and servicing of the loans, which has led to a reduction in the valuation parameters. These parameters are considered by the Board of Directors at the balance sheet date to have deteriorated from the assumptions of the Board as at the end of 2014. The underlying power generating asset in Comodoro Rivadavia is profitable with US $3.8 million EBITDA to 30 June 2015, however the Group's ability to realise value from this asset is severely restricted with little ability to receive repayment of principal and interest on the outstanding loans.

7. 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. At the date of approval of these accounts there are some £1.6 million of these creditors outstanding. The Board of Directors consider that these amounts will be settled in the short term and therefore the £45 million remains within the Other Reserve, which is non-distributable until these settlements have occurred.

8. The Board of Directors approved this interim statement on 29 September 2015. This interim statement has not been audited.

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

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