**RURELEC PLC**

Interim Report 2012

for the 6 months ended 30 June 2012

# CHAIRMAN'S STATEMENT

Revenues in local currency terms were up 1 per cent as compared to the same period last year, though once converted into sterling, the weakness of the AR$ resulted in a decline, when measured in sterling, of 4 per cent to £6.9 million (2011: £7.2 million). The gross margin has declined following the cancellation of the spot market capacity price increase discussed below. The reduction in revenue was partly offset by a reduction in administrative expenses. Nonetheless, operating profit fell from £1.4 million to £1.0 million. However, the increased net finance income resulted in a reduction in the loss after tax, from £0.6 million loss in the first half of 2011 to £0.1 million loss in the current period.

Net assets are reported as 20 pence per share, based on the 421 million shares in issue.

Demand for power in Argentina continues to increase, with the estimated annual increase in consumption being a little over 4 per cent. In March 2012 the spot market capacity price increase implemented early in 2011 and then withheld from March of the same year was formally abolished. The cancellation of the increase only affects our gas turbine capacity revenues. Electricity generators have been lobbying the Ministry of Energy for new proposals that will allow them to receive an adequate return on their assets. The Ministry is in the process of analysing the power sector and we expect to hear further news during the last quarter of 2012.

Given the anticipated changes in the sector, which include government ownership of the wholesale electricity market, CAMMESA, it has not, so far, been possible to arrange the long awaited AR$ denominated financing of Energia del Sur ("EdS") that we have been hoping for. In the meantime, although cash releases to Rurelec are lower than planned (US$1.5 million remitted so far this year, and about the same anticipated by year end), the balance sheet is showing that trade creditors are being reduced to a more normal level and thus more surplus cash will be available to Rurelec next year.

In accordance with the procedural schedule agreed with the arbitration tribunal, the complete statement of claim in connection with the nationalisation of the Group's interest in Empresa Guaracachi S.A. ("Guaracachi") was submitted to the Permanent Court of Arbitration in The Hague on 1 March 2012. As expected, the independent valuation of Guaracachi is significantly in excess of the value at which it is currently carried in our books. According to the timetable agreed with the Government of Bolivia, Bolivia's Statement of Defence was due to be submitted on 1 August 2012. However, following two consecutive requests by Bolivia for an extension to the deadline to submit their defence, made on the basis that their newly appointed legal advisers required more time to prepare their submissions, the revised date for Bolivia to lodge its defence is now 5 October 2012. No further extensions to this deadline are expected. Despite these extensions, the date for the final hearing, early April 2013, remains the same.

Towards the end of June the Group announced that it had agreed terms to borrow US$15.5 million to invest in thermal power in Chile and Hydro power in Peru. The interest rate on the loan, which was drawn down in July 2012, is 12 per cent and it is secured principally on the arbitration claim. The lender will also receive a portion of any proceeds recovered in relation to any final settlement of, or award, in connection with the Arbitration.

Disbursement of the funds has started in Peru as we assist Cascade Hydropower Limited to fund its development activities and prepare for construction of its first 5.3 MW plant. Term sheets from local lenders

and from multilateral lending agencies have been received for the debt portion of the first development and final selection is expected shortly.

In Chile the construction contract for the 40 MW gas turbine plant in Arica, Northern Chile, has been agreed and construction is expected to commence before year end, once the financing of the project company has been finalised with our partners. With a 42 week construction period, we are expecting the plant, which will initially operate on diesel fuel, to enter service in the third quarter of 2013. Rurelec has a 50 per cent interest in the Arica project, which has a total planned funding requirement of US$16.0 million.

Finally, I am pleased to report that Rurelec has now built up just under £3 million of distributable reserves in the holding company. Although we are not yet in a position to pay a dividend, we are certainly heading in the right direction and look forward to a time in the not so distant future, when we will be able to return to paying a dividend to Shareholders.

**A. Morris**
Chairman

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

for the half year ended 30 June 2012

| | Notes | 6 months to 30/06/12 £'000 | 6 months to 30/06/11 £'000 | 12 months to 31/12/11 £'000 |
|---|---|---|---|---|
| **Revenue** | | **6,923** | **7,213** | **13,522** |
| Cost of sales | | (4,361) | (3,917) | (7,903) |
| **Gross profit** | | **2,562** | **3,296** | **5,619** |
| Administrative expenses | | (1,603) | (1,911) | (3,981) |
| **Operating profit** | | **959** | **1,385** | **1,638** |
| Foreign exchange losses | | (1,054) | (1,216) | (902) |
| Finance income | | 755 | 220 | 1,661 |
| Finance expense | | (197) | (352) | (500) |
| **Profit before tax** | | **463** | **37** | **1,897** |
| Tax expense | | (586) | (615) | (141) |
| **(Loss)/profit for the period** | | **(123)** | **(578)** | **1,756** |
| Basic (loss)/profit per share | 4 | (0.03p) | (0.18p) | 0.47p |
| **Other comprehensive income** | | | | |
| Exchange differences on translation of foreign operations | | (205) | (295) | (440) |
| Revaluation of CERs | | – | – | (142) |
| **Total other comprehensive income** | | (205) | (295) | (582) |
| **Total comprehensive (loss)/profit for period** | | **(328)** | **(873)** | **1,174** |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

at 30 June 2012

| | Notes | 30/06/12 £'000 | 30/06/11 £'000 | 31/12/11 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 18,028 | 19,518 | 18,777 |
| Intangible assets | | 3,241 | 3,759 | 3,393 |
| Trade and other receivables | | 15,450 | 13,111 | 15,109 |
| Deferred tax assets | | 417 | – | 520 |
| | | **37,136** | **36,388** | **37,799** |
| **Current assets** | | | | |
| Inventories | | 345 | 369 | 365 |
| Trade and other receivables | | 4,445 | 4,496 | 5,514 |
| Compensation claim | 4 | 48,835 | 47,000 | 47,997 |
| Current tax assets | | – | 356 | – |
| Cash and cash equivalents | | 733 | 2,052 | 1,793 |
| | | **54,358** | **54,273** | **55,669** |
| **Total assets** | | **91,494** | **90,661** | **93,468** |
| **Equity and liabilities** | | | | |
| **Shareholders' equity** | | | | |
| Share capital | | 8,413 | 8,413 | 8,413 |
| Share premium account | | 53,012 | 53,012 | 53,012 |
| Foreign currency reserve | | 640 | 990 | 845 |
| Other reserves | | 1,050 | 1,192 | 1,050 |
| Profit and loss reserve | | 22,410 | 20,199 | 22,533 |
| **Total equity attributable to Shareholders of Rurelec PLC** | | **85,525** | **83,806** | **85,853** |
| **Non-current liabilities** | | | | |
| Trade and other payables | | 111 | 374 | 231 |
| Future tax liabilities | | 273 | 335 | 306 |
| Deferred tax liabilities | | 656 | 862 | 762 |
| Borrowings | | 1,604 | 851 | 1,653 |
| | | **2,644** | **2,422** | **2,952** |
| Current liabilities | | | | |
| Trade and other payables | | 2,948 | 3,919 | 4,532 |
| Current tax liabilities | | 210 | – | 131 |
| Borrowings | | 167 | 514 | – |
| | | **3,325** | **4,433** | **4,663** |
| **Total liabilities** | | **5,969** | **6,855** | **7,615** |
| **Total equity and liabilities** | | **91,494** | **90,661** | **93,468** |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the half year ended 30 June 2012

| | Share capital £'000 | Share premium £'000 | Foreign currency reserve £'000 | Retained earnings £'000 | Other reserves £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Balance at 1.1.11** | 4,413 | 39,329 | 1,285 | 20,777 | 1,192 | **66,996** |
| Transactions with owners: | | | | | | |
| Allotment of shares | 4,000 | 14,000 | – | – | – | **18,000** |
| Share issue costs | – | (317) | – | – | – | **(317)** |
| **Total transactions with owners** | **4,000** | **13,683** | **–** | **–** | **–** | **17,683** |
| Loss for period | – | – | – | (578) | – | **(578)** |
| Exchange differences | – | – | (295) | – | – | **(295)** |
| **Total comprehensive income/(loss)** | **–** | **–** | **(295)** | **(578)** | **–** | **(873)** |
| **Balance at 30.6.11** | **8,413** | **53,012** | **990** | **20,199** | **1,192** | **83,806** |
| Profit for period | – | – | – | 2,334 | – | **2,334** |
| Revaluation of CERs | – | – | – | – | (142) | **(142)** |
| Exchange differences | – | – | (145) | – | – | **(145)** |
| **Total comprehensive income/(loss)** | **–** | **–** | **(145)** | **2,334** | **(142)** | **2,047** |
| **Balance at 31.12.11** | **8,413** | **53,012** | **845** | **22,533** | **1,050** | **85,853** |
| Loss for period | – | – | – | (123) | – | **(123)** |
| Exchange differences | – | – | (205) | – | – | **(205)** |
| **Total comprehensive income/(loss)** | **–** | **–** | **(205)** | **(123)** | **–** | **(328)** |
| **Balance at 30.6.12** | **8,413** | **53,012** | **640** | **22,410** | **1,050** | **85,525** |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

for the half year ended 30 June 2012

| | Notes | 6 months to 30/06/12 £'000 | 6 months to 30/06/11 £'000 | 12 months to 31/12/11 £'000 |
|---|---|---|---|---|
| Result for the period before tax from continuing operations | | 463 | 37 | 1,897 |
| Net finance (income)/costs | | (558) | 132 | (1,161) |
| Adjustments for: | | | | |
| Depreciation | | 376 | 391 | 786 |
| Unrealised exchange loss in joint venture companies | | 872 | 1,266 | 790 |
| Change in trade and other receivables | | 570 | (430) | (1,028) |
| Change in trade and other payables | | (1,299) | (670) | (355) |
| Cash generated from operations | | **424** | **726** | **929** |
| Taxation paid | | (236) | (382) | (468) |
| Interest paid | | (55) | (358) | (500) |
| **Net cash generated from/(used in) operations** | | **133** | **(14)** | **(39)** |
| **Cash flows from investing activities** | | | | |
| Purchase of plant and equipment | | (675) | (179) | (230) |
| Bolivian arbitration costs | | (838) | – | (997) |
| Sale of plant and equipment | | – | – | 177 |
| Repayments from/(loans to) joint venture company | | 320 | (3,287) | (3,022) |
| Net cash used in investing activities | | **(1,193)** | **(3,466)** | **(4,072)** |
| **Net cash outflow before financing activities** | | **(1,060)** | **(3,480)** | **(4,111)** |
| **Cash flows from financing activities** | | | | |
| Issue of shares (net of costs) | | – | 17,683 | 17,683 |
| Loan drawdowns | | – | – | 654 |
| Repayment of loans | | – | (12,308) | (12,590) |
| Net cash generated from financing activities | | **–** | **5,375** | **5,747** |
| **(Decrease)/increase in cash and cash equivalents** | | **(1,060)** | **1,895** | **1,636** |
| Cash and cash equivalents at start of period | | 1,793 | 157 | 157 |
| **Cash and cash equivalents at end of period** | | **733** | **2,052** | **1,793** |

# NOTES TO THE INTERIM STATEMENT

for the six months ended 30 June 2012

## 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 2011 were derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. Those accounts, which contained a qualified audit report with respect to the limitations placed on the scope of the audit work on the financial results of Guaracachi following the nationalisation of Guaracachi, did not contain statements under sections 489 (2) or (3) of the Companies Act 2006. The financial information contained in this interim statement has been prepared in accordance with all relevant International Financial Reporting Standards ('IFRS') in force and expected to apply to the Group's results for the year ending 31 December 2012 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 2011.

## 3 EARNINGS PER SHARE

Basic and diluted

| | 6 months to 30/6/12 | 6 months to 30/6/11 | 12 months to 31/12/11 |
|---|---|---|---|
| Average number of shares in issue during the period | 421m | 321m | 371m |
| (Loss)/profit attributable to equity holders of the parent from continuing operations | £(0.1m) | £(0.6m) | £1.8m |
| Basic and diluted (loss)/profit per share on continuing operations | (0.03p) | (0.18p) | 0.47p |

## 4 COMPENSATION CLAIM

As detailed in the 2010 Report and Accounts, on 1 May 2010 the Bolivian Government nationalised by force Rurelec's controlling interest in Guaracachi. The Bolivian book value of the net assets of Guaracachi, together with the declared but unpaid dividend for 2009, is not less than £47 million and has been used for accounting purposes only and does not represent the fair market value of the investment being claimed under the Bilateral Investment Treaties. The actual amount claimed, as submitted to the Permanent Court of Arbitration in the Hague, is $142.4 million. The increase in the carrying value of the claim above the £47 million is represented by the costs incurred in preparing and submitting the claim for compensation to the Permanent Court in the Hague.

**5** The Board of Directors approved this interim statement on 26 September 2012. This interim statement has not been audited.

**6** Copies of this statement are being sent to all Shareholders. Copies may be obtained from the Company's registered office, 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ.

# SHAREHOLDER NOTES

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