Rurelec PLC
Annual Report
2008

RURELEC

RURELEC PLC
ANNUAL REPORT 2008

COMPANY INFORMATION

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

SECRETARY
S A Laker

COMPANY NUMBER
4812855

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5th Floor
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London
SE1 7TJ

AUDITORS
Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Grant Thornton House
Melton Street
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London
NW1 2EP

BANKERS
Standard Bank PLC
Cannon Bridge House
25 Dowgate Hill
London
EC4R 2BS

HSBC Bank plc
13-14 Sloane Square
London
SW1W 8AL

SOLICITORS
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7 Devonshire Square
Cutlers Gardens
London
EC2M 4YH

Facing Page:
HRSG at Energia del Sur CCGT Conversion,
Comodoro Rivadavia, Patagonia, Argentina

CONTENTS

8. Chairman's statement

10. Chief executive's review of operations

13. Group directors' report

21. Corporate governance statement

25. Report of the independent auditors

28. Consolidated income statement

29. Consolidated balance sheet

30. Company balance sheet

31. Consolidated cash flow statement

32. Company cash flow statement

33. Consolidated statement of changes in equity

34. Company statement of changes in equity

35. Notes to the financial statements

Facing Page:
Two HRSGs, Guaracachi Plant CCGT Conversion, Santa Cruz, Bolivia.

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.

2008 saw some significant progress for Rurelec in spite of the difficult global economic climate in which the year ended. The Company continued to add more new generating capacity than at any time in its history and broke all records for the number of megawatt hours generated by the Group. This excellent progress in terms of power plant capacity and revenue is not obvious from the consolidated figures announced today.

In the twelve months ended 31 December 2008, Rurelec is reporting an after tax loss, excluding minority interests, of £4.2m (2007 loss – £0.6m).

The Group's operating results showed a loss of £0.2m (2007 £2.3m profit) which, after interest and tax charges, widened to the consolidated after tax loss of £4.2m. Increased fuel expense in Empresa Electrica Guaracachi S. A. ("Guaracachi"), consolidation of 100 per cent. of Energia del Sur S. A. ("EdS") and increased financing costs are the main components of the change.

The Group is reporting a basic, diluted and underlying loss per share of 5.23p (2007 loss – 0.85p).

At the operating company level in Bolivia, under the local accounting principles which govern the Company's ability to receive dividends from Guaracachi, reported net income rose to a record US$10.25m while revenues increased to US$45m (2007 US$9.6m and US$42m respectively). The Guaracachi dividend has been declared at last year's level of US$7.05m, of which Rurelec's share (after withholding taxes) will be approximately US$3m. However the combined cycle project at EdS in Patagonia was delayed beyond year end and so Argentina was again a negative contributor, with the loss widening to Ar$10.9m (2007 loss – Ar$9.6m). Since the year end EdS has fully commissioned its new 60 MW of combined cycle capacity and the plant is expected to make a major contribution to the group from now onwards.

The Board anticipates declaring and paying a dividend during the second half of 2009, subject to no unforeseen circumstances and the availability of cash and distributable profits. This prudent approach reflects the fact that Guaracachi will be paying its 2008 dividend to shareholders only when it has satisfied its Board that it has on deposit all of the monies necessary to complete its current combined cycle gas turbine ("CCGT") plant in Santa Cruz. That dividend is expected in the third quarter of 2009 and will in turn be used to fund Rurelec's own dividend payment.

Guaracachi is the largest generating company in Bolivia and the only private power company to have installed new capacity there in recent years, bringing on 8 MW in 2006, 71 MW in 2007 and a further 7.4 MW in 2008 with the completion

Previous Pages:

April 2007 (Page 6) and April 2009 (Page 7) Energia del Sur CCGT Conversion, Comodoro Rivadavia Plant, Patagonia, Argentina.

of commissioning of three more Jenbacher 616 gas engines at Sucre during the course of the year. During 2008 management in Bolivia, with assistance from the UK, finalised the design, procurement and financing of their largest new capacity project of all whilst under Rurelec's majority control, the 96 MW CCGT conversion and expansion project now under construction in Santa Cruz and due for completion towards the end of 2009. This is the first CCGT plant to be installed in Bolivia. Upon commissioning, Guaracachi will have 238 MW of CCGT capacity in operation. The installation of the 96 MW steam turbine and associated boilers is the single largest power generation unit ever to be brought on line in Bolivia. The cost of the project is now set at US $68 million and the cost has been successfully financed through a combination of multi-lateral debt, local bank debt and local bond finance.

By contrast, EdS had a mixed year as a result of difficulties arising from turbulence in the local market. The local finance market in Argentina has not been strong enough to provide local debt for badly needed expansion activities, a circumstance that forced EdS to look overseas for finance and which has not allowed it to top up its finances as planned. Positive factors, like the settlement of Paris Club debt and increasing demand for electricity, were overshadowed by upheavals in the pension sector, strikes and pay increases impacting the construction industry. Even the volcano in Chile proved a hindrance, causing airports to be closed, and thereby contributing to delays in the construction programme in Patagonia.

In spite of the difficulties, we are able to report that the expansion project in Patagonia has now entered full commercial operations and will shortly have completed all formalities with CAMMESA, the Argentine system operator, to be registered as such.

The rapid deterioration in general market sentiment has hit AIM share prices hard, and we have not been immune. Part of the Rurelec share price fall has been due to uncertainty about how we were to refinance the debt we took on when we acquired full ownership of EdS from our then partners, Basic Energy. Since the year end we have managed to resolve that issue through the support of shareholders, both old and new, who have participated in the recent fundraising, and through the decision by Basic Energy to return as a shareholder in EdS. Rurelec has raised £7.3 million of cash from the issue of new shares in 2009 to strengthen its balance sheet and to pay down part of the EdS loan with Standard Bank. This has placed us in a better position to refinance our Argentine operations.

With the completion of the combined cycle projects at both EdS and Guaracachi this year, we can look forward to a more stable platform for the future. 2009 will see a remarkable increase in capacity. Once again, I am proud of the hard work management and employees have put in over the year and I would also like to thank Freddie Fisher for serving as a director of Rurelec until his retirement from the Board earlier this year.

Jimmy West
Chairman
29 June 2009

2008 was one of the most turbulent years in financial markets since the 1930s and saw a complete meltdown in project finance and international cross-border lending. It is against this background that the resilience of Rurelec's power plants and projects should be judged.

It has always been Rurelec's policy to maintain conservative levels of borrowing. The Group has gearing ratios of less than one to one while typical quoted power companies have gearing ratios of over two to one. Both Guaracachi and Energia del Sur power plants entered the credit crunch with low levels of overall borrowings. Nonetheless, the collapse of Lehman Brothers in September 2008 led to a freezing of nearly all bank and public market lending activity and it is to the credit of the shareholder base of Rurelec that we were able to respond to this dramatic change of fortunes in financial markets and arrange a rapid capital increase at Rurelec in the first four months of 2009 in order to pay down London-based project debt when it became clear that this was necessary.

As these financial statements are published, bank lending is beginning to flow once more in US and European markets. In Latin America, however, Rurelec has been fortunate enough to operate in markets where banks did not collapse and where lending has continued. Hence since September 2008 Guaracachi has drawn down US $20 million of development bank loans and has secured a further US $20.3 million of bond placings and a further US $18 million of loans from Bolivian banks. Such liquidity in the same period was unheard of for British companies dealing with British high street banks. During the same period Guaracachi improved its debt rating, a considerable achievement.

Now in Argentina we are seeing the first signs of a bounce in the bond markets. EdS is in the process of arranging its first ever debt rating with a view to tapping the pension funds market for debt placings. This will be the first step in an overall re-financing of the Comodoro Rivadavia plant now that it has been completed and commercial operation achieved. At 136 MW of highly efficient combined cycle capacity, EdS is a valuable asset for the Rurelec group and the plant is well positioned to earn premium capacity payments under the incentive programme of the Government in Argentina called Energia Plus.

Steam turbine at Energia del Sur CCGT Conversion, Comodoro Rivadavia Plant, Patagonia, Argentina.

Assets in Operation	Fuel/Type	Rurelec % ownership	Nominal Power MW	Ownership Interest MW
ARGENTINA				
EDS – Comodoro Rivadavia	gas/OCGT	100*	76.0	76.0
BOLIVIA				
Guaracachi – Guaracachi	gas/OCGT	50.001	357.0	178.5
Guaracachi – Aranjuez TG	gas/OCGT	50.001	24.4	12.2
Guaracachi – Aranjuez DF	dual/engines	50.001	14.7	7.4
Guaracachi – Aranjuez MG	gas/engines	50.001	15.4	7.7
Guaracachi – Karachipampa	gas/OCGT	50.001	27.0	13.5
			438.5	**219.3**
Total			**514.5**	**295.3**
Assets Under Construction				
ARGENTINA				
EDS – Comodoro Rivadavia	Steam turbine	100*	60.0	30.0
BOLIVIA				
Guaracachi – Aranjuez MG	Steam turbine	50.001	96.0	48.0

*ownership @ 31.12.08, 50% from 8.6.09

In previous years Rurelec has drawn the attention of shareholders to its expansion programme. Between 2008 and 2009, Rurelec will have added 156 MW of new combined cycle capacity between Argentina and Bolivia. This is a massive step change in installed capacity, and it is only right that shareholders should expect a pause while this new capacity is absorbed. Earnings and cash flow will improve as a result of both the margin increase which CCGT plants provide when operated in base load as well as from the welcome contribution of income from carbon credits. By 2010, Rurelec plants will be generating around half a million CERs a year. At current spot prices, that will translate into income from CERs of around US $8.5 million a year before adjustment for minority holdings. That is a substantial contribution and is in line with our plans to make all new Rurelec power plant capacity low emissions capacity. Few other companies quoted in London can point to so high a contribution from carbon credits. This is a measure of our success both in building new plants and in building plants which are recognised by the United Nations as contributing to a global reduction in emissions of carbon dioxide.

The last twelve months have been a miserable period for shareholders and management of Rurelec alike. I hope that the second half of 2009 will see a resurgence in our fortunes as we deliver the electricity that our customers in Latin America so badly need.

Peter Earl
Chief Executive
29 June 2009

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

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 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.

In June 2008, the Company acquired the remaining 50% of the equity of PEL, thereby giving the Group 100% ownership of EdS.

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.

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 – the directors believe the governments of the countries in which it has invested support the provision of efficient power generation owned by foreign operators. However, there can be no assurance that future political and economic conditions in these countries will not result in their governments adopting different policies with respect to the electricity industry and foreign investment.

(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 2008 are set out in the Consolidated Income Statement.

A dividend at the rate of 2.5p per share was paid to shareholders in August 2008.

SHARE CAPITAL

Details of the authorised and issued share capital together with changes during the year and since the year end are set out in notes 22 and 33.

GOING CONCERN

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. At the time of raising additional equity in June 2009, the Directors explained that further loan finance would be sought to provide working capital for the future development of the Group. Repayments of principal in respect of certain term loans are due during the next 12 months and the Directors anticipate that these will be funded by the operating companies either from cashflows or by putting in place new loans or by renegotiating the repayment terms of the existing loans. The continuing uncertainties in the debt markets may make this more difficult than in prior years, but the Directors remain confident that the significant asset base of the Group will enable suitable terms to be negotiated. Further details are set out in note 2.2.

KEY PERFORMANCE INDICATORS

The Directors use a range of performance indicators to monitor progress in the delivery of the Group's strategic 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 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 (62) – 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, and a non-executive director of Candover Investments plc for a number of years. He is now Chairman of Gartmore Fledgling Trust plc and Jupiter Second Enhanced Income Trust plc and a non-executive Director of a number of diverse companies including British Assets Trust plc and GNE Group plc. He is also a director of IPSA Group PLC and of Independent Power Corporation PLC ("IPC"). As well as being Chairman of the Company, he is Chairman of the Remuneration and Nominations' committees and the Audit committee.

Peter Earl (54) – 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 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.

Elizabeth Shaw (48) – 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 (55) – Technical Director
Mike is both a Chartered and European Engineer with over 30 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 (45) – Regional Director of Finance
Marcelo is finance director of Guaracachi and was appointed to the 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 10 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.

Frederick G. Fisher III (61) – Non-Executive Director
Freddie retired from the Board on 22 May 2009.

DIRECTORS' INTERESTS

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

	29 June 2009	31 December 2008	31 December 2007
J G West	2,370,230	1,125,000	1,125,000
Sir D R C Christopher	33,333	33,333	33,333
P R S Earl[1]	36,812,721	11,812,721	11,812,721
J M Eyre	250,000	250,000	250,000
E R Shaw	250,000	250,000	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 Independent Power Corporation PLC "IPC". IPC is controlled by P R S Earl and P R S Earl, J G West and E R Shaw are directors of IPC.

SIGNIFICANT SHAREHOLDINGS IN THE COMPANY

The Company is aware of the following interests of 3% or more in the issued ordinary share capital of the Company notifiable at 10 June 2009, being the last practicable date for reporting this information.

	Number of shares	% holding
Nortrust Nominees Ltd	30,227,799	14.72%
Lynchwood Nominees Ltd	25,013,300	12.18%
Independent Power Corporation PLC	25,000,000	12.17%
HSBC Global Custody Nominees Ltd	21,254,712	10.35%
Credit Suisse Client Nominees Ltd	16,235,679	7.90%
Vidacos Nominees Ltd	14,095,105	6.86%
Chase Nominees Ltd	13,589,457	6.62%
Bank of New York Nominees Ltd	11,112,898	5.41%

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 2008 was 45 days (31 December 2007 – 25 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.

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 1985. 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
29 June 2009

INTRODUCTION

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 2006) (the "Code"). However the Board is accountable to the Company's shareholders for good corporate governance and has therefore taken steps towards compliance with the Code in so far as is practicable as a smaller company.

THE BOARD OF DIRECTORS

The Group supports the concept of an efficient and effective Board managing the Company in an entrepreneurial manner. The Board is responsible for approving the Company policy and strategy with regard to management structure and senior appointments, strategic and policy considerations, capital transactions, finance and general matters. It meets regularly and has a schedule of matters specifically reserved to it for decision which include raising new capital, entering into financing facilities for projects, treasury policies and approval of annual operating budgets. The Board met eight times during 2008. Management supplies the Board with appropriate and timely information and the directors are free to seek any further information they consider necessary.

The current Board consists of four executive directors and two non–executive directors. Jimmy West, the Chairman, is also a director of a number of other companies including IPC, a company of which Peter Earl and Elizabeth Shaw are directors and Peter Earl and Elizabeth Shaw are shareholders. The other non-executive director is Sir Robin Christopher. Freddie Fisher also served as a non-executive director during the year under review and retired in May 2009. The non-executive directors are regarded by the Board as independent in character and judgement. The non-executive directors bring experience at a senior level to business operations and strategy.

All directors are involved in significant decisions. The Chief Executive Officer, Peter Earl, leads the executive directors with particular regard to the protection and enhancement of shareholder value, project financing arrangements, government and public relations and dialogue with shareholders. Elizabeth Shaw has particular responsibility for financial matters and development of the Company's business, in particular acquisitions, Mike Eyre has particular responsibility for technical operations and engineering matters and Marcelo Blanco has responsibility for finance in South America.

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 and gives presentations to its institutional shareholders to discuss objectives.

The Annual General Meeting (AGM) is used to communicate with private investors and they are encouraged to participate. The Chairman of each of the Audit, Remuneration and Nominations Committees are available to answer questions. 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.

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 during the year under review comprised Freddie Fisher and Jimmy West. The committee met twice in 2008. The terms of reference of the Audit Committee include keeping under review the scope and results of the external audit and its cost effectiveness. The Committee reviews the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Group, seeking to balance objectivity and value for money. Following Freddie Fisher's retirement, Jimmy West has been appointed as temporary Chairman of the audit committee pending the appointment of a new director to replace Freddie Fisher.

INTERNAL CONTROL

The Board of Directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Group's objectives. It should be recognised that such systems can only provide reasonable and not absolute assurance against material misstatement or loss.

ASSESSMENT OF BUSINESS RISK

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.

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 Company'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.

MONITORING PROCESS

There are clear procedures for monitoring the system of key controls, the significant component being a review by the Audit Committee of the process 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.

HEALTH, SAFETY AND ENVIRONMENTAL

Health and safety is an important issue within the Group and the Group's objective is to maintain high industry standards. The Group shares best practice across its operations with a view to all plants operating to the highest possible safety and environmental standards that meet or exceed applicable regulations in the countries in which the Group operates.

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 during the year comprised Sir Robin Christopher, who chairs the committee, Jimmy West and Freddie Fisher. Details of Directors' remuneration are set out in note 8 of the notes to the financial statements.

APPOINTMENT OF DIRECTORS

The Nominations Committee meets to make recommendations to the Board on all new Board appointments and during the year comprised Jimmy West chairman of this committee, Sir Duncan Robin Christopher and Freddie Fisher.

STATEMENT OF NON-COMPLIANCE

The non-executive directors are considered to be independent in character and judgement. However, the composition of the three committees of the Board (Audit, Remuneration and Nominations) is not compliant with the Code since in each case one of the committee members might be regarded as not being independent within the terms of the Code.

Susan Laker
Company Secretary
29 June 2009

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF RURELEC PLC

We have audited the Group and parent company financial statements (the "financial statements") of Rurelec PLC for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements, the consolidated and company statements of changes in equity and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with United Kingdom law and International Financial Reporting Standards ("IFRS") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the financial statements.

In addition, we also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the chairman's statement and the chief executive's review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Group directors' report is consistent with the financial statements.

EMPHASIS OF MATTER – GOING CONCERN BASIS OF PREPARATION

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 2.2 to the financial statements concerning the group's and the company's ability to continue as a going concern.

As explained in note 2.2, 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 2.2 to the financial statements, indicate the existence of a material uncertainty which may cast doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

The financial statements have been prepared on a going concern basis.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
London
29 June 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Revenue	4	29,133	22,636
Cost of sales	6	(24,719)	(17,409)
Gross profit		**4,414**	**5,227**
Administrative expenses	7	(4,564)	(2,959)
Operating (loss)/profit		**(150)**	**2,268**
Other income	9	-	423
Finance income	10	203	93
Finance expense	10	(3,283)	(1,089)
(Loss)/profit before tax		**(3,230)**	**1,695**
Tax expense	11	(923)	(1,271)
(Loss)/profit for the year		**(4,153)**	**424**
Attributable to:			
Minority interests		4	1,027
Equity shareholders		(4,157)	(603)
		(4,153)	**424**
Basic and diluted loss per share	14	(5.23p)	(0.85p)

All activities relate to continuing activities

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	31.12.08 £'000	31.12.07 £'000
Assets			
Non-current assets			
Property, plant and equipment	15	168,053	87,235
Intangible assets	16	9,335	-
Trade and other receivables	17	4,793	100
Deferred tax assets	18	1,112	650
		183,293	**87,985**
Current assets			
Inventories	19	3,817	2,562
Trade and other receivables	17	9,939	5,150
Current tax assets	20	4,154	3,238
Cash and cash equivalents	21	5,031	10,599
		22,941	**21,549**
Total assets		**206,234**	**109,534**
Equity and liabilities			
Shareholders' equity			
Share capital	22	1,716	1,466
Share premium account		31,558	23,983
Foreign currency reserve		7,570	(5,550)
Other reserves		3,150	-
Retained earnings		8,024	14,326
Total equity attributable to shareholders of Rurelec PLC		**52,018**	**34,225**
Minority interests		37,116	28,681
Total equity		**89,134**	**62,906**
Non-current liabilities			
Trade and other payables	23	290	179
Deferred tax liabilities	18	4,052	978
Borrowings	25	47,264	20,479
		51,606	**21,636**
Current liabilities			
Trade and other payables	23	27,185	15,239
Current tax liabilities	24	2,347	1,707
Borrowings	25	35,962	8,046
		65,494	**24,992**
Total liabilities		**117,100**	**46,628**
Total equity and liabilities		**206,234**	**109,534**

The financial statements were approved by the board of directors on 29 June 2009 and were signed on its behalf by P Earl (Chief Executive) and E Shaw (Finance Director).

COMPANY BALANCE SHEET

At 31 December 2008

	Notes	31.12.08 £'000	31.12.07 £'000
Assets			
Non-current assets			
Investments	27	16,649	3,777
Trade and other receivables	17	34,075	22,143
		50,724	**25,920**
Current assets			
Trade and other receivables	17	1,288	36
Cash and cash equivalents	21	42	1,517
		1,330	**1,553**
Total assets		**52,054**	**27,473**
Equity and liabilities			
Shareholders' equity			
Share capital	22	1,716	1,466
Share premium account		31,558	23,983
Retained earnings		(646)	736
Total equity		**32,628**	**26,185**
Current liabilities			
Trade and other payables	23	592	176
Borrowings	25	18,834	1,112
		19,426	**1,288**
Total equity and liabilities		**52,054**	**27,473**

The financial statements were approved by the board of directors on 29 June 2009 and were signed on its behalf by P Earl (Chief Executive) and E Shaw (Finance Director).

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Cash flows from operating activities			
Cash generated from operations	26	3,478	17,234
Interest received		203	93
Interest paid		(1,418)	(947)
Taxation paid		(915)	(994)
Net cash generated from operating activities		**1,348**	**15,386**
Cash flows from investing activities			
Purchase of plant and equipment	15	(29,186)	(20,854)
Sale of plant and equipment		1,250	-
Acquisition (net of cash)	28	(5,989)	-
Net cash used in investing activities		**(33,925)**	**(20,854)**
Net cash outflow before financing activities		**(32,577)**	**(5,468)**
Cash flows from financing activities			
Issue of shares (net of costs)	22	7,825	2,780
Loan drawdowns		31,350	17,180
Loan repayments		(7,515)	(3,742)
Dividend paid to minorities		(2,506)	(1,717)
Equity dividend paid	12	(2,145)	(1,613)
Net cash generated from financing activities		**27,009**	**12,888**
(Decrease)/increase in cash and cash equivalents		**(5,568)**	**7,420**
Cash and cash equivalents at start of year		10,599	3,179
Cash and cash equivalents at end of year		**5,031**	**10,599**

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Cash flows from operating activities			
Cash generated from/(used in) operations	26	674	(846)
Interest received		87	61
Tax paid		(22)	-
Interest paid		-	(2)
Net cash generated from/(used in) operations		**739**	**(787)**
Cash flows from investing activities			
Dividend received (net of tax)		1,591	1,520
Acquisition	28	(6,219)	-
Loans to subsidiaries and joint venture company		(10,986)	-
Repayment of loan by joint venture company		-	368
Net cash (used in)/generated from investing activities		**(15,614)**	**1,888**
Net cash outflow/(inflow) before financing activities		**(14,875)**	**1,101**
Cash flows from financing activities			
Issue of shares (net of costs)	22	7,825	2,780
Loan drawdowns/(repayments)		7,720	(817)
Equity dividend paid	12	(2,145)	(1,613)
Net cash generated from financing activities		**13,400**	**350**
(Decrease)/increase in cash and cash equivalents		**(1,475)**	**1,451**
Cash and cash equivalents at start of year		**1,517**	**66**
Cash and cash equivalents at end of year		**42**	**1,517**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity shareholders							
	Share capital £'000	Share premium reserve £'000	Foreign currency £'000	Retained earnings £'000	Other reserves £'000	Total interest £'000	Minority equity £'000	Total £'000
Balance at 1.1.07	**1,366**	**21,303**	**(4,948)**	**16,542**	**-**	**34,263**	**29,985**	**64,248**
(Loss)/profit for year	-	-	-	(603)	-	**(603)**	1,027	**424**
Exchange differences	**-**	**-**	(602)	**-**	**-**	**(602)**	**(614)**	**(1,216)**
Total recognised income and expense for the year	**-**	**-**	**(602)**	**(603)**	**-**	**(1,205)**	**413**	**(792)**
Allotment of shares	100	2,827	-	-	-	**2,927**	-	**2,927**
Share issue costs	-	(147)	-	-	-	**(147)**	-	**(147)**
Minority dividend	-	-	-	-	-	**-**	(1,717)	**(1,717)**
Equity dividend	**-**	**-**	**-**	(1,613)	**-**	**(1,613)**	**-**	**(1,613)**
Balance at 31.12.07	**1,466**	**23,983**	**(5,550)**	**14,326**	**-**	**34,225**	**28,681**	**62,906**
Balance at 1.1.08	**1,466**	**23,983**	**(5,550)**	**14,326**	**-**	**34,225**	**28,681**	**62,906**
(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 recognised income and expense for the year	**-**	**-**	**13,120**	**(4,157)**	**3,150**	**12,113**	**10,941**	**23,054**
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)**
Balance at 31.12.08	**1,716**	**31,558**	**7,570**	**8,024**	**3,150**	**52,018**	**37,116**	**89,134**

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Company				
Balance at 1.1.07	**1,366**	**21,303**	**1,662**	**24,331**
Profit for the year	**-**	**-**	687	**687**
Total recognised income and expense for the year	**-**	**-**	**687**	**687**
Allotment of shares	100	2,827	-	**2,927**
Share issue costs written-off	-	(147)	-	**(147)**
Equity dividend	**-**	**-**	(1,613)	**(1,613)**
Balance at 31.12.07	**1,466**	**23,983**	**736**	**26,185**
Balance at 1.1.08	**1,466**	**23,983**	**736**	**26,185**
Profit for the year	**-**	**-**	763	**763**
Total recognised income and expense for the year	**-**	**-**	**763**	**763**
Allotment of shares	250	7,875	-	**8,125**
Share issue costs written-off	-	(300)	-	**(300)**
Equity dividend	**-**	**-**	(2,145)	**(2,145)**
Balance at 31.12.08	**1,716**	**31,558**	**(646)**	**32,628**

1. 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.

These consolidated financial statements have been approved by the Board of directors on 29 June 2009.

2. SUMMARY OF ACCOUNTING POLICIES

2.1 Basis of preparation

The Company and the consolidated financial statements have been prepared in accordance with applicable and International Financial Reporting Standards ("IFRSs") as adopted by the European Union (EU).

2.2 Going concern

Since the year-end, the Company has raised £7.3m before expenses from the issue of new share capital. As stated at the time of that fund raising, the Board intends to raise additional loan finance at the subsidiary level over the next 12 months in order to provide additional working capital to fund both their existing projects and new projects and to meet their loan repayment obligations.

Although funding for the expansion in Guaracachi is already secured and negotiations to raise US$25m of new loan finance in Argentina for EdS are well advanced, the Directors have concluded that the recent difficulties in the debt market for project finance represents a material uncertainty that casts some doubt upon the Group's and the Company's ability to continue as a going concern for the foreseeable future.

Nevertheless, after making enquiries and considering the uncertainties, the Directors have a reasonable expectation that the Group and the Company does and will continue to have adequate resources to continue in operational existence for the foreseeable future and for this reason, the Directors continue to adopt the going concern basis in preparing these financial statements.

2.3 New accounting standards

The following new standards, amendments to standards or interpretations are mandatory for the first time for the year beginning 1 January 2008 but have no material impact on the results of the Group.

- IFRIC 11, (IFRS 2 – Group and Treasury Share Transactions)
- IFRIC 12, (Service Concession Arrangements)
- IFRIC 14, (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)

The following new standards, amendments to standards or interpretations have been issued but are not effective for the financial year beginning on 1 January 2008 and have not been early adopted.

- IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 January 2009)
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective 1 July 2009)
- Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRS 8 Operating Segments (effective 1 January 2009)
- IFRIC 12 Service Concession Arrangements (effective 1 January 2008)
- IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
- IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the accounts of the Group.

2.4 Basis of consolidation

The Group financial statements consolidate those of the Company, its subsidiary undertakings and, for the first six months of the year, its joint venture entity, drawn up to 31 December 2008.

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 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 reserves.

As set out in note 2.2, the financial statements have been prepared on a going concern basis.

2.5 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.

2.6 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 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.

2.7 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.

2.8 Dividends

Dividends paid/payable are recognised on a cash paid/cash received basis.

2.9 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.

2.10 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.

2.11 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 so 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.

2.12 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 recognised income and expense.

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.

No 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 nor on the differences relating to investments in subsidiary and joint venture companies to the extent that the temporary difference can be controlled 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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.
"Profit and loss reserve" represents retained profits.
"Other reserves" comprises unrealised revaluations of plant and machinery and Carbon Emission Reduction credits arising on the acquisition of 50% of EdS in 2008.

2.17 Pensions

During the year under review, the Group did not operate or contribute to any pension schemes (31 December 2007 – nil).

2.18 Employee indemnity provision

This provision is determined in accordance with current legislation in Bolivia and reflects the liability accrued at the year-end.

3. KEY ASSUMPTIONS AND ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The Board has considered the critical accounting estimates and assumptions used in the Accounts and concluded that the main area of significant risk which may cause material adjustment to the carrying value of assets and liabilities within the next financial year is in respect of the assumptions used to value plant and machinery. The Board consults periodically with external expert valuers and is satisfied that the market values of the Group's main items of plant and machinery and plant under construction are no less than the carrying values of these assets. However, changes in technology or industry practices may result in the assumptions used needing to be amended in the future. Further important areas requiring estimates and assumptions relate to deferred tax, since there is an element of uncertainty regarding both the timing of the reversing of the asset or liability and the tax rate which will apply when the reversing occurs, and also the recoverability of pre-paid VAT in Argentina.

4. SEGMENT ANALYSIS

All of the Group's revenues in Argentina and Bolivia arose from electricity generating activities which is the Group's primary business segment. In the year to 31 December 2008, revenues in the UK represent income arising from the sale of equipment.

For management purposes, the Group is organised into two geographic segments, Argentina and Bolivia. The following table provides a segmental analysis by geographic region:

a) 12 months to 31.12.2008	Argentina £'000	Bolivia £'000	UK £'000	Intra-Group £'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	63,091	141,820	52,054	(50,731)	**206,234**
Total liabilities	62,133	86,272	19,426	(50,731)	**117,100**
Capital expenditure	11,395	17,791	-	-	**29,186**
Depreciation	616	3,435	-	-	**4,051**

b) 12 months to 31.12.2007	Argentina £'000	Bolivia £'000	UK £'000	Intra-Group £'000	Total £'000
Revenue	3,962	18,674	-	-	**22,636**
Cost of sales	(3,700)	(13,709)	-	-	**(17,409)**
Gross profit	**262**	**4,965**	**-**	**-**	**5,227**
Administrative expenses	(468)	(1,184)	(972)	-	**(2,624)**
Exchange gain/(loss)	(151)	(263)	79	-	**(335)**
Operating profit/(loss)	**(357)**	**3,518**	**(893)**	**-**	**2,268**
Other income	-	423	-	-	**423**
Finance income	-	32	61	-	**93**
Finance expense	(157)	(930)	(2)	-	**(1,089)**
Dividend received	-	-	1,738	(1,738)	**-**
Profit/(loss) before tax	**(514)**	**3,043**	**904**	**(1,738)**	**1,695**
Tax expense	(124)	(930)	(217)	-	**(1,271)**
Profit/(loss) for the year	**(638)**	**2,113**	**687**	**(1,738)**	**424**
Total assets	12,248	95,733	27,473	(25,920)	**109,534**
Total liabilities	8,046	37,294	1,288	(-)	**46,628**
Capital expenditure	4,050	16,804	-	-	**20,854**
Depreciation	355	2,659	-	-	**3,014**

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:

	31.12.08	31.12.07
i) Closing rate		
Boliviano to £	10.43	15.40
AR $ to £	5.00	6.30
US $ to £	1.45	2.00
ii) Average rate		
Boliviano to £	13.70	16.10
AR $ to £	5.87	6.25
US $ to £	1.86	2.00

If the exchange rate of sterling at 31 December 2008 had been stronger or weaker by 10% with all other variables held constant, shareholder equity at 31 December 2008 would have been £5.7m (2007 – £3.1m) lower or higher than reported.

If the average exchange rate of sterling during 2008 had been stronger or weaker by 10% with all other variables held constant, the loss (2007 – profit) for the year, would have been £0.29m (2007 – £0.13m) higher or lower than reported, including minority interests, and £0.29m (2007 – £0.03m) higher or lower excluding minority interests.

The results of the parent company are affected by exchange rate movements in so far as dividends received in 2008 and 2007 were received in US $. If the US $ had been stronger or weaker by 10% as compared to the actual rate when the dividend from Guaracachi was received in 2008, with all other variables held constant, the profit of the parent company and the net equity of the parent company would have been £0.2m higher or lower than reported (2007 – £0.2m).

6. COST OF SALES

	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Expenditure incurred in cost of sales is as follows:		
Cost of fuel	14,636	9,749
Cost of equipment sold	673	-
Transmission fees	2,395	1,982
Depreciation	4,012	2,989
Maintenance	1,171	1,296
Other	1,832	1,393
	24,719	**17,409**

7. ADMINISTRATIVE EXPENSES

	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Expenditure incurred in administrative expenses is as follows:		
Payroll and social security	1,473	1,230
Services, legal and professional	468	503
Office costs and general overheads	1,189	856
Audit fees	44	35
	3,174	**2,624**
Exchange losses	1,390	335
	4,564	**2,959**

In addition to the audit fees shown above, amounts paid to the Company's auditors for non-audit professional fees amounted to £nil (31 December 2007 – £7,400). The fees in 2007 related to work in connection with taxation advice. Fees paid to the Company's auditors in respect of their review of overseas operations amounted to £7,000 (31 December 2007 – £6,000). Fees paid to other auditors, in respect of the audit of subsidiary and joint venture companies, amounted to £38,000 (2007 – £35,000).

8 EMPLOYEE COSTS

a) Group	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Aggregate remuneration of all employees and directors, including social security costs	2,004	1,755

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

Management	19	19
Operations	99	74
Total	**118**	**93**

b) Company	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Aggregate remuneration of all employees and directors, including social security costs	261	406

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 was £203,375 (2007 – £300,417). The total remuneration of the highest paid director was £44,000 (2007 – £71,250).

9. OTHER INCOME

Other income in 2007 represented the book profit on the sale of surplus inventory.

10. FINANCE INCOME AND EXPENSE

	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Interest received on bank deposits	203	93
Interest paid/payable on bank borrowings and loans	2,309	947
Imputed interest on loans	153	142
Interest accrued on deferred consideration	821	-
	3,283	**1,089**

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

Interest accrued on deferred consideration relates to interest payable on loan notes issued in June 2008 to the vendors of 50% of PEL. In June 2009, this interest was waived.

11. TAX EXPENSE

The relationship between the expected tax expense at the basic rate of 28% (31 December 2007 – 30%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Result for the year before tax	(3,230)	1,695
Standard rate of corporation tax in UK	28%	30%
Expected tax (credit)/expense	(904)	509
Adjustment for different overseas tax rates	1,407	(123)
Other temporary differences	(233)	147
UK losses carried forwards	226	267
Overseas losses carried forwards	200	254
Tax on overseas dividends, less double tax relief	227	217
Actual tax expense	**923**	**1,271**
Comprising:		
Current tax expense	1,205	1,275
Deferred tax income	(282)	(4)
Total expense	**923**	**1,271**

The adjustment in the current year for different overseas tax rates arises primarily in Bolivia where tax is charged on inflation adjusted results.

12. DIVIDENDS

	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Amounts recognised as distributions to equity shareholders during the year:		
Final dividend for the year ended 31 December 2007 of 2.5p per share (2007 – 2.25p) paid in August 2008	2,145	1,613

13. HOLDING COMPANY'S RESULT FOR THE YEAR

As permitted by Section 230 of the Companies Act 1985, the holding company's income statement is not shown separately in the financial statements. The profit for the year was £0.8m (31 December 2007 – profit £0.7m).

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. The fully diluted calculation of loss per share is unchanged from the basic calculation as there are no dilutive potential ordinary shares outstanding.

	Year ended 31.12.08	Year ended 31.12.07
Loss attributable to equity shareholder of the Company	£4.2m	£0.6m
Average number of issued shares	79,538,775	71,247,679
Basic and diluted loss per share	5.23p	0.85p

15. PROPERTY, PLANT AND EQUIPMENT

a) Group	Land £'000	Plant and equipment £'000	Plant under construction £'000	Total £'000
Cost at 1 January 2007	**4,484**	**55,223**	**13,873**	**73,580**
Exchange adjustments	(94)	(2,220)	(244)	(2,558)
Additions	-	3,401	17,453	20,854
Transfers in classification	-	8,880	(8,880)	-
Cost at 31 December 2007	**4,390**	**65,284**	**22,202**	**91,876**
On acquisition	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 December 2008	**6,167**	**96,082**	**77,363**	**179,612**
Depreciation at 1 January 2007	**-**	**2,694**	**-**	**2,694**
Exchange adjustments	-	(1,067)	-	(1,067)
Charge for year	-	3,014	-	3,014
Depreciation at 31 December 2007	**-**	**4,641**	**-**	**4,641**
On acquisition	-	983	-	983
Exchange adjustments	-	1,884	-	1,884
Charge for the year	-	4,051	-	4,051
At 31 December 2008	**-**	**11,559**	**-**	**11,559**
Net book value – 31.12.08	**6,167**	**84,523**	**77,363**	**168,053**
Net book value – 31.12.07	**4,390**	**60,643**	**22,202**	**87,235**

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 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.

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 the 96MW combined cycle gas turbine ("CCGT") conversion and expansion project in Santa Cruz, Bolivia, which is due for completion in late 2009 and the CCGT project in Patagonia, Argentina, where capacity has been increased from 76MW to 136MW and which is now in service.

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

16. INTANGIBLE ASSETS

	Goodwill £'000	CERs £'000	Patent £'000	Total £'000
At 1 January 2007	**-**	**-**	**3**	**3**
Amortisation	-	-	(3)	(3)
At 31 December 2007	**-**	**-**	**-**	**-**
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**

Goodwill represents the difference between the fair value of the assets and liabilities acquired on the acquisition of 50% of EdS in June 2008 (see note 28).

CERs ("Carbon Emission Reduction credits") represents the fair value of the CERs acquired on the acquisition of 50% of EdS in June 2008. The fair value is based on the market price of CERs at the date of acquisition and the Directors' estimate of the discounted value of the income from CERs which EdS is expected to generate.

The patent licence was written off in 2007 as it has negligible value.

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%.

17. TRADE AND OTHER RECEIVABLES

	31.12.08 £'000	31.12.07 £'000
a) Group – current		
Trade receivables	6,291	3,781
Other receivables and prepayments	3,648	1,369
	9,939	**5,150**

Other receivables and prepayments at 31 December 2008 include:

i) £nil (31 December 2007 – £0.9m) 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.

ii) £1.15m (31 December 2007 – £1.1m) of surplus VAT which has been paid by EdS and is recoverable as a deduction against future VAT liabilities.

b) Company – current		
Trade receivables	1,250	-
Other receivables and prepayments	38	36
	1,288	**36**
c) Group – non-current		
Trade receivables	1,543	87
Other receivables and prepayments	3,250	13
	4,793	**100**

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. Other receivables includes £3.25m of surplus VAT which has been paid by EdS and is recoverable as a deduction against future VAT liabilities.

d) Company – non-current		
Amounts owed by subsidiary companies	**34,075**	**22,143**

The amounts owed by subsidiary companies (2007 – subsidiary and joint venture companies) are unsecured and payable on demand but are not expected to be fully received within the next twelve months. £13.1m is interest bearing at 14.32%. The balance is non-interest bearing.

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

	31.12.08 £'000	31.12.07 £'000
a) Asset at 1 January 2008	650	359
Exchange translation	180	(7)
Credited to tax expense	282	298
Asset at 31 December 2008	**1,112**	**650**

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 (£1.7m at 31 December 2008 – £1.1m at 31 December 2007) in view of the uncertainty over the timing of the utilisation of these tax losses.

b) Liability at 1 January 2008	978	739
On acquisition	2,400	-
Exchange translation	674	(15)
Charged to tax expense	-	254
Liability at 31 December 2008	**4,052**	**978**

The Group deferred tax liability arises from:

i) accelerated tax allowances on plant and equipment expenditure in Bolivia – £1.4m (2007 – £1m).

ii) deferred tax provision on the fair value adjustments arising on the acquisition of 50% of EdS in June 2008 – £2.7m (2007 – nil).

19. INVENTORIES

	31.12.08 £'000	31.12.07 £'000
Spare parts and consumables	**3,817**	**2,562**

Spare parts and consumables are valued at cost.

20. CURRENT TAX ASSETS

	31.12.08 £'000	31.12.07 £'000
Sales taxes/Vat	-	1,771
Pre-paid profits tax	4,154	1,467
	4,154	**3,238**

Pre-paid profits tax relates to taxes paid in Bolivia and Argentina which are off-settable against future tax liabilities. At 31 December 2008, prepaid sales taxes/VAT have been included in 'trade and other receivables – note 17'.

21. CASH AND CASH EQUIVALENTS

	31.12.08 £'000	31.12.07 £'000
a) Group		
Cash at bank and in hand	486	10
Short-term bank deposits	4,545	9,231
Short-term bank deposits (restricted)	-	1,358
	5,031	**10,599**
b) Company		
Cash at bank and in hand	35	4
Short-term bank deposits	7	322
Short-term bank deposits (restricted)	-	1,191
	42	**1,517**

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.

Restricted deposits at 31 December 2007 represented funds held as collateral against borrowings.

22. SHARE CAPITAL

	31.12.08 £'000	31.12.07 £'000
a) Authorised		
120,000,000 ordinary shares of 2p each	2,400	2,400
b) Allotted, called up and fully paid		
85,788,775 ordinary shares of 2p each (31 December 2007 – 73,288,775)	1,716	1,466

Reconciliation of movement in share capital	Number	£'000
Balance at 1 January 2007	**68,288,775**	**1,366**
Allotment in May 2007	3,400,000	68
Allotment in June 2007	**1,600,000**	**32**
At 31 December 2007	**73,288,775**	**1,466**
Allotment in June 2008	12,500,000	250
Balance at 31 December 2008	**85,788,775**	**1,716**

The allotments in May and June 2007 were at 59.25p and 57p respectively. The allotment in June 2008 was at 65p per share. 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.

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

23. TRADE AND OTHER PAYABLES

	31.12.08 £'000	31.12.07 £'000
a) Group – current		
Trade payables	24,914	13,865
Accruals	2,271	1,374
	27,185	**15,239**
b) Company – current		
Trade payables	372	117
Accruals	220	59
	592	**176**
c) Group – non-current		
Staff indemnity provision	**290**	**179**

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

24. CURRENT TAX LIABILITIES

	31.12.08 £'000	31.12.07 £'000
a) Group		
Sales taxes/VAT	-	330
Profits taxes	2,347	1,377
	2,347	**1,707**

At 31 December 2008, the liability for sales taxes/VAT have been included in 'trade and other payables – note 23.

b) Company		
UK corporation tax	-	-

25. BORROWINGS

	31.12.08 £'000	31.12.07 £'000
a) Group – current		
Loan from CAMMESA (note i below)	896	330
Bank loans – EdS (note ii below)	4,034	736
Bank loans – Guaracachi (note iii below)	7,162	5,228
Other loans (note iv below)	14,234	1,752
Deferred consideration payable (note vi below)	9,636	-
	35,962	**8,046**
b) Group – non current		
Loan from CAMMESA (note i below)	1,743	189
Bank loans – EdS (note ii below)	7,106	4,266
Bank loans – Guaracachi (note iii below)	27,374	10,094
Loan note – Guaracachi (note v below)	11,041	5,930
	47,264	**20,479**
Group – total borrowings	**83,226**	**28,525**
The borrowings are repayable as follows:		
On demand or within one year	35,962	8,046
In the second year	6,009	2,431
In the third to fifth years inclusive	18,031	6,344
After five years	23,224	11,704
	83,226	**28,525**
c) Company – current		
Deferred consideration payable (note vi below)	9,636	-
Other loans (note iv below)	9,198	1,112
	18,834	**1,112**

i) 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.

ii) The loan which bears interest at US Libor plus 6% is repayable as follows (the comparative figures for 2007 show the Group's 50% share of the loans):

	31.12.08 £'000	31.12.07 £'000
Within 1 year	4,034	736
In the second year	2,842	500
In the third to fifth years inclusive	4,264	1,912
After five years	-	1,854
	11,140	**5,002**

iii) Bank loans to Guaracachi comprise:

	£'000
FND Fondo Nordica (ai)	729
KfW 87-75-166 (aii)	2,299
KfW 92-65-711 (aiii)	4,226
CAF (b)	14,137
Banco Economico (c)	2,208
Banco Union (d)	4,144
Banco Mercantile (e)	2,993
Banco Bisa (f)	3,800
Total	**34,536**
Current	7,162
Non-current	27,374
Total	**34,536**

a) In 1994, as part of the privatisation process, Guaracachi entered into an agreement with Empresa Nacional de Electricidad ("ENDE") and the Bolivian Treasury Department whereby Guaracachi undertook to make a series of payments to the Bolivian Treasury on behalf of ENDE.

Certain assets of Guaracachi are pledged as security for these obligations.

ai) Loan controlled by the Bolivian Government, obtained from the Nordic Fund ("FND"), repayable in half-yearly equal instalments. The maturity date is 24 October 2015 and the interest rate is 4.5% per annum. Guaracachi's liability is denominated in Special Drawing Rights.

aii) Loan controlled by the Bolivian Government, obtained from the Kredintanstalt fur Weideraufbau ("KfW") N° 87-65-166 for DM12.2m payable in 44 semi-annual instalments. The maturity date is 31 December 2017 and the interest rate is 4.5% per annum. Repayments are now made in Euros.

aiii) Loan controlled by the Bolivian Government, obtained from the Kredintanstalt fur Weideraufbau ("KfW") N° 92-65-711 for DM16m payable in 50 semi-annual instalments. The maturity date is 30 December 2022 and the interest rate is 4.5% per annum. Repayments are now made in Euros.

In determining the fair values, the Company has used interest rates prevailing at the balance sheet date which would have been available to a company of similar size and similar credit risk. The interest rate assumptions used to determine the fair values are as follows:

	As at date of acquisition	At 31.12.08
Swap rate for 15 year Euro loans	3.50%	3.00%
Adjustment for country and credit risk	5.00%	5.00%
Total	**8.50%**	**8.00%**

b) CAF has provided a loan of $20m at an interest rate based on US Libor plus a margin of 3.5% less a discount of 1.3%. The loan is repayable in 8 equal annual instalments commencing in 2011.

c) Banco Economico has provided a loan of $3.2m at an interest rate of 10.3%. The loan is repayable in 9 equal half-yearly instalments between 2009 and 2013.

d) Banco Union has provided 2 loans totalling $6m at an interest rate of 10.5%, repayable in equal annual instalments commencing in 2009.

e) Banco Mercantile has provided a loan of $4.3m at an interest rate of 8%, repayable in 7 equal annual instalments.

f) Banco Bisa has provided a loan of $5.5m at an interest rate of 11.5%. The loan is repayable in 2009.

iv) Other loans comprise short term loans, repayable within 12 months, at an interest rate of UK base rate plus a margin of 2%.

v) Loan note
In December 2007, Guaracachi issued a US$ 20m bond, with an interest coupon of 8.55%. At 31 December 2008, US$16m had been issued. The bond matures in November 2017 with principal repayments of 1/3 of the outstanding amount in each of years 2015, 2016 and 2017.

vi) Deferred consideration comprises amounts payable to the vendors of 50% of PEL, plus accrued interest. Following the sale of 50% of PEL after the year end (see note 33) this amount is no longer due.

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 1 above.

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 £8m (2007 – £2.7m).

The parent 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 £1.4m.

26. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

a) Group	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Result for the year before tax	**(3,230)**	**1,694**
Net finance costs	3,080	996
Adjustments for:		
Depreciation	4,051	3,014
Profit on sale of equipment	(577)	
Movement in working capital:		
Change in inventories	80	510
Change in trade and other receivables	(4,209)	776
Change in trade and other payables	4,283	10,244
Cash generated from operations	**3,478**	**17,234**

b) Company	Year ended 31.12.08 £'000	Year ended 31.12.07 £'000
Result for the year before tax	**1,011**	**905**
Net finance income/(expense)	154	(59)
Adjustments for:		
Dividend received	(1,591)	(1,520)
Tax paid on dividend received	(227)	(217)
Unrealised exchange loss on loans	2,163	-
Movement in working capital:		
Change in trade and other receivables	(1,252)	34
Change in trade and other payables	416	11
Cash generated from/(used in) operations	**674**	**(846)**

27. INVESTMENTS

	31.12.08 £'000	31.12.07 £'000
Cost at 1 January 2008	3,777	3,777
Additions	12,872	0
Balance at 31 December 2008	**16,649**	**3,777**

In June 2008, the Company acquired a further 50% interest in Patagonia Energy Limited ("PEL") thereby increasing the Company's interest in PEL to 100%. Since the year end, the Company has sold 50% of its interest in PEL.

At 31 December 2008, 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 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) 100% (2007 – 50%) of the issued share capital of PEL, a company registered in the British Virgin Islands under registration number 620522. PEL owns 100% of the issued share capital of EdS, a company registered in Argentina. EdS is a generator and supplier of electricity to the national grid in Argentina. The investment in PEL was acquired in July 2005.

28. ACQUISITION

In June 2008, the Company acquired a further 50% interest in PEL. The table below shows the book value and fair value adjustments of the assets and liabilities acquired:

	Book value £'000	Fair value adjustments £'000	Provisional fair values £'000
Property, plant and machinery	10,861	2,500	13,361
Intangible asset	-	1,500	1,500
Inventories	405	-	405
Trade and other receivables	3,445	-	3,445
Cash	230	-	230
Trade and other payables	(2,178)	-	(2,178)
Borrowings	(5,638)	-	(5,638)
Amount due to vendor	(3,387)	-	(3,387)
Deferred tax liability	-	(1,200)	(1,200)
Total net assets acquired	**3,738**	**2,800**	**6,538**
Goodwill (excess of cost over net assets acquired)			6,335
Purchase price			**12,873**
Paid on completion			6,148
Transaction costs			71
			6,219
Loan note issued to vendor at completion			6,654
Purchase price			**12,873**

Goodwill recognised in the above acquisition represents intangible assets that are not capable of being separately measured reliably and are not allowed under IFRS 3 to be separately identified. This includes the workforce acquired and commercial opportunities and synergies expected to be achieved as a result of being part of the Group.

The purchase consideration for the shares was $25m, of which $12m was paid in cash on completion and $13m deferred consideration of which US$3m was due to be paid 3 months after completion and $10m was due to be paid 12 months after completion. Interest at 11.32% was due to be paid on the deferred consideration.

If the Company had owned 100% of PEL throughout the year, the Group loss would have been £120k less than that reported.

In June 2009, the Company sold back 50% to the original vendor for $13m plus waiver of the accrued interest on the deferred consideration (see note 33).

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 dollar 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) Liquidity risk
The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

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.

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.

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

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)**

31 December 2007	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	-	100	-	-	22,143	-
Trade and other receivables < 1 year	-	5,150	-	-	36	-
Cash and cash equivalents	-	10,599	-	-	1,517	-
Trade and other payables > 1 year	-	-	(179)	-	-	-
Trade and other payables < 1 year	-	-	(15,239)	-	-	(176)
Borrowings > 1 year	-	-	(20,479)	-	-	-
Borrowings < 1 year	-	-	(8,046)	-	-	(1,112)
Totals	**-**	**15,849**	**(43,943)**	**-**	**23,696**	**(1,288)**

30. CAPITAL COMMITMENTS

The Group is engaged in developing new turbines in Bolivia and Argentina. At 31 December 2008, the Group had outstanding capital commitments of £1.0m (31 December 2007 – £0.5m).

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 share of the total payable under the agreement until the year 2022 amounts to US$20m/£13.8m (2007 – 50% share, US$11m/£5.61m). 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) was invoiced £0.12m by IPC under a "Shared Services Agreement". P R S Earl and E R Shaw are shareholders and directors of IPC and J G West is a director. An amount of £0.07m was outstanding at 31 December 2008.

ii) received a loan from IPC. The balance owing at 31 December 2008 was £4.98m, including accrued interest of £0.1m.

iii) received a loan from Secteur Holdings Ltd, a company of which Mrs P Earl is a director. The balance owing at 31 December 2008 was £3.87m, including accrued interest of £0.3m.

iv) sold equipment for £1.25m to IPC on an arm's length basis. This balance was outstanding at 31 December 2008. Since the year-end, the balance has been set-off against amounts owing to IPC.

v) paid salaries to key management amounting to £0.26m (2007 – £0.37m).

b) Group
Guaracachi paid £0.2m (2007 – £0.3m) to Independent Power Operations Limited, a wholly owned subsidiary of IPC, for engineering services. An amount of £9,000 was owing at 31 December 2008 (£8,000 at 31 December 2007).

33. POST BALANCE SHEET DATE EVENTS

i) Issue of share capital

Since the year-end, the Company has allotted 119,632,730 Ordinary 2p shares at 8p per share. 91,562,500 shares were allotted for cash raising £7.325m before expenses and 28,070,230 shares were allotted as capitalisation of loans.

ii) Sale of 50% of PEL

Following a decision made after the year-end, 50% of its interest in PEL to the original vendors for US$13m plus the waiver and cancellation of accrued interest amounting to US$0.95m. Following this sale, the Company retains ownership of 50% of PEL.

Rurelec PLC

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