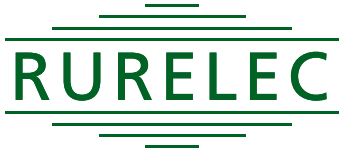

Rurelec PLC
Annual Report
2007

RURELEC PLC
ANNUAL REPORT 2007

COMPANY INFORMATION

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

SECRETARY
S A Laker

COMPANY NUMBER
4812855

REGISTERED OFFICE AND BUSINESS ADDRESS
5th Floor
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AUDITORS
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Registered Auditors
Chartered Accountants
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SOLICITORS
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7 Devonshire Square
Cutlers Gardens
London
EC2M 4YH

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Installation work on the new HRSG, Energia del Sur, Comodoro Rivadavia, Patagonia, Argentina

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Energia del Sur, Comodoro Rivadavia,
Patagonia, Argentina

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.

I am pleased to report 2007 was a year of considerable progress for Rurelec. Our operating subsidiaries have been able to make solid progress which underpins future earnings. In Bolivia, Empresa Electrica Guaracachi S.A. ("Guaracachi") recorded its highest profit since its privatisation in 1995, while 160 MW of combined cycle conversion projects in Argentina and Bolivia were financed during the year.

In the twelve months ended 31st December 2007, Rurelec is reporting an after tax loss, excluding minority interests, of £0.6m (2006 earnings, excluding negative goodwill, were £1.1m).

However, operating profits remained stable at £2.3m, with Guaracachi showing an improvement at £3.4m (2006 £2.6m) and Energia del Sur ("EdS") showing a slight deterioration to a loss of £0.3m (2006 £0.1m profit) pending commissioning of the combined cycle conversion project later in 2008. Total reported equity for the Group at the end of the year under review was £62.9m (£64.2m at 31st December 2006) including minority interests.

The Group is reporting a basic, diluted and underlying loss per share of 0.85p (earnings per share at 31st December 2006 were 21.17p and underlying earnings per share were 1.68p).

The Group consolidated results mask the tangible progress made, this is particularly evident in Bolivia, where Guaracachi reported after tax profits of US$9.6m under Bolivian GAAP (Rurelec's share £2.4m). EdS reported a loss after tax of Ar$9.6m (Rurelec's share is a loss of £0.8m).

The Board will be proposing a dividend of 2.5p per share (2006 – 2.25p per share), an increase of 11%.

In 2007 Guaracachi added 79 MW of new gas-fired capacity in Santa Cruz and Sucre in Bolivia, increasing its capacity by nearly one quarter in just one year. EdS made considerable progress on its combined cycle conversion project, adding 60 MW of additional steam turbine capacity at Comodoro Rivadavia in Argentina, due to be commissioned in August 2008. At the same time Guaracachi started construction in Sucre of a further 6 MW of

Previous Page:
CCGT Project nearing completion, Engeria del Sur

Jenbacher gas engine capacity which is currently being commissioned while successfully completing financing of the combined cycle conversion project which is adding 96 MW of steam turbine capacity in Santa Cruz, for operation in the middle of 2009.

Since 2004, Rurelec has completed or begun construction of 245 MW of new generation capacity, compared with the 436 MW of existing capacity acquired through EdS and Guaracachi. Few power companies worldwide have increased their gross power plant capacity by 56 per cent in under three years.

We have announced two important developments since the year end. The first is the approval and registration of 148,019 tonnes per year of CO_2 reductions in the form of Certified Emission Reductions certificates ("CERs") for EdS. This was granted by the Executive Board of the United Nations Framework Convention on Climate Change ("UNFCCC") in early May 2008. The registration is valid for three separate crediting periods of seven years each.

Based on the registration of EdS's CERs, Rurelec has negotiated a preliminary agreement with BNP Paribas for a forward sale of CERs for the life of the Kyoto Protocol. This will give EdS, subject to contract, CER income of around US$3 million a year until the end of 2012 from the moment that the EdS Combined Cycle Gas Turbine ("CCGT") plant in Comodoro Rivadavia enters full commercial operation in August 2008. Rurelec is also finalising terms for the securitisation of the income from the CER forward sale which is a ground-breaking transaction intended to pay down a significant amount of project debt at EdS.

I am proud of the hard work that the management teams in London, Bolivia and Argentina have put in over the year to ensure that the Group has a sound basis on which to expand. The increase in capacity under our control is a key driver for adding value for our shareholders and this year has seen a remarkable increase.

We maintain good relations with the electricity sector in general and with the regulators in particular. The markets in which we operate have continued to grow over the past year and are expected to continue to do so and the Board is confident that the Group will be in a position to reap the benefits of growth over the coming years.

Jimmy West
Chairman
4 June 2008

REPUBLIC OF BOLIVIA

Geographical Location	South America
Surface Area	1.098.580 km
Population	7,500,000
Official Language	Spanish
Constitutional Capital	Sucre
Administrative Capital	La Paz

- International Borders
- National Border
- Nation's Capital
- Department's Capital
- Cities
- Guaracachi T. Electrical Plants
- Energetic Development Sites

2007 saw a great deal of development activity by Rurelec in both Argentina and Bolivia, even if this progress is not yet reflected in the consolidated results for the full year. Nevertheless, the Company's Bolivian subsidiary, Guaracachi, still achieved record operating results – its highest recorded profitability since privatisation in 1995 – while market conditions in Argentina improved considerably in the final quarter of the year as power shortages forced the pace of market reforms needed to encourage new generation capacity.

BOLIVIA

2007 was a good year for Guaracachi with record net income, as prepared under Bolivian GAAP, of US$ 9.63 million and revenues of US$ 40.89 million. This compares with restated net income of US$ 8.13 million and revenues of US$ 35.25 million for the same period in 2006. Based on these results, Guaracachi shareholders approved a dividend of US $7.16 million in April 2008. The dividend attributable to Rurelec PLC was approximately US $3.1 million after deduction of Bolivian withholding taxes at the rate of 12.5 per cent.

Part of Guaracachi's improvement was due to the successful completion of GCH 11, the 71 MW nominal capacity General Electric 6FA turbine commissioned and inaugurated in March 2007 which has subsequently operated as one of the principal gas turbines in both Santa Cruz and in Bolivia. GCH 11 was developed and installed in record time by a joint Anglo-Bolivian team of engineers. Had the unit not been installed on time, Bolivia would most certainly have experienced the same kind of power shortages which have afflicted its neighbours in Argentina, Brazil and Chile. Instead, in 2007 Bolivia enjoyed a power capacity reserve margin unparalleled in the Southern Cone of Latin America.

Guaracachi is the only private power company to have installed new capacity in recent years, bringing on 8 MW in 2006 and 71 MW in 2007. In 2008 Guaracachi will install a further 6 MW nominal capacity in Sucre and an additional 96 MW in Santa Cruz in 2009 in the form of the long-awaited CCGT conversion project, the first in Bolivia.

Guaracachi is Bolivia's most environmentally aware power generator. Its smaller new Jenbacher gas engines are the most thermally efficient power production units in the country. With a 42 per cent thermal efficiency, they have the lowest emissions of greenhouse gases of any thermal generator. They have replaced older Worthington and Nordberg reciprocating engines which need to be run partly on diesel and which consume more fuel for every kilowatt hour of electricity generated.

Guaracachi's new CCGT unit at Santa Cruz, when completed in 2009, will use the waste heat from existing gas turbines to produce more power for every unit of fuel used. This re-capture of heat, currently being vented into the atmosphere, makes the project eligible for carbon credits under the United Nations Clean Development Mechanism under the Kyoto Protocol. In a ground breaking agreement with the Vice-Ministry of Land Planning and Environment of the Government of Bolivia, Guaracachi has agreed to share part of the

AeroSur
GUARACACHI

CARBON CREDITS: WHO GETS THEM AND WHY

In 1997, at the third annual meeting of the UNFCCC, the Kyoto Protocol was adopted in response to increasing concern about the effects of anthropogenic greenhouse gases on our climate. The agreement put a cap on the level of emissions that industrial countries that have ratified the protocol (Annex I countries) can emit. The protocol came into force in 2005 following ratification by Russia. The first compliance period starts on January 1st 2008 and lasts for four years.

Because the cost of compliance can be very much more costly to one industrial facility than to another, a number of "flexibility mechanisms" have been built into the protocol to allow emission reductions to occur at the lowest possible cost. One of these flexibility mechanisms is the clean development mechanism ("CDM") and is a core driver behind Rurelec's activities. The CDM allows for Annex I countries to meet their emission reduction targets by offsetting their emissions with credits known as CERs.

A CER is created when a project developer such as Rurelec invests in emission reducing projects in non-Annex I countries that have ratified the Kyoto protocol (e.g. Argentina and Bolivia). A reduction of one tonne of Carbon Dioxide generates one CER. Other polluting greenhouse gases are also included and assigned a carbon equivalent value which allows them to generate CERs as well.

On delivery CERs can be sold to those parties in Annex I countries with a requirement to reduce emissions. Rurelec has knowledge and experience of the carbon market that allows it to get the very best from its CERs. Revenue from the sale of CERs allows Rurelec's subsidiaries and affiliates to invest in the most up-to-date and environmentally friendly power generation technologies available.

financial benefit of those CERs by sponsoring and investing in social programmes for rural electrification and isolated generation for those communities who today have no access to the national grid and only limited and sporadic electricity from small diesel powered generators. Guaracachi's new social programme is the first such public-private partnership in Bolivia.

Guaracachi has a strong balance sheet when compared with most power companies in Latin America, the United States or Europe. For this reason the

Facing Page:
Guaracachi sponsored
Los Destroyers of Santa Cruz

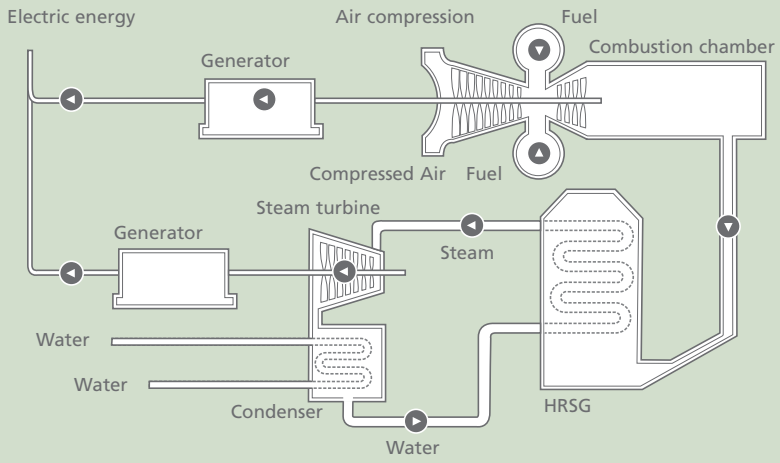
Assets in Operation	Fuel/Type	Rurelec % ownership	Nominal Power MW	Ownership Interest MW
ARGENTINA				
EDS – Comodoro Rivadavia	gas OCGT	50.000	76.0	38.00
BOLIVIA				
Guaracachi – Guaracachi	gas OCGT	50.001	342.4	171.2
Guaracachi – Aranjuez TG	gas OCGT	50.001	24.4	12.2
Guaracachi – Aranjuez DF	dual	50.001	14.7	7.4
Guaracachi – Aranjuez MG	gas	50.001	8.1	4.1
Guaracachi – Karachipampa	gas OCGT	50.001	15.5	7.8
			405.1	**202.6**
Total			**481.1**	**240.6**
Assets Under Construction				
ARGENTINA				
EDS – Comodoro Rivadavia	gas CCGT	50.000	60.0	30.0
BOLIVIA				
Guaracachi – Aranjuez MG	gas	50.001	4.0	2.0

Facing Page:
Installation of Jenbachers, Guaracachi Plant, Aranjuez, Bolivia

WHAT IS A COMBINED CYCLE GAS TURBINE PLANT?

In a CCGT, waste exhaust heat from burning gas in a gas turbine is recycled to generate more electricity. This is done by passing the waste heat through a heat recovery steam generator ("HRSG") which produces steam at a high enough pressure to drive a steam turbine. Both the gas and the steam turbines are connected to electric generators to produce electricity.

Organising a power plant in this manner greatly increases the efficiency of the plant.



company's expansion programme – adding a total of 181 MW in four years between 2006 and 2009 – has been accomplished through a combination of Guaracachi's own cash reserves and judicious use of debt. At the end of December 2007, Guaracachi announced that it had achieved a debt rating with Fitch of A+ (BoC) for its US$40 million unsecured bond programme, of which at 31 December 2007, US$11.9 million had been issued with a coupon of 8.55 per cent for a ten year maturity, a milestone for any Bolivian power company. Guaracachi has also reached a preliminary agreement with CAF for a US$20 million project loan for the CCGT expansion with a highly competitive interest rate coupon supported by KfW of Germany. Guaracachi enjoys strong domestic banking relationships with Banco de Credito, Banco Mercantil Santa Cruz, Banco BISA and Banco Economico.

BOLIVIA
PARAGUAY
BRAZIL
JUJUY
SALTA
FORMOSA
TUCUMAN
CHACO
CATAMARCA
SANTIAGO DEL ESTERO
MISIONES
LA RIOJA
CORRIENTES
SANTA FE
SAN JUAN
ENTRE RIOS
CORDOBA
URUGUAY
South Pacific Ocean
South Atlantic Ocean
SAN LUIS
MENDOZA
ARGENTINA
BUENOS AIRES
LA PAMPA
NEUQUEN
CHILE
RIO NEGRO
CHUBUT
ENERGIA DEL SUR
SANTA CRUZ
TIERRA DEL FUEGO
REPUBLIC OF ARGENTINA
Geographical Location South America
Surface Area 2,780,400 km²
Population 36,100,000
Official Language Spanish
Constitutional Capital Buenos Aires
International Borders
National Border
Nation's Capital
Department's Capital
Cities
Energia del Sur

Bolivia is growing in importance as a regional energy hub, exporting high levels of gas to Argentina and Brazil. Guaracachi continues to develop its Yacuiba Export Project for exporting electricity to Argentina and hopes to finalise the necessary fuel supply agreements for this 120 MW project during the course of 2008.

Guaracachi is exploring further domestic and international power projects in conjunction with its Bolivian and British shareholders and with other overseas partners.

ARGENTINA

Rurelec's EdS suffered from poor margins in the first half of 2007. As expected, the government began to ease the rise in natural gas prices, these fuel price increases were not matched by similar electricity price rises until well into the second half.

The two General Electric 6B turbines owned and operated by EdS are solid, workhorse machines but do not give the highest efficiency when run in open cycle as at present. This all changes when the 6Bs are converted to combined cycle operation since they are then able to produce nearly 40 per cent. more electricity for the same volume – and cost – of gas consumption. Hence EdS will enjoy a significant improvement in its operating margins when the new combined cycle capacity enters full commercial dispatch in August 2008.

There are three other important reasons why the combined cycle project increases the margins at EdS.

The first is simple. In combined cycle mode, EdS's turbines will be dispatched into the local grid for more hours than at present since their new higher efficiency gives them a competitive advantage over other thermal plants. This has the effect of switching the turbines from peaking capacity to baseload capacity. In consequence, the plant will operate continuously for more hours and will thus produce much more electricity than at present.

The second is equally simple. The EdS plant qualifies for CER carbon credits. As announced in May 2008, the UNFCCC's approval for the EdS combined cycle conversion to be registered with the United Nations has the practical effect of granting EdS 148,019 tonnes a year of CERs which Rurelec is proposing to sell forward to give a predictable cash contribution of around US$3 million a year from the sale of annual carbon credits.

The third is more complex but the effect for EdS is nonetheless simple. The Argentine government has introduced a new system of tariffs called Energia Plus designed to reward those power companies which add new power generation capacity to their existing portfolios. EdS is one of the first power companies to benefit from the new tariffs available for power purchase agreements signed under Energia Plus.

Together, the effects of upgrading the Comodoro Rivadavia plant to combined cycle are likely to be felt from the fourth quarter of 2008 with considerable improvements to the operating efficiency of the plant.

SOCIAL AND ENVIRONMENTAL ISSUES

In recent years the Company has demonstrated its commitment to environmental improvements, not only in terms of emissions reductions in accordance with the Kyoto Protocol, but also in its noise reductions from existing generation activities.

In 2007 Guaracachi built noise reduction housings around some of its oldest peaking Frame 5 gas turbines to reduce noise emissions to a level considerably below Bolivia's current legal noise level standards. In 2008 Guaracachi is moving two of its remaining Frame 5 Units to an industrial park in Santa Cruz to form the core of a 40 MW combined heat and power ("CHP") project, using waste heat to produce steam for industrial users. This will be Bolivia's first gas-fired CHP and is intended to provide steam for a new soya crushing plant to be built on site.

The Santa Cruz CHP Project will not only reduce noise emissions at Guaracachi's principal city centre location, for the benefit of its residential neighbours, but is also designed to create new CERs from the use of waste heat. It will increase the thermal efficiency of the Frame 5 gas turbines when operating in CHP mode which should, in turn, allow these units to run as baseload rather than peaking units. Guaracachi is also considering the possibility of obtaining an extra 20 MW of power capacity from the CHP by a further conversion to combined cycle.

In other areas too, Guaracachi has been acting as a catalyst for social change with sponsorship of educational, cultural and sporting projects as benefits one of Bolivia's largest companies.

The entire Rurelec team looks forward to future growth in Argentina, Bolivia, Chile and Peru with great excitement.

Previous Page:
Preparation for the CCGT conversion project, Guaracachi Plant, Santa Cruz, Bolivia

Peter Earl
Chief Executive
4 June 2008

The directors present their report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the Group comprise the acquisition and development of power generation assets initially in markets in South America. In addition, and as opportunities arise, the Group acquires, refurbishes and sells power generation equipment to third parties.

Since the Company's flotation on 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 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 Guaracachi, which owns and operates generating plant supplying electricity in Bolivia.

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. 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.

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.

RESULTS AND DIVIDENDS

The Group results for the year ended 31 December 2007 are set out in the Consolidated Income Statement.

At the Annual General Meeting, the directors will be proposing a dividend at the rate of 2.5p per share (2006 – 2.25p).

SHARE CAPITAL

Details of the authorised and issued share capital and the changes in the year are set out in note 19. There have been no changes in the share capital of the Company since the year end.

DIRECTORS

The composition of the Board is as follows:

James West (61) – 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.

Peter Earl (53) – 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 (47) – 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 (54) – 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 (63) – 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 at London University.

Frederick G. Fisher III (61) – Non-Executive Director

Freddie graduated from Harvard University and subsequently gained an MA from Oxford University and his MBA from Harvard Business School before starting his 30 year career in international investment banking and finance, much of it spent in the City of London. Freddie has extensive experience in negotiating transactions both on behalf of clients and as principal. As an investment banker, he was active in mergers and acquisitions around the world, particularly in the banking sector. Latterly Freddie has been Chairman and Deputy Chairman of expanding companies in the film, property and European gaming industry. Freddie has written five finance textbooks on eurobonds, international M&A and derivatives. Freddie is Chairman of the Audit Committee.

DIRECTORS' INTERESTS

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

	31 December 2007	31 December 2006
J G West	1,125,000	1,125,000
Sir D R C Christopher	33,333	33,333
P R S Earl[1]	11,812,721	8,802,721
J M Eyre	250,000	500,000
E R Shaw	250,000	500,000

[1] P R S Earl's interest in the shares of the Company arise from i) Independent Power Corporation PLC's ("IPC") holding of 11,802,721 shares and ii) 10,000 shares owned by P R S Earl's wife. IPC is controlled by P R S Earl and P R S Earl, J G West and E R Shaw are directors of IPC.

There have been no changes in the directors' beneficial interests in the shares of the Company since the year-end.

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 30 April 2008, being the last practicable date for reporting this information.

	Number of shares	% holding
Vidacos Nominees Ltd	11,823,000	16.13%
Goldman Sachs Securities Nominees	11,802,721	16.10%
Credit Suisse Client Nominees (UK)	9,590,000	13.09%
HSBC Global Custody Nominee (UK)	9,050,712	12.35%
Chase Nominees Limited	4,592,000	6.27%
Lehman Brothers International	4,135,500	5.64%
Nutraco Nominees Limited	3,372,790	4.60%

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 2007 was 25 days (31 December 2006 – 20 days).

RISK MANAGEMENT POLICIES AND OBJECTIVES

The financial risk management policies and objectives are set out in note 27.

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.

Facing Page:
Deaerator tank, Energia del Sur

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
4 June 2008

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 to aspire to 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 or 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 seven times during 2007. 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 three executive directors and currently three non–executive directors. Jimmy West, the Chairman, is also a director of a number of other companies including Independent Power Corporation PLC (IPC), a company of which Peter Earl, Elizabeth Shaw and Mike Eyre are directors and Peter Earl and Elizabeth Shaw are shareholders. The other non-executive directors are Sir Robin Christopher and Freddie Fisher. The non-executive directors are all 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, and Mike Eyre has particular responsibility for technical operations and engineering matters.

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 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 also 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 comprises Freddie Fisher and Jimmy West who are both non–executive directors. Freddie Fisher, who has recent and relevant financial experience, assumed Chairmanship of the Audit Committee from Jimmy West in March 2007. The committee met twice in 2007.

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.

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 of directors.

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.

GOING CONCERN

After making enquires, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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 comprises Sir Robin Christopher, who chairs the Committee, Jimmy West and Freddie Fisher. Details of Directors' remuneration are set out in note 4 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 comprises Jimmy West chairman of this Committee, Sir Duncan Robin Christopher and Freddie Fisher.

STATEMENT OF NON-COMPLIANCE

The non-executive directors are all 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
4 June 2008

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 2007 which comprise the principal accounting policies, the consolidated income statement, the consolidated and parent company statements of recognised income and expense, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements 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 financial statements in accordance with applicable 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 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 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 and the chairman's statement. 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 IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS 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 2007;
- 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.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
London
4 June 2008

CONSOLIDATED INCOME STATEMENT AND STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2007

	Notes	Year ended 31.12.07 £'000	Year ended 31.12.06 £'000
Consolidated income statement			
Revenue	1	**22,636**	**20,660**
Cost of sales	2	(17,409)	(15,853)
Gross profit		**5,227**	**4,807**
Administrative expenses	3	(2,959)	(2,426)
Operating profit		**2,268**	**2,381**
Other income	5	423	2,426
Negative goodwill arising on acquisition of subsidiary	6	-	13,313
Finance income	7	93	200
Finance expense	7	(1,089)	(632)
Profit before tax		**1,695**	**17,688**
Tax expense	8	(1,271)	(1,296)
Profit for the year		**424**	**16,392**
Attributable to:			
Minority interests	20	1,027	1,934
Equity shareholders	20	(603)	14,458
		424	**16,392**
Basic and diluted (loss)/earnings per share	11	(0.85p)	21.17p
All activities relate to continuing activities			
Statements of recognised income and expense			
a) Group			
Exchange differences on translation of foreign operations		(602)	(4,564)
(Loss)/profit for the year		(603)	14,458
Total recognised income and expense for the year		**(1,205)**	**9,894**
b) Company			
Profit for the year		687	1,570
Total recognised income and expense for the year		**687**	**1,570**

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	31.12.07 £'000	31.12.06 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	87,235	70,886
Intangible assets	13	-	3
Trade and other receivables	14	100	442
Deferred tax assets	15	650	359
		87,985	**71,690**
Current assets			
Inventories	16	2,562	3,146
Trade and other receivables	14	5,150	6,224
Current tax assets	17	3,238	2,306
Cash and cash equivalents	18	10,599	3,179
		21,549	**14,855**
Total assets		**109,534**	**86,545**
Equity and liabilities			
Shareholders' equity			
Share capital	19	1,466	1,366
Share premium account	20	23,983	21,303
Foreign currency reserve	20	(5,550)	(4,948)
Retained earnings	20	14,326	16,542
Total equity attributable to shareholders of Rurelec Plc		**34,225**	**34,263**
Minority interests	20	28,681	29,985
Total equity		**62,906**	**64,248**
Non-current liabilities			
Trade and other payables	21	179	247
Deferred tax liabilities	15	978	739
Borrowings	23	20,479	10,522
		21,636	**11,508**
Current liabilities			
Trade and other payables	21	15,239	4,981
Current tax liabilities	22	1,707	954
Borrowings	23	8,046	4,854
		24,992	**10,789**
Total liabilities		**46,628**	**22,297**
Total equity and liabilities		**109,534**	**86,545**

The financial statements were approved by the board of directors on 4 June 2008 and were signed on its behalf by P Earl (Chief Executive) and E Shaw (Finance Director).

Peter Earl
Director

Elizabeth Shaw
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

COMPANY BALANCE SHEET

As at 31 December 2007

	Notes	31.12.07 £'000	31.12.06 £'000
Assets			
Non-current assets			
Investments	25	3,777	3,777
Trade and other receivables	14	22,143	22,511
		25,920	**26,288**
Current assets			
Trade and other receivables	14	36	71
Cash and cash equivalents	18	1,517	66
		1,553	**137**
Total assets		**27,473**	**26,425**
Equity and liabilities			
Shareholders' equity			
Share capital	19	1,466	1,366
Share premium account	20	23,983	21,303
Retained earnings	20	736	1,662
Total equity		**26,185**	**24,331**
Current liabilities			
Trade and other payables	21	176	79
Current tax liabilities	22	-	85
Borrowings	23	1,112	1,930
Total liabilities		**1,288**	**2,094**
Total equity and liabilities		**27,473**	**26,425**

The financial statements were approved by the board of directors on 4 June 2008 and were signed on its behalf by P Earl (Chief Executive) and E Shaw (Finance Director).

Peter Earl
Director

Elizabeth Shaw
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	Year ended 31.12.07 £'000	Year ended 31.12.06 £'000
Cash flows from operating activities			
Cash generated from operations	24	17,234	2,931
Interest received		93	200
Interest paid		(947)	(477)
Taxation paid		(994)	(1,005)
Net cash generated from operating activities		**15,386**	**1,649**
Cash flows from investing activities			
Purchase of plant and equipment	12	(20,854)	(7,157)
Acquisition of interest in subsidiary (net of cash)		-	(7,166)
Acquisition of interest in joint venture (net of cash)		-	(863)
Net cash used in investing activities		**(20,854)**	**(15,186)**
Net cash outflow before financing activities		**(5,468)**	**(13,537)**
Cash flows from financing activities			
Issue of shares (net of costs)		2,780	18,674
Loan drawdowns		17,180	1,301
Loan repayments		(3,742)	(1,761)
Dividend paid to minorities		(1,717)	(1,922)
Equity dividend paid	9	(1,613)	-
Net cash generated from financing activities		**12,888**	**16,292**
Increase in cash and cash equivalents		**7,420**	**2,755**
Cash and cash equivalents at start of year		3,179	424
Cash and cash equivalents at end of year		**10,599**	**3,179**

The accompanying accounting policies and notes form an integral part of these financial statements.

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	Year ended 31.12.07 £'000	Year ended 31.12.06 £'000
Cash flows from operating activities			
Cash (used in)/generated from operations	24	(846)	1,080
Interest received		61	20
Interest paid		(2)	(3)
Net cash (used in) generated from from operations		**(787)**	**1,097**
Cash flows from investing activities			
Dividend received (net of tax)		1,520	1,841
Loans to subsidiaries and joint venture company		-	(21,432)
Repayment of loan by joint venture company		368	-
Acquisition of interest in joint venture company		-	(863)
Net cash generated from/(used in) investing activities		**1,888**	**(20,454)**
Net cash inflow/(outflow) before financing activities		**1,101**	**(19,357)**
Cash flows from financing activities			
Issue of shares (net of costs)		2,780	18,674
Loan (repayments)/drawdowns		(817)	665
Equity dividend paid		(1,613)	-
Net cash generated from financing activities		**350**	**19,339**
Increase/(decrease) in cash and cash equivalents		**1,451**	**(18)**
Cash and cash equivalents at start of year		66	84
Cash and cash equivalents at end of year		**1,517**	**66**

The accompanying accounting policies and notes form an integral part of these financial statements.

GENERAL INFORMATION

Rurelec 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 4 June 2008.

BASIS OF PREPARATION

The results have been prepared in accordance with IFRS as adopted by the EU and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated accounts have been prepared under the historical cost convention.

The preparation of accounts, in accordance with IFRS as adopted by the EU, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

New standards, amendments to standards and interpretations which are mandatory for the year ended 31 December 2007, and which have been adopted in the accounts, are as follows:

IFRS 7 (Financial Instruments: Disclosures)

New standards and interpretations currently in issue but not effective for accounting periods commencing on 1 January 2007 are:

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)
IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
IFRS 8 Operating Segments (effective 1 January 2009)
IFRIC 11 IFRS 2 - Group and Treasury Share Transactions (effective 1 March 2007)
IFRIC 12 Service Concession Arrangements (effective 1 January 2008)
IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 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.

CHANGES IN ACCOUNTING POLICIES AND PRESENTATION

On 1 January 2007, Rurelec adopted the disclosure requirements for financial instruments under IFRS 7. The new standard has no impact on recognition, measurement and presentation of financial instruments. Accordingly, the first-time adoption of IFRS 7 had no effect on net profit and equity. Rather, it requires the Group to provide disclosures in its financial statements that enable users to evaluate: a) the significance of financial instruments for the entity's financial position and performance, and b) the nature and extent of the credit, market and liquidity risks arising from financial instruments during the period and at the reporting date, and how the entity manages those risks. The disclosure principles of IFRS 7 complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

CONSOLIDATION

The Group financial statements consolidate those of the Company, its subsidiary undertakings and its joint venture entity drawn up to 31 December 2007.

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.

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.

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.

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.

DIVIDENDS

Dividends paid/payable are recognised when the shareholders' right to receive payment is established. Dividends received/receivable are recorded in the period in which they are approved by the Board of the paying company.

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.

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.

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.

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.

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.

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.

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.

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.

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.

PENSIONS

During the year under review, the Group did not operate or contribute to any pension schemes (31 December 2006 – nil).

EMPLOYEE INDEMNITY PROVISION

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

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 each year 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 changed in the future. A further important area requiring estimates and assumptions is 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.

1. SEGMENT ANALYSIS

During the year to 31 December 2007 and the year to 31 December 2006, all of the Group's revenues arose from electricity generating activities which is the Group's primary business segment. There were no revenues derived from the sale of equipment purchased with a view to subsequent resale.

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 31.12.2007	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)
Administrative expenses	(468)	(1,184)	(972)	-	(2,624)
Exchange gains/(losses)	(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

b) 12 months to 31.12.2006	Argentina £'000	Bolivia £'000	UK £'000	Intra-Group £'000	Total £'000
Revenue	3,735	16,925	-	-	20,660
Cost of sales	(3,105)	(12,748)	-	-	(15,853)
Administrative expenses	(515)	(1,125)	(515)	-	(2,155)
Exchange gains/(losses)	(2)	(497)	228	-	(271)
Operating profit/(loss)	113	2,555	(287)	-	2,381
Other income	-	2,426	-	-	2,426
Negative goodwill	-	13,313	-	-	13,313
Finance income	-	181	19	-	200
Finance expense	(28)	(601)	(3)	-	(632)
Dividend received	-	-	1,841	(1,841)	-
Profit before tax	85	17,874	1,570	(1,841)	17,688
Tax expense	(310)	(986)	-	-	(1,296)
Profit/(loss) for the year	(225)	16,888	1,570	(1,841)	16,392
Total assets	7,775	78,630	26,425	(26,285)	86,545
Total liabilities	3,368	18,763	2,094	(1,928)	22,297
Capital expenditure	2,320	4,837	-	-	7,157
Depreciation	327	2,258	-	-	2,585

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 for the year to 31 December 2007 were as follows:

	31.12.07	31.12.06
i) Closing rate		
Boliviano to £	15.40	16.24
AR $ to £	6.30	6.01
US $ to £	2.00	1.96
ii) Average rate		
Boliviano to £	16.10	15.23
AR $ to £	6.25	5.70
US $ to £	2.00	1.84

If the closing exchange rates at 31 December 2007 had been stronger or weaker by 10% with all other variables held constant, shareholder equity at 31 December 2007 would have been £3.1m (2006 - £2.7m) higher or lower than reported.

If the average exchange rates during 2007 had been stronger or weaker by 10% with all other variables held constant, the profit for the year, would have been £0.13m (2006 - £0.12m) higher or lower than reported, including minority interests, and £0.03m (2006 - £0.2m) higher or lower excluding minority interests.

The results of the parent company are affected by exchange rate movements in so far as dividends received are 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 2007, 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 (2006 - £0.2m).

2. COST OF SALES

	Year ended 31.12.07 £'000	Year ended 31.12.06 £'000
Expenditure incurred in cost of sales is as follows:		
Cost of fuel	9,749	9,236
Transmission fees	1,982	1,224
Depreciation	2,989	2,585
Maintenance	1,296	1,292
Other	1,393	1,516
	17,409	**15,853**

3. ADMINISTRATIVE EXPENSES

	Year ended 31.12.07 £'000	Year ended 31.12.06 £'000
Expenditure incurred in administrative expenses is as follows:		
Payroll and social security	1,230	986
Services, legal and professional	503	431
Office costs and general overheads	856	706
Audit fees	35	
	2,624	2,155
Exchange losses	335	271
	2,959	**2,426**

In addition to the audit fees shown above, amounts paid to the Company's auditors for non-audit professional fees amounted to £7,400 (31 December 2006 - £198,000). These fees related to work in connection with taxation advice (2006 - acquisitions and fund raising). Fees paid to the Company's auditors in respect of their review of overseas operations amounted to £6,000 (31 December 2006 - £5,000). Fees paid to other auditors, in respect of the audit of subsidiary and joint venture companies, amounted to £35,000 (2006 - £33,000).

4. EMPLOYEE COSTS

a) Group	Year ended 31.12.07 £'000	Year ended 31.12.06 £'000
Aggregate remuneration of all employees and directors, including social security costs	1,755	1,472

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

Management	19	18
Operations	74	70
Total	**93**	**88**

b) Company	£'000	£'000
Aggregate remuneration of all employees and directors, including social security costs	406	194

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 £300,417 (2006 - £160,000). The total remuneration of the highest paid director was £71,250 (2006 - £30,000).

5. OTHER INCOME

Other income represents the book profit on the sale of surplus inventory.

6. NEGATIVE GOODWILL ARISING ON ACQUISITION OF SUBSIDIARY

Negative goodwill arising on acquisition of subsidiary in the year ended 31 December 2006 represented the excess of the fair values of the assets less the liabilities acquired following the acquisition of the 50.00125% interest in Guaracachi over the cost of acquiring the shares.

7. FINANCE INCOME AND EXPENSE

	Year ended 31.12.07 £'000	Year ended 31.12.06 £'000
Interest received on bank deposits	93	200
Interest paid on bank borrowings and loans	947	477
Imputed interest on loans (see note 23)	142	155
	1,089	632

Sufficient positive cash balances are maintained to meet only the day-to-day requirements of the Group and therefore the finance income of the Group is not sensitive to changes in interest rates.

Sensitivity analysis arising from changes in borrowing costs is set out in note 23.

8. TAX EXPENSE

The relationship between the expected tax expense at the basic rate of 30% (31 December 2006 – 30%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	Year ended 31.12.07 £000	Year ended 31.12.06 £'000
Result for the year before tax	1,695	17,688
Standard rate of corporation tax in UK	30%	30%
Expected tax expense	509	5,306
Adjustment for tax exempt income relating to negative goodwill	-	(3,994)
Adjustment for different overseas tax rates	(123)	(205)
Other timing differences	147	(229)
Consolidation adjustments with no tax effect	-	73
UK losses carried forwards	267	-
Overseas losses carried forwards	254	-
Tax on overseas dividends, less double tax relief	217	345
Actual tax charge	1,271	1,296
Comprising:		
Current tax expense	1,275	1,005
Deferred tax (income)/expense	(4)	291
Total expense	**1,271**	**1,296**

9. DIVIDENDS

	Year ended 31.12.07 £'000	Year ended 31.12.06 £'000
Amounts recognised as distributions to equity shareholders during the year:		
Final dividend for the year ended 31 December 2006 of 2.25p per share paid in June 2007	1,613	-

10. HOLDING COMPANY'S PROFIT FOR THE PERIOD

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 £0.7m (31 December 2006 – profit £1.57m).

11. EARNINGS PER SHARE

a) Basic and diluted (loss)/earnings per share:

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the period attributable to shareholders by the weighted average number of shares in issue during the period. For diluted (loss)/earnings 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)/earnings per share is unchanged from the basic calculation as there are no dilutive potential ordinary shares outstanding.

	Year ended 31.12.07	Year ended 31.12.06
(Loss)/profit attributable to equity shareholder of the Company	(£603,000)	£14,458,000
Total shares in issue (average during the period)	71,247,679	68,288,775
Basic and diluted EPS	(0.85p)	21.17p

b) Underlying (loss)/earnings per share:

Income, or expenses, of a one-off nature do not relate to the profitability of the Group on an on-going basis and the calculation of underlying earnings per share excludes such items. The average weighted number of shares in issue during the period is unchanged from the numbers used in the calculation of the basic earnings per share.

	£'000	£'000
(Loss)/profit attributable to equity shareholders of the Company (as above)	(£603,000)	£14,458,000
Less: non-recurring "negative goodwill"	-	(£13,313,000)
Underlying (loss)/profit attributable to shareholders of the Company	(£603,000)	£1,145,000
Underlying EPS	(0.85p)	1.68p

12 PROPERTY, PLANT AND EQUIPMENT

a) Group	Land £'000	Plant and equipment £'000	Plant under construction £'000	Total £'000
Cost at 1 January 2006	108	3,939	930	4,977
Assets acquired on acquisition	4,934	54,520	10,470	69,924
Exchange adjustments	(567)	(6,602)	(1,309)	(8,478)
Additions	9	3,366	3,782	7,157
Cost at 31 December 2006	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**
Depreciation at 1 January 2006	-	124	-	124
Exchange adjustments	-	(15)	-	(15)
Charge for year	-	2,585	-	2,585
Depreciation at 31 December 2006	-	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
Net book value – 31.12.07	4,390	60,643	22,202	87,235
Net book value – 31.12.06	4,484	52,529	13,873	70,886

Notes:

i) The value of property, plant and equipment recognised upon the initial inclusion of EdS in the financial statements 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.

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.

b) Company

– the Company had no property, plant and equipment.

13. INTANGIBLE ASSETS

	31.12.07 £000	31.12.06 £'000
At 1 January 2007	3	7
Amortisation	(3)	(3)
Exchange difference	-	(1)
At 31 December 2007	-	3

The intangible asset, represented by a patent licence, has been written off as it has negligible value.

14. TRADE AND OTHER RECEIVABLES

	31.12.07 £000	31.12.06 £'000
a) Group - current		
Trade receivables	3,781	3,714
Other receivables and prepayments (see i below)	1,369	2,510
	5,150	**6,224**
b) Company – current		
Other receivables and prepayments	36	71
c) Group – non-current		
Trade receivables	87	442
Other receivables and prepayments	13	-
	100	**442**

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.

d) Company – non-current		
Amounts owed by subsidiary and joint venture companies	22,143	22,511

The amounts owed by subsidiary and joint venture companies are unsecured and receivable on demand but are not expected to be fully received within the next twelve months.

i) Other receivables and prepayments at 31 December 2007 includes an amount of £0.9m (31 December 2006 - £1.85m) relating to a '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) Trade and other receivables are unsecured and are not past their due by dates.

15. DEFERRED TAX

	31.12.07 £000	31.12.06 £'000
a) Asset at 1 January 2007	359	327
Credited to tax expense	298	61
Exchange difference	(7)	(29)
Asset at 31 December 2007	**650**	**359**

The Group deferred tax asset arises principally from temporary differences on the tax treatment of plant and machinery maintenance expenditure in Argentina and accelerated depreciation in Bolivia.

No deferred tax asset has been recognised in respect of the parent company's tax losses (£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 2007	739	-
Arising on acquisition	-	460
Charged to tax expense	254	352
Exchange difference	(15)	(73)
Liability at 31 December 2007	978	739

The Group deferred tax liability arises from accelerated tax allowances on plant and equipment expenditure in Bolivia.

16. INVENTORIES

	31.12.07 £000	31.12.06 £'000
Spare parts and consumables	2,562	3,146

Spare parts and consumables are valued at cost.

17. CURRENT TAX ASSETS

	31.12.07 £000	31.12.06 £'000
Sales taxes/Vat	1,771	1,326
Pre-paid profits tax	1,467	979
	3,238	**2,306**

Pre-paid profits tax relates to taxes paid in Bolivia which are off-settable against future tax liabilities.

18. CASH AND CASH EQUIVALENTS

	31.12.07 £000	31.12.06 £'000
a) Group		
Cash at bank and in hand	10	275
Short-term bank deposits	9,231	2,741
Short-term bank deposits (restricted)	1,358	163
	10,599	**3,179**
b) Company		
Cash at bank and in hand	4	22
Short-term bank deposits	322	44
Short-term bank deposits (restricted)	1,191	-
	1,517	**66**

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 3%. The Group holds cash balances to meet its day-to-day requirements. The cash balance at 31 December 2007 reflected the issue of US $11m loan notes in December 2008 (note 23)

Restricted deposits represents funds held as collateral against borrowings.

19. SHARE CAPITAL

	31.12.07 £000	31.12.06 £'000
a) Authorised		
120,000,000 ordinary shares of 2p each	2,400	2,400
b) Allotted, called up and fully paid		
73,288,775 ordinary shares of 2p each (31 December 2006 – 68,288,775)	1,466	1,366

Reconciliation of movement in share capital	Number	£'000
At 1 January 2006	21,350,000	427
Allotment in January 2006	46,938,775	939
Balance at 31 December 2006	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

The allotment in 6 January 2006 was at 42p per share. The allotments in May and June 2007 were at 59.25p and 57p respectively. 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.

20. STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital	Share premium	Foreign currency reserve	Retained earnings	Total	Minority interest	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
a) Group							
Balance at 1.1.06	427	3,568	(384)	2,084	5,695	-	5,695
Allotment of shares	939	18,775	-	-	19,714	-	19,714
Share issue costs	-	(1,040)	-	-	(1,040)	-	(1,040)
Arising on acquisition	-	-	-	-	-	33,894	33,894
Exchange differences	-	-	(4,564)	-	(4,564)	(3,921)	(8,485)
Minority dividend	-	-	-	-	-	(1,922)	(1,922)
Profit for year	-	-	-	14,458	14,458	1,934	16,392
Balance at 31.12.06	1,366	21,303	(4,948)	16,542	34,263	29,985	64,248
Balance at 1.1.07	**1,366**	**21,303**	**(4,948)**	**16,542**	**34,263**	**29,985**	**64,248**
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)
Exchange differences	-	-	(602)	-	(602)	(614)	(1,216)
(Loss)/profit for year	-	-	-	(603)	(603)	1,027	424
Balance at 31.12.07	**1,466**	**23,983**	**(5,550)**	**14,326**	**34,225**	**28,681**	**62,906**

	Share capital	Share premium	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
b) Company				
Balance at 1.1.06	427	3,568	92	4,087
Allotment of shares	939	18,775	-	19,714
Share issue costs written-off	-	(1,040)	-	(1,040)
Profit for the year	-	-	1,570	1,570
Balance at 31.12.06	1,366	21,303	1,662	24,331
Balance at 1.1.07	**1,366**	**21,303**	**1,662**	**24,331**
Allotment of shares	100	2,827	-	2,927
Share issue costs written-off	-	(147)	-	(147)
Dividend paid	-	-	(1,613)	(1,613)
Profit for the year	-	-	687	687
Balance at 31.12.07	**1,466**	**23,983**	**736**	**26,185**

21. TRADE AND OTHER PAYABLES

	31.12.07 £000	31.12.06 £'000
a) Group - current		
Trade payables	13,865	4,419
Accruals	1,374	562
	15,239	**4,981**
b) Company - current		
Trade payables	117	24
Accruals	59	55
	176	**79**
c) Group – non-current		
Staff indemnity provision (note i below)	179	247

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

22. CURRENT TAX LIABILITIES

	31.12.07 £000	31.12.06 £'000
a) Group		
Sales taxes / Vat	330	394
Profits taxes	1,377	560
	1,707	**954**
b) Company		
UK corporation tax	-	85

23. BORROWINGS

	31.12.07 £000	31.12.06 £'000
a) Group - current		
Loan from CAMMESA (note i below)	330	377
Bank loans - EdS (note ii below)	736	-
Bank loans - Guaracachi (note iii below)	5,228	2,547
Deferred consideration payable	-	1,265
Other loans (note iv below)	1,752	665
	8,046	**4,854**
b) Group – non current		
Loan from CAMMESA (note i below)	189	198
Bank loans - EdS (note ii below)	4,266	-
Bank loans - Guaracachi (note iii below)	10,094	10,324
Loan note – Guaracachi (note v below)	5,930	-
	20,479	**10,522**
Group – total borrowings	**28,525**	**15,376**
The borrowings are repayable as follows:		
On demand or within one year	8,046	4,854
In the second year	2,431	2,093
In the third to fifth years inclusive	6,344	3,587
After five years	11,704	4,842
	28,525	**15,376**
c) Company – current		
Deferred consideration payable	-	1,265
Other loans (note iv below)	1,112	665
	1,112	**1,930**

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 equal instalments. At 31 December 2007, the Group's share of the repayments due within 12 months amounted to £0.33m (31 December 2006 - £0.38m). The Group's share of the loan repayable in more than 12 months is £0.19m (31 December 2006 - £2.0m).

ii) Bank loans to EdS comprise 2 loans from Standard Bank – a loan of US $18m (interest at US Libor + 6%) and a loan of Ar$ 6m (interest at 16%). The Group's 50% share of these loans is £4.5m and £0.5m respectively. The loans are repayable as follows:

	31.12.07 £000	31.12.06 £'000
Within 1 year	736	-
In the second year	500	-
In the third to fifth years inclusive	1,912	-
After five years	1,854	-
	5,002	**-**

iii) Bank loans to Guaracachi comprise:

	Carrying value £'000	Fair value adjustment £'000	Fair value £'000
Banco de Crédito de Bolivia S.A. (a)	580	-	580
Banco de Crédito de Bolivia S.A. (b)	5,200	-	5,200
FND Fondo Nordica (c1)	616	(87)	529
KfW 87-75-166 (c2)	1,934	(287)	1,647
KfW 92-65-711 (c3)	3,427	(624)	2,803
Banco de Crédito de Bolivia S.A. (d)	1,418	-	1,418
Banco BISA (e)	2,700	-	2,700
Banco Economico (f)	445	-	445
Total	**16,320**	**(998)**	**15,322**
Current	5,311	(83)	5,228
Non-current	11,009	(915)	10,094
Total	**16,320**	**(998)**	**15,322**

a) On 13 February 2002, the company received a loan of US$ 16.5m from Banco de Crédito de Bolivia.

On 21 September 2004, the company signed a contract to modify the maturity date and interest rate. The maturity date was extended until August 2008. The interest rate was established at a (90 days) Libor rate + 3.4% per annum since the subscription date of the contract until the sixth payment. After the sixth payment the interest rate has been established in a variable rate (TRE) determined by Banco Central de Bolivia + 4% per annum. TRE is an average borrowing rate determined by the Central Bank of Bolivia each fortnight.

The amount owing to Banco de Crédito is secured by a fixed charge over one of Guaracachi's gas turbines.

b) Loan received on 20 November 2005 from Banco de Crédito de Bolivia and Banco Mercantil S.A. through a trust fund, for an amount of US$ 13.0m. The trust fund is administrated by both banks. The loan is repayable in quarterly equal instalments, the interest rate is TRE + 4.5% per annum with maturity date on 30 August 2014.

c) 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.

1) 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.

2) Loan controlled by the Bolivian Government, obtained from the Kredintanstalt fur Weideraufbau 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.

3) Loan controlled by the Bolivian Government, obtained from the Kredintanstalt fur Weideraufbau 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 31.12.07
Swap rate for 15 year Euro loans	3.50%	3.50%
Adjustment for country and credit risk	5.00%	5.00%
Total	**8.50%**	**8.50%**

d) Loans totalling US$ 2.84m from Banco de Crédito. The interest rate is TRE + 4.5% per annum. The loans are repayable in equal annual instalments over the next 5 years.

e) Loans totalling US$ 5.4m from Banco BISA. The interest rate is 7.5% and the loans are repayable in 2008.

(f) Loan of US$ 0.9m from Banco Economico. The interest rate is 8% and the loan is repayable as to US$ 0.5m in 2008 and US$ 0.4m 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 2007, US$ 11.86m 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.

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 £0.1m lower or higher than reported.

The interest income of the parent company was not sensitive to changes in interest rates as the average level of borrowings during the year was not material.

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 £2.7m (2006 - £1.4m).

The parent company's borrowings were denominated is £ and were therefore not sensitive to changes in exchange rates.

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

a) Group	Year ended 31.12.07 £000	Year ended 31.12.06 £'000
Result for the year before tax	1,694	17,688
Net finance costs	996	432
Adjustments for:		
Depreciation	3,014	2,588
Negative goodwill	-	(13,313)
Movement in working capital:		
Change in inventories	510	(545)
Change in trade and other receivables	776	(4,080)
Change in trade and other payables	10,244	161
Cash generated from operations	17,234	2,931

b) Company	Year ended 31.12.07 £000	Year ended 31.12.06 £'000
Result for the year before tax	905	1,833
Net finance costs	(59)	(17)
Adjustments for:		
Dividend received	(1,520)	(1,841)
Tax paid on dividend received	(217)	(263)
Movement in working capital:		
Change in trade and other receivables	34	1,201
Change in trade and other payables	11	167
Cash (used in)/generated from operations	(846)	1,080

25. INVESTMENTS

	31.12.07 £000	31.12.06 £'000
Cost at 1 January 2007	3,777	3,770
Additions	-	7
Balance at 31 December 2007	**3,777**	**3,777**

The Company holds the following investments:

a) Subsidiary companies:

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. Energia 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 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.

b) Joint venture entity:

Through the Group's ownership of 50% of the issued share capital of PEL, a company registered in the British Virgin Islands under registration number 620522, the Group has a 50% interest in the 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.

26. INTEREST IN JOINT VENTURES

The Group's share of the income, expenses, assets and liabilities of its joint venture entity was as follows:

	Year ended 31.12.07 £000	Year ended 31.12.06 £'000
Income statement		
Sales revenue	3,962	3,735
Cost of sales	(3,700)	(3,105)
Gross profit	262	630
Administrative expenses	(468)	(515)
Exchange losses	(151)	(2)
Finance (expense)/income	(157)	(28)
(Loss)/Profit before tax	**(514)**	**85**
Balance sheet		
Non-current assets	9,082	5,938
Current assets	3,166	1,837
Total assets	**12,248**	**7,775**
Shareholders' equity	4,202	4,407
Non-current liabilities	4,455	925
Current liabilities	3,591	2,443
Total equity and liabilities	**12,248**	**7,775**

27. 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 other than as disclosed in note 23.

28. CAPITAL COMMITMENTS

The Group is engaged in developing new turbines in Bolivia and Argentina. At 31 December 2007, the Group had outstanding capital commitments of £0.5m (31 December 2006 – £0.4m).

29. 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$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 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.

30. RELATED PARTY TRANSACTIONS

a) Company – during the year the Company entered into material transactions with related parties as follows:

i) Paid £0.12m to 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 £0.01m was outstanding at 31 December 2007.

ii) Received repayment of £0.09m of working capital loan to Energais. At 31 December 2007, the balance due by Energais was £1.12m (31.12.2006 - £1.21m).

iii) Received repayment of £0.28m of working capital loan to PEL. At 31 December 2007, the balance due by PEL was £0.45m (31.12.2006 – £0.73m).

iv) Received loan from Secteur Holdings Ltd, a company of which Mrs P Earl is a director. The balance owing at 31 December 2007 was £1.1m. This loan was repaid after the year end.

v) Paid salaries to key management amounting to £0.37m (2006 - £0.2m).

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

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Rurelec PLC

Annual Report 2007

www.rurelec.com

Perivan Financial Print 212416

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