

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in doubt about the content of this document, you should consult a person authorised for the purposes of the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. This document, which comprises an admission document has been prepared by and is the sole responsibility of the Directors of Rurelec PLC (the “Company”) in connection with its proposed application for readmission of the Existing Ordinary Shares and Investor Warrants and the admission of the Placing Shares to trading on AIM, a market of London Stock Exchange plc. Copies of this document have not been delivered to the Registrar of Companies. This document is not a public offer nor is it a prospectus for the purposes of the Prospectus Rules.

The Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application will be made for the Existing Ordinary Shares and the Investor Warrants to be readmitted to trading on AIM and for the Placing Shares to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority (the “Official List”). A prospective investor should be aware of the potential risks in investing in such securities and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made or will be made for admission of the Existing Ordinary Shares, the Investor Warrants or the Placing Shares to the Official List. Further, neither the UKLA nor London Stock Exchange plc has examined or approved the contents of this document. Neither the Existing Ordinary Shares, the Investor Warrants nor the Placing Shares are traded on any other recognised investment exchange and no such applications have been or will be made for the Existing Ordinary Shares, the Investor Warrants or the Placing Shares to be admitted to trading on any such exchange. Investors should read the whole text of this document. The attention of investors is drawn in particular to the “Risk Factors” set out in Part II of this document. It is expected that admission to AIM will become effective and that dealings in the Existing Ordinary Shares, the Investor Warrants and the Placing Shares will commence on AIM on 6 January 2006.

RURELEC PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 4812855)

Placing of 46,938,775 Ordinary Shares at 42 pence per share

Acquisition of Bolivia Integrated Energy Limited

Re-admission to trading on AIM

Notice of EGM

Nominated Adviser

Daniel Stewart & Co. plc

Broker

Hichens, Harrison & Co. plc

<i>Authorised</i>	Ordinary share capital following Admission		<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
120,000,000	£2,400,000	Ordinary Shares of 2 pence each	68,288,775	£1,365,775.50

The Placing Shares will, on issue, rank *pari passu* with the Existing Ordinary Shares and will rank in full for all dividends and other distributions declared after their issue in respect of the ordinary share capital of the Company.

Daniel Stewart & Co plc, which is regulated by the Financial Services Authority, is acting as nominated adviser to the Company. It will not be responsible to any person other than the Company for providing the protections afforded to its customers or for advising any other person on the contents of any part of this document. The responsibilities of Daniel Stewart & Co plc as the Company’s nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or any Director or Shareholder or to any other person, in respect of any decision to acquire Ordinary Shares in reliance on any part of this document or otherwise. Daniel Stewart & Co plc is not making any representation or warranty, express or implied, as to the contents of this document. Hichens, Harrison & Co. plc, which is regulated by the Financial Services Authority, is acting as broker to the Company. It will not be responsible to any person other than the Company for providing the protections afforded to its customers or for advising any other person on the contents of any part of this document. The responsibilities of Hichens, Harrison & Co. plc as the Company’s broker under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or any Director or Shareholder or to any other person, in respect of any decision to acquire Ordinary Shares in reliance on any part of this document or otherwise. Hichens, Harrison & Co. plc is not making any representation or warranty, express or implied, as to the contents of this document.

The Placing described in this document is only being made in the United Kingdom. This document does not constitute an offer to sell, or the solicitation of an offer to buy, shares in any jurisdiction in which such offer or solicitation is unlawful and is not for distribution in or into Australia, Canada, Japan, the Republic of Ireland or the United States or to any resident, national or citizen of such countries. The Placing Shares have not been, and will not be, registered under the applicable securities laws of the United States, Canada, Japan, Australia or the Republic of Ireland. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

In making any investment decision in respect of the Placing, no information or representation should be relied upon in relation to the Placing or in relation to the Placing Shares other than as contained in this document. No person has been authorised to give any information or make any representation other than as contained in this document, and if given or made, any such information or representation must not be relied upon as having been authorised.

This document contains forward looking statements, including, without limitation, statements containing the words “believe”, “anticipated”, “expected” and similar expressions. Such forward looking statements involve unknown risk, uncertainties and other factors which may cause the actual results, financial condition, performance or achievement of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in “Risk Factors” set out in Part II of this document. Given these uncertainties, prospective investors are cautioned not to place any undue reliance on such forward looking statements. The Company disclaims any obligation to update any such forward looking statements in this document to reflect future events or developments.

A notice convening an extraordinary general meeting of the Company to be held at 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ at 10.00 a.m. on 5 January 2006 is set out at the end of this document. To be valid the form of proxy accompanying this document must be completed and returned in accordance with the instructions printed thereon so as to be received by the Company’s registrars as soon as possible but, in any event, not later than 48 hours before the time fixed for the meeting. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered in the register of members in order to have the right to attend and vote at the meeting is 48 hours prior to the time fixed for the meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend and vote at the meeting. Completion of a form of proxy will not preclude a member from attending the meeting and voting in person.

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DIRECTORS, SECRETARY AND ADVISERS

Directors

James Glynn West (*Chairman and Non-Executive Director*)

Peter Richard Stephen Earl (*Managing Director*)

John Michael Eyre (*Director of Engineering*)

Elizabeth Ruth Shaw (*Director of Finance*)

Francis Mattos (*Non-Executive Director*)

Sir Duncan Robin Carmichael Christopher KBE CMG (*Non-Executive Director*)

Company Secretary Susan Angela Laker

Registered Office

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Prince Consort House

27-29 Albert Embankment

London SE1 7TJ

Nominated Adviser

Daniel Stewart & Co plc

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London EC2R 8DD

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Hichens, Harrison & Co. plc

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London EC2M 1LB

Solicitors to the Company

Hammonds

7 Devonshire Square

Cutlers Gardens

London EC2M 4YH

Auditors and Reporting Accountants

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Grant Thornton House

Melton Street

Euston Square

London NW1 2EP

Solicitors to the Nominated Adviser

Keeble Hawson

Protection House

16-17 East Parade

Leeds LS1 2BR

Registrars

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“Acquisition”	the proposed acquisition of Bolivia Integrated pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement between <i>inter alia</i> Southern Integrated and Birdsong Overseas Limited for the acquisition by Birdsong Overseas Limited from Southern Integrated of the entire issued share capital of Bolivia Integrated, details of which are set out in Part VII of this document
“Act” or “Companies Act”	the Companies Act 1985, as amended
“Admission”	the re-admission of the Existing Ordinary Shares and Investor Warrants to trading on AIM and the admission of the Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	the market known as “AIM” operated by the London Stock Exchange
“AIM Rules”	the rules for AIM companies in force at the date of this document issued by the London Stock Exchange
“Andina”	Empresa Petrolera Andina, a company registered in Bolivia
“Articles”	the articles of association of the Company
“Basic Acquisition Agreement”	the agreement between Basic Energy Limited and Rurelec for the acquisition by Rurelec from Basic Energy Limited of fifty per cent. of the issued share capital of Patagonia Energy, details of which are set out in paragraph 8(c) of Part VIII of this document
“Birdsong Overseas Limited”	a wholly owned subsidiary of the Company, registered in the British Virgin Islands under registration number 688032 whose registered office is at Nerine Chambers, 5 Columbus Centre, Road Town, Tortola, British Virgin Islands
“Board”	the board of directors of the Company, including a duly constituted committee of such directors
“Bolivia Integrated”	Bolivia Integrated Energy Limited, a company registered in the British Virgin Islands under registration number 510247, whose registered office is at Nerine Chambers, 5 Columbus Centre, Road Town, Tortola, British Virgin Islands
“Broker” or “Hichens Harrison”	Hichens, Harrison & Co. plc
“Broker Warrants”	75,000 warrants issued to Hichens Harrison on 18 August 2004 to subscribe for 75,000 Ordinary Shares at a price of 40 pence per Share, further details of which are set out in paragraph 8(o) of Part VIII of this document
“Capime”	Capime Ingenieria S.A. a company registered in Argentina whose principal office is at Talcahuano 736-7mo, Piso, Buenos Aires, Argentina
“Chaco”	Empresa Petrolera Chaco S.A., a company registered in Bolivia

“Combined Code”	the “Combined Code on Corporate Governance” published in July 2003 by the Financial Reporting Council
“CREST”	the computerised settlement system (as defined in the CREST Regulations) operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form (as defined in the CREST Regulations)
“CRESTCo”	CRESTCo Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
“Daniel Stewart”	Daniel Stewart & Co plc, the Company’s nominated adviser
“Directors”	the directors of the Company, whose names are set out on page 3 of this document
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company convened for 10.00 a.m. on 5 January 2006, notice of which is set out at the end of this document
“Enlarged Share Capital”	the Ordinary Shares in issue following Admission as enlarged by the issue of the Placing Shares (excluding any Ordinary Shares that may be issued pursuant to the exercise of any Warrants prior to Admission)
“ESA”	Energía para Sistemas Aislados ENERGAIS S.A., a company registered in Bolivia under registration number 107752 whose principal office is at Av. Brasil, Esquina 3_ Anillo, Santa Cruz, Bolivia
“EDS”	Energía del Sur S.A., a corporation duly incorporated and existing under the laws of the Republic of Argentina, domiciled at Alicia Moreau de Justo 2050, 3rd floor, office 307, City of Buenos Aires, Republic of Argentina
“Eléctrica”	Eléctrica del Sur, S.A., a corporation duly incorporated and existing under the laws of the Republic of Argentina, domiciled at Alicia Moreau de Justo 2050, 3rd floor, office 307, City of Buenos Aires, Republic of Argentina
“Enlarged Group”	the Company together with its subsidiaries following completion of the Acquisition
“Executive Directors”	Peter Earl, Michael Eyre and Elizabeth Shaw
“Existing Ordinary Shares”	the 21,350,000 Ordinary Shares in the capital of the Company in issue at the date of this document
“FSMA”	the Financial Services and Markets Act 2000
“GAI” or “Guaracachi America Inc.”	Guaracachi America Inc., a company registered in the state of Delaware under registration number 2524312 whose principal office is at 32 Loockerman Square, Suite L-100, City of Dover, County of Kent, State of Delaware
“Grant Thornton”	Grant Thornton UK LLP of Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
“Group”	the Company and its subsidiary undertakings as at the date of this document

“Guaracachi” or “EGSA”	Empresa Eléctrica Guaracachi, S.A., a company registered in Bolivia under registration number 08-035910-03 whose principal office is at Av. Brasil, Esquina 3 Anillo, Santa Cruz, Bolivia
“Independent Directors”	Francis Mattos and Sir Robin Christopher KBE CMG, neither of whom are deemed to be a Related Party
“Investor Warrants”	1,000,000 warrants issued by the Company, on 18 August 2004 to subscribe for 1,000,000 Ordinary Shares, further details of which are set out in paragraph 8(p) of Part VIII of this document
“IPC”	Independent Power Corporation PLC a company registered in England under registration number 3097552, whose principal office is at 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ
“IPOL”	Independent Power Operations Limited, a company registered in England under registration number 4288901, whose registered office is at 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ
“Loan Note”	the loan note issued pursuant to the note instrument constituting unsecured loan notes up to US\$5 million redeemable not later than 31 December 2010
“Lock-In Agreements”	the conditional agreements governing the disposal of Ordinary Shares by the Directors and others, details of which are set out in paragraph 8(l) of Part VIII of this document
“London Stock Exchange”	London Stock Exchange plc
“Management Agreement”	the long term management agreement 13 December 2003 between IPOL and EGSA, further details of which are set out in paragraph 8(s) of Part VIII of this document
“Non-Executive Directors”	James West, Francis Mattos and Sir Robin Christopher
“Official List”	the Official List of the UKLA
“Orderly Market Agreement”	the conditional agreement governing the disposal of Ordinary Shares by Technology Finance Limited, details of which are set out in paragraph 8(m) of Part VIII of this document
“Ordinary Shares”	ordinary shares of 2 pence each in the capital of the Company
“Patagonia Energy”	Patagonia Energy Limited a company registered in the British Virgin Islands under registration number 620522, whose registered office is at the offices of Walker (BVI) Limited, Walker Chambers, P.O. Box 92, Road Town, Tortola, British Virgin Islands
“Patagonia Group”	Patagonia Energy and its subsidiary undertakings as at the date of this document
“Patagonia Shareholders’ Agreement”	the agreement between Basic, Rurelec and Patagonia Energy relating to certain rights and obligations in respect of the shares in the capital of Patagonia Energy, the details of which are set out in paragraph 8(d) of Part VIII of this document
“Placees”	the subscribers of Placing Shares pursuant to the Placing

“Placing”	the conditional placing by Hichens Harrison on behalf of the Company of the Placing Shares pursuant to the Placing Agreement and including for these purposes the subscription by Peter Earl and Technology Finance Limited of Placing Shares
“Placing Agreement”	the conditional placing agreement dated 13 December 2005 between the Company, the Directors, Daniel Stewart and Hichens Harrison further details of which are set out in paragraph 8(g) of Part VIII of this document
“Placing Price”	42 pence per Placing Share
“Placing Shares”	the 46,938,775 new Ordinary Shares which are the subject of the Placing
“Prospectus Rules”	the Prospectus Rules of the UKLA
“Related Party”	a party who is so defined in the AIM Rules
“Related Party Transaction”	a transaction as defined in rule 13 of the AIM Rules
“Resolutions”	the resolutions set out in the Notice of the EGM at the end of this document
“Rurelec” or the “Company”	Rurelec PLC
“Services Agreement”	the shared services agreement dated 23 July 2004 between the Company and IPC, further details of which are set out in paragraph 8(q) of Part VIII of this document
“Shareholders”	holders of Ordinary Shares
“Southern Integrated”	Southern Integrated Energy Limited a company registered in the British Virgin Islands under registration number 491283, whose registered office is at Nerine Chambers, 5 Columbus Centre, Road Town, Tortola, British Virgin Islands
“UKLA”	the Financial Services Authority, acting through the United Kingdom Listing Authority, in its capacity as the competent authority for the purposes of Part VI of FSMA
“USA” or “United States”	the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia
“Warrants”	the Broker Warrants and the Investor Warrants

GLOSSARY AND TECHNICAL BACKGROUND INFORMATION

“CAMMESA”	Compañía Administradora del Mercado Mayorista Eléctrico S.A., the Wholesale Power Market Administrative Partnership which is the partnership in charge of the administration and coordinated operation of the wholesale market and MEMSP according to established guidelines. Its members are the national government of Argentina and four associations representing the generators, the transmission companies, the distributors and the marketers
“carbon credit”	carbon credit is a generic term which generally refers to the right to emit one tonne of CO ₂ (or CO ₂ equivalent). Such a right will generally derive from a national or international initiative (for instance the Kyoto Protocol and the EU Emission Trading Scheme) to limit volumes of carbon emissions. Credits are generally granted by governments to emitters of carbon within the relevant jurisdiction pursuant to provisions of local law and are often tradeable between entities including states
“combined cycle”	a combined cycle generator passes the hot exhaust gas from a gas turbine through a heat exchanger which produces steam to drive a secondary turbine
“CNDC”	Comité Nacional de Despacho de Carga (CNDC), the entity responsible for the co-ordination of the generation, transmission and despatch of electricity at minimum cost and the administration of the Bolivian wholesale market. The CNDC is made up of representatives of each sector within the market (generators, transmitters, distributors) and is presided over by a representative of the Electricity Superintendency
“Electricity Superintendency”	in 1994 Bolivia passed an electricity law that established the Electricity Superintendency as the regulatory body for the Bolivian electricity sector
“ENDE”	Empresa Nacional de Electricidad, the former integrated electricity utility owned by the Bolivian state
“interconnected system”	a national electricity transmission network covering part or all of a country
“isolated electricity system”	a local electricity network which is not connected to the interconnected system
“Jenbacher”	GE Jenbacher 616 gas engines capable of generating 2 MW of continuous power
“MEMSP”	the MEMSP is the Southern Patagonian wholesale electricity market which is administered by CAMMESA. The participants in the MEMSP are the generators, the distributors, the transmission companies, the large consumers (more than 50 KW) and the marketers active within the isolated southern system. The MEMSP consists of both a contract and a spot market
“MW”	mega watt, a measure of power (in this document electric power)
“NIS”	the National Interconnected System supplies the regions of La Paz, Cochabamba, Ororo, Santa Cruz, Chuquisaca and Potosi in Bolivia

“Node Prices”	the price at which distributors purchase electricity from the NIS, established by the Electricity Superintendency based on predictions of spot prices
“open cycle”	a gas turbine in open cycle discharges the hot exhaust gas into the atmosphere (see combined cycle)
“Power Purchase Agreement”	a long-term agreement to purchase power
“thermal generator”	a generator whose source of energy is the combustion of hydrocarbons

Supply of Electricity in Bolivia

Bolivia’s electricity industry was restructured following the passing of the 1994 Capitalisation Law and now comprises individual generating companies formed from the break up of the former state-owned entities. ENDE’s assets and responsibilities for electricity generation, transmission and distribution were divided. Any generating company operating on the NIS is prohibited from owning more than 35 per cent. of national installed generating capacity. The 1994 law also stipulated that companies on the NIS are only allowed to participate in one of the following activities: generation, transmission or distribution.

National Interconnected System

The NIS connects the main generation and distribution centres across the country. The NIS supplies the regions of La Paz, Cochabamba, Oruro, Santa Cruz, Chuquisaca and Potosí in Bolivia, and has the ability to interconnect with more systems in the future. In addition to the NIS, a number of other electricity systems exist in Bolivia, including isolated electricity systems and systems that produce electricity solely for internal consumption (primarily in industrial sectors such as mining which, owing to their power requirements, find it more economical to generate electricity themselves).

Wholesale Electricity Market

Generators are allowed to sell electricity wholesale on the spot market, where transactions are based on prices set each hour, or through forward contracts freely agreed as to duration, conditions or prices.

The Spot Market

CNDC is responsible for allocating the dispatch of electrical energy produced based on marginal production cost (defined as the unit cost of supplying a unit increase of demand) using the system’s most efficient plant first. It plans operating tasks in order to satisfy demand by operating at minimum cost, dispatches the load in real time, and determines transactions. CNDC is made up of representatives of each sector within the market (generators, transmitters, distributors) and is presided over by a representative of the Electricity Superintendency.

Prices in the spot market are based on the production cost of the last unit dispatched in the system by a generating company to satisfy the demand at that point in time (measured on an hourly basis). In order for it to set prices, each generation company (including EGSA) reports its gas and operating costs to CNDC in February and August each year. The spot price is determined by the next most efficient producer with available capacity.

Compensation of power capacity

In addition to receiving revenues from spot sales, generators receive compensation for power capacity (for keeping their power plants ready to dispatch electrical energy whenever CNDC so requires). CNDC compensates for power using prices based on the international prices of turbine manufacturers. Accordingly, prices for power capacity vary depending on world market prices for new gas turbine generating assets.

Node Prices

The Electricity Superintendency establishes Node Prices based on predictions of spot prices, in order to smooth the volatility of the latter and their impact on the final electricity tariffs charged to users.

Node Prices are approved by the Electricity Superintendency half-yearly in April and October each year, effective as from May and November each year, respectively. The application node prices (“ANP”) are arrived at by multiplying the Node Prices set by the Electricity Superintendency by an application factor, also determined and approved by the Electricity Superintendency.

Stabilisation Fund

The Electricity Superintendency has set up a stabilisation fund to stabilise the electricity tariffs that end users pay. The purpose of these funds is to help smooth the impact on consumers of changes in spot prices, in order to avoid consumer resistance that could occur if there were significant increases in tariffs arising from changes in supply costs.

The impact of the stabilisation fund on the electricity generators is that the generators book revenues from electricity sales based on the spot price at the point of sale. The electricity generator then bills distribution companies (its customers) for electricity at the ANP and books this amount as a receivable to be collected from customers. The electricity generator then books a receivable for the difference between the spot sales price and the ANP as an amount to be collected from or paid to the stabilisation fund.

Distribution companies

Distribution companies buy electricity in the wholesale market and supply that electricity to both regulated and/or non-regulated consumers (i.e. end users). The Electricity Superintendency grants concessions to distribution companies, whereby the concessionaire is obliged to supply the demand for electricity in its connection area over the period of the concession. The distributor purchases electricity from generating companies at the ANP and passes on the cost to the end consumer. The consumer also pays the distributor’s transmission costs and internal operating costs.

Transmission companies

Transmission companies transport electrical energy within the NIS from the delivery point of a generator, or self-producer, up to the reception point of a distributor or consumer. There are two transmission operators in Bolivia: Transportadora de Electricidad SA and Interconexión Eléctrica ISA Bolivia SA.

Supply of Electricity in Argentina

Argentina’s electricity industry was restructured in 1992, and now comprises over 35 individual generating companies formed from the break-up of the former state-owned entities. The table below provides a breakdown of electricity generating capacity in the MEMSP as at 31 December 2004:

<i>Type</i>	<i>Installed Capacity (MW)</i>	<i>Participation (%)</i>
Hydro	519	66.7
Combined Cycle	63	8.1
Gas	196	25.2
Total	<u>778</u>	<u>100.0</u>

Source: CAMMESA

Wholesale Electricity Market

Generators can sell electricity at contract prices negotiated directly with distributors and large users or at spot, stabilised or seasonal prices established in the MEMSP.

The Spot Market

The dispatch of generating units into the MEMSP is managed by CAMMESA based on the marginal cost of each unit in the system. CAMMESA formulates weekly dispatch schedules based upon information supplied by the generators. Generally, units are dispatched in inverse order of marginal cost until system demand is fulfilled.

CAMMESA makes the optimum dispatch arrangements without taking into account the existence of long-term and medium-term agreements between generators, distributors and large users. The result is that any particular generating unit may be dispatched to provide power to the system which is more or less than its contractual commitment. Under such circumstances, the generator will be obliged to buy or sell excess power from or to the MEMSP at the spot price.

Pooling and Settlement

Generators can receive the following payments as participants in the MEMSP:

- energy payments for actual output at the price that generators are paid for electricity sold in the MEMSP (the “spot price”).
- capacity payments during hours of normal demand when a generator is accepted for dispatch by CAMMESA.
- cold reserve capacity payments during periods when a generator has been scheduled to provide a reserve (normally only thermal plants are used to provide the cold reserve).
- availability incentive payments for energy generated during peak demand in certain circumstances determined by CAMMESA.
- ancillary service payments for the provision of additional services such as frequency regulation and voltage control which are incremental to the services a generator is required to provide as a MEMSP participant.

The Term Contract Market

Generators can enter into term contracts to supply electricity directly to distributors, large users and other generators and are free to negotiate conditions, duration, volume and price. CAMMESA is not responsible for the flow of funds and settlement in such direct contracts. Contracts must have a minimum duration of two six-month seasonal periods. Details of each contract are required to be made public.

Generators are only permitted to contract the energy that they are able to produce and for thermal plants the quantity is determined based on actual energy available after planned down time due to maintenance. Large users who want to participate in the term contract market must contract at least 50 per cent. of their estimated demand. Distributors are able to contract all or part of their estimated demand or to purchase at the relevant seasonal price in the MEMSP.

If a generator dispatches power at a level below the level of power it has contracted to supply it must buy the difference at the spot price. If the power dispatched is higher than the contracted power, the generator will sell the excess to the market and receive the relevant spot price.

Transmission Charges

CAMMESA levies a connection charge on all MEMSP participants and in addition makes a variable charge based on their usage of the transmission network.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Proxy cards	10.00 a.m. on 3 January 2006
Extraordinary General Meeting	10.00 a.m. on 5 January 2006
Admission effective and dealings recommence in the Existing Ordinary Shares and Investor Warrants on AIM and dealings commence in the Placing Shares on AIM (other than those Placing Shares to be subscribed by Peter Earl and Technology Finance Limited)	8.00 a.m. on 6 January 2006
CREST accounts credited with Ordinary Shares in uncertificated form	8.00 a.m. on 6 January 2006
Dealings commence in those Placing Shares to be subscribed by Peter Earl and Technology Finance Limited	8.00 a.m. on 16 January 2006
Despatch of definitive certificates in respect of the Placing Shares	16 January 2006

ADMISSION AND PLACING STATISTICS

Placing Price per Placing Share	42 pence
Number of Placing Shares being issued	46,938,775
Estimated proceeds of the Placing to be received by the Company, net of expenses (excluding VAT)	£18,529,285
Number of Ordinary Shares in issue prior to the Placing	21,350,000
Number of Ordinary Shares in issue following the Placing	68,288,775
Number of Warrants in issue (both before and after the Placing)	1,075,000
Market capitalisation of the Company following the Placing at the Placing Price	£28,681,285

Notes:

The above assumes that no Warrants have been exercised prior to or on Admission

PART I

LETTER FROM THE INDEPENDENT DIRECTORS OF RURELEC

RURELEC PLC

(incorporated and registered in England and Wales, registered number 4812855)

Directors:

James Glynn West (*Chairman and Non-Executive Director*)

Peter Richard Stephen Earl (*Managing Director*)

John Michael Eyre (*Director of Engineering*)

Elizabeth Ruth Shaw (*Director of Finance*)

Francis Mattos* (*Non-Executive Director*)

Sir Duncan Robin Carmichael Christopher KBE CMG* (*Non-Executive Director*)

* Independent Directors

Registered Office:

5th Floor

Prince Consort House

27-29 Albert Embankment

London SE1 7TJ

13 December 2005

To Shareholders and, for information purposes only, to Warrant holders

Dear Shareholder

Proposed Placing, Acquisition and re-admission to trading on AIM

1. Introduction

The Board announced this morning that the Company's wholly owned subsidiary Birdsong Overseas Limited has entered into an agreement to purchase for cash and loan notes the entire issued share capital of Bolivia Integrated from Southern Integrated. Bolivia Integrated indirectly owns 50.00125 per cent. of EGSA which operates three generating plants supplying electricity in Bolivia. The Acquisition will be financed in part by a placing of up to 46,938,775 Ordinary Shares with institutional investors, Peter Earl and Technology Finance Limited, the latter two of whom both have an indirect interest in Southern Integrated. Owing to its size and the interests of certain Directors, the transaction constitutes both a "reverse takeover" and a Related Party Transaction for the purpose of the AIM Rules and is conditional on shareholder approval, which is being sought at an Extraordinary General Meeting of the Company to be held on 5 January 2006.

This document, which comprises an admission document, sets out the background to and reasons for the Acquisition and Placing and explains why the Independent Directors consider that the Acquisition is fair and reasonable and that the Acquisition and Placing are in the best interests of the Company and recommend that Shareholders vote in favour of the Resolutions.

2. Background information on Rurelec

Rurelec was initially established specifically to develop rural electrification projects and isolated generation projects in Latin America and was admitted to trading on AIM on 18 August 2004.

Acquisition of ESA

Following flotation, Rurelec embarked on a programme of acquisitions of power plant equipment, the first of which was through the purchase of ESA from EGSA in October 2004. The consideration for the transaction was US\$550,000 in cash.

ESA is the owner of two 3 MW Worthington dual fuel generation units. These are small machines which are suitable for rural generation.

Acquisition of 9 Jenbacher

In January 2005 Rurelec announced that it had acquired for cash nine Jenbacher engines, each with a gross generation capacity of 2 MW, for a total of £1 million. Simultaneously, the Company sold six of these engines for the sum of £1 million. The remaining three Jenbachers are to be installed in Yacuiba, Southern Bolivia, where gas supplies are available and shortages of power exist.

Acquisition of Patagonia Energy

In July 2005 Rurelec announced that it had acquired 50 per cent. of the issued share capital of Patagonia Energy for an initial consideration of US\$4.5 million in cash and further payments of US\$1.5 million, with the dates of payment determined by the future profit of EDS. Patagonia Energy is 50 per cent. owned by Basic Energy Limited, a company organised and existing under the laws of the Bahamas. Patagonia Energy wholly owns directly (and indirectly through Eléctrica) EDS, which owns and operates a generating plant supplying electricity in the isolated electricity system of Southern Patagonia, Argentina.

The generating plant comprises two General Electric MS6001B gas turbines in open cycle, with a generating capacity of 77MW.

The acquisition of Patagonia Energy was a reverse takeover which was approved by Shareholders on 29 July 2005 and is described in an admission document issued by the Company dated 6 July 2005.

3. Background information on Bolivia Integrated and the Acquisition

The Acquisition

Subject to the passing of the proposed Resolutions, Rurelec will indirectly acquire Bolivia Integrated which through a holding company owns 50.00125 per cent. of the issued share capital of EGSA, an electricity generating company.

The consideration will be for an amount up to US\$35 million. On completion of the Acquisition US\$20 million will be satisfied in cash. In addition, subject to Peter Earl and Technology Finance Limited subscribing for in aggregate 13,605,442 Ordinary Shares in the capital of Rurelec at the Placing Price not later than five business days after Admission (which Peter Earl is contractually obliged to do and procure) a further US\$10 million will be satisfied not later than seven business days after Admission. In addition the Loan Note in the amount of US\$5,000,000 shall be issued to Southern Integrated and shall be redeemed in any number of payments as follows:

- between 30 April 2006 and 30 December 2007, in an amount equal to the aggregate amount of dividends paid after Admission by EGSA and distributed up to Birdsong Overseas Limited (net of costs and taxes) (“Received Dividends”) subject to a maximum aggregate amount of US\$3,000,000; the first payment being due within 10 business days after 30 April 2006 and subsequent payments becoming due within 10 business days after receipt of further Received Dividends.
- from 31 December 2007, in an amount equal to the aggregate amount of Received Dividends (less any amounts already paid under the Loan Note) subject to an overall aggregate maximum principal amount payable under the Loan Note of US\$5,000,000; such amounts becoming due within 10 business days after receipt of further Received Dividends.
- to the extent not previously redeemed the Loan Note shall be redeemed in full by Birdsong Overseas Limited on 31 December 2010.

Interest at LIBOR plus 5 per cent. per annum shall accrue on the Loan Note to the extent of any outstanding unredeemed capital, which shall be payable after all principal amounts have been paid.

The Acquisition Agreement includes warranties and a tax indemnity given by IPC and Southern Integrated, the scope of which is fairly standard for transactions similar in nature to the Acquisition. The time limit for non-tax warranty claims is 2 years from Admission and the time limit for tax warranty claims and claims

under the tax indemnity is 7 years from Admission. No warranty or tax indemnity claim may be made under the Acquisition Agreement unless the aggregate amount of such claims exceeds US\$250,000.

IPC and Southern Integrated are jointly and severally liable under the warranties and the tax indemnity in an amount up to US\$35 million, the maximum consideration payable. However, the ability to recover against IPC and Southern Integrated may be limited if IPC or Southern Integrated distributes or otherwise pays out to its shareholders or third parties the consideration monies. This is because Southern Integrated has no significant net assets and IPC had, as at 31 December 2004 prior to the acquisition of Southern Integrated, net assets of approximately £183,000. Moreover, there can be no guarantee that IPC's net asset value will not further reduce prior to the making of a warranty claim or claim under the tax indemnity. To partially redress this situation, warranty claims and claims under the tax indemnity (and certain other claims under the Acquisition Agreement) may be set off against amounts unpaid under the Loan Note. US\$5 million of the Loan Note will remain unpaid prior to 30 April 2006 and a minimum of US\$2 million of the Loan Note will remain unpaid prior to 31 December 2007. These amounts represent the principal security that Rurelec has in relation to warranty and tax indemnity claims under the Acquisition Agreement. The Independent Directors note, therefore, that the effective amount of cover in relation to the warranties and tax indemnity may be limited.

Summaries of the Acquisition Agreement and the terms of the Loan Note are set out in Part VII of this document.

The vendor, Southern Integrated, is wholly owned by IPC. IPC is an independent power developer with international experience in building, owning and operating approximately 4,000 MW of power generation plants. IPC wishes to sell Bolivia Integrated in order to concentrate on new projects outside Latin America and on developing its power plant operations and maintenance activities.

Peter Earl is the controlling shareholder in IPC and is the chairman of EGSA. Peter Earl and Elizabeth Shaw are directors of IPC and Michael Eyre is managing director of IPC's wholly owned subsidiary IPOL. James West is also a non-executive director of IPC.

EGSA is a Bolivian company that was set up in July 1995 as part of the privatisation of the Bolivian electricity industry. Following an international public tender, 50 per cent. of the share capital of EGSA was transferred to GAI, a subsidiary of the US utility GPU Inc., for a cash investment of US\$47 million into EGSA. The Bolivian state's shares in EGSA were in turn transferred to two Bolivian pension funds with a small number of shares allocated to employees of the state power company, ENDE. In 1999 GAI was permitted to increase its shareholding to 50.00125 per cent. of EGSA and to assume Board control of the Company. On 29 June 2005, the share capital of EGSA was listed on the Bolivian stock exchange.

EGSA is a capitalised company which requires it to take decisions such as profit distribution of more than 30 per cent. of the annual profits by a vote of 75 per cent. of the shares represented at an extraordinary general meeting of the shareholders. As such GAI will need the support of one of the pension funds in order to declare a dividend of more than 30 per cent. of the profits in any one year.

EGSA

EGSA's generating plants are connected to the NIS. It currently has three plants, located near Santa Cruz, Sucre and Potosi, with a total nominal installed capacity of 360 MW. These are:

- Guaracachi plant
 - 292 MW of installed capacity on two General Electric 6FA high technology gas turbines and six Frame 5 gas turbines
- Aranjuez plant
 - 39 MW of installed capacity on one Frame 5 gas turbine and 5 dual fuel natural gas and diesel generating units
- Karachipampa plant
 - 27 MW of installed capacity on one Rolls Royce Olympus gas turbine

EGSA sells its entire output at the spot price to distribution companies and in addition to the electrical energy generated, it receives payments for having generation capacity available.

Gas is supplied to the Guaracachi and Aranjuez plants under a contract with Chaco expiring on 31 July 2007 and to the Karachipampa plant under a contract with Andina expiring on 30 September 2007.

Management and the supervision of technical maintenance are undertaken by IPOL under a five year Management Agreement expiring on 12 December 2008 payable in US dollars. Such technical and management services include:

- the selection and assistance in negotiation for technology and services to EGSA;
- ongoing monitoring, maintaining and upgrading of EGSA's generating assets; and
- advice and assistance in financing, risk management, optimisation of assets, procurement and improvement in operating and management services.

Further details of the Management Agreement are set out in paragraph 8 of Part VIII of this document.

The table below summarises the trading record of EGSA for the three years to 31 December 2004 and the six months to 30 June 2005 and is restated according to International Financial Reporting Standards.

	<i>Year ended</i> <i>31-Dec-02</i> <i>US\$'000</i>	<i>Year ended</i> <i>31-Dec-03</i> <i>US\$'000</i>	<i>Year ended</i> <i>31-Dec-04</i> <i>US\$'000</i>	<i>6 months to</i> <i>30-Jun-05</i> <i>US\$'000</i>
Revenue	27,354	27,688	25,632	14,594
Profit/(Loss) Before Tax	4,131	(1,754)	2,842	5,277
Net Assets	89,648	86,407	87,246	87,240

4. Assets owned on Admission

On Admission Rurelec will own:

- ESA, which in turn owns two Worthington dual fuel generating units, with 6 MW aggregate capacity;
- three Jenbacher's with 6 MW aggregate capacity;
- a 50 per cent. indirect interest in Central Térmica Patagonia, a 77 MW gas-fired power plant in Patagonia; and
- a 50.00125 per cent. indirect interest in EGSA, which owns 3 generating plants in Bolivia with 360 MW (nominal) aggregate capacity described above.

5. Investment Strategy

The Directors' strategy is to continue to acquire, or invest in, companies with established electricity generating operations or generating assets suitable for redeployment in the regional power markets of the Southern Cone of Latin America as well as in the isolated generation sector in Latin America. The investment strategy of the Company, while originally focused on rural electrification projects, has been extended to suitable opportunities to acquire or invest in generating assets operating on interconnected systems within those Latin American countries which have implemented structural reform programmes.

Furthermore, the Directors have identified opportunities to manage the implementation phase of rural electrification projects as well as investing in the generation assets that are required to satisfy the increased demand associated with that expansion.

Any generating capacity deployed by the Company will, wherever possible, be supported by Power Purchase Agreements expected to incorporate payments for both capacity and energy production or by transparent wholesale markets for power with independent regulation and credit-worthy counter-parties.

The Directors are keen to promote sustainable projects based on locally-produced fuel supplies and will, where practicable, promote the use of renewable sources for electricity generation. They are also eager to give priority to the development of combined cycle gas turbine (CCGT) capacity based on the conversion of existing plants to achieve greater fuel efficiency operation capturing waste heat for the generation of additional electricity with no additional fuel cost. Such conversion projects may be eligible for United Nations approved carbon emission reduction certificates issued under the Kyoto Protocol.

6. Current trading and prospects

EGSA exceeded its budget for the first three quarters of 2005. While the last quarter does not usually produce the highest revenues and net income (since this is a rainy period in Bolivia when hydro generators receive dispatch priority), the Directors expect EGSA to continue to be ahead of budget for the full year.

EGSA currently has two new power plant additions under construction for commissioning in 2006. These two plant additions in Sucre and Santa Cruz will add 79 MW of new nominal installed capacity, an increase of 22 per cent. compared with the current installed capacity of 360 MW. Accordingly, the Directors expect EGSA to benefit from increased capacity payments once these projects complete. Demand growth in the NIS is expected by CNDC to rise by more than 8 per cent. in 2006. Prospects for 2006 therefore appear to be good.

Longer term, in 2007 and beyond, EGSA expects to add 80 MW of combined cycle capacity in Santa Cruz following the recent approval by the United Nations Clean Development Methodology Committee of the CCGT conversion methodology for calculating carbon emission reductions. EGSA also expects to finalise a 120 MW Yacuiba export project for the sale and export of electricity to Argentina. Preliminary power purchase and fuel supply agreements for this project have already been reached respectively with CEMSA, the subsidiary of Endesa of Spain, and Chaco, the Bolivian subsidiary of BP, and a preliminary finance agreement has also been agreed with a group of domestic financial institutions for a privately placed bond issue in support of the export project. The governments of Bolivia and Argentina announced this initiative in August 2005.

Both the CCGT conversion project and the Yacuiba export project are expected to be commissioned during 2007 and to make full year contributions from 2008 onwards.

Communities in Riberalta and Guayamerin on the Amazon Basin have requested Rurelec's local power subsidiary, ESA, to install new capacity in these isolated areas. Negotiations have begun for new power purchase agreements in each city. The Company is also considering new isolated generation and rural electrification projects in Northern Argentina.

At the same time the Company intends to continue to take advantage of suitable opportunities to trade in portfolios of power generation equipment where the management's knowledge of the second hand equipment market can help source good value motors and turbines for Rurelec projects while at the same time produce a trading profit from the onward sale of surplus machines.

The Directors are confident that the demand in Latin America which has led to Rurelec's strong start as a generation company will be matched by a steady flow of new power projects.

The Directors intend to change the accounting year to 31 December with effect from 31 December 2005.

7. Relationship with IPC and Related Party Transaction

Peter Earl is the controlling shareholder in IPC and is the chairman of EGSA. Peter Earl and Elizabeth Shaw are directors of IPC and Michael Eyre is managing director of IPC's wholly owned subsidiary IPOL. James West is also a non-executive director of IPC. IPOL provides operations and supervision of technical maintenance services to EGSA under the long term Management Agreement (described in paragraph 8(s) of Part VIII of this document). Peter Earl has committed to procure that he and Technology Finance Limited, both of whom have an indirect interest in Southern Integrated, subscribe for 13,605,442 Ordinary Shares (the "Subscription Shares") at the Placing Price and that such subscription shall occur not less than 5 business days after Admission (the "Subscription").

The Acquisition is classified as a related party transaction under Rule 13 of the AIM Rules. Accordingly, only the Independent Directors have made the recommendation to Shareholders at the end of Part I of this document.

Under the Acquisition Agreement IPC has agreed not to compete in relation to the operation of power plants in Bolivia and Argentina for the period of three years from completion of the Acquisition. IPC has also given a separate confirmation to Rurelec that IPC will only have the right to develop or invest in power generation projects in Latin America if Rurelec has declined the opportunity.

8. Details of the Placing

The Company is proposing to raise an aggregate of approximately £19,714,000, before expenses, through the issue of an aggregate of 46,938,775 Placing Shares, to institutional investors and to Peter Earl and Technology Finance Limited pursuant to the Subscription, all at a price of 42 pence per Ordinary Share. The net proceeds will be used to part finance the cash consideration for the Acquisition (including if so determined by the Company the redemption of part of the Loan Note).

The Placing Shares (including the Subscription Shares) will represent approximately 68.74 per cent. of the Enlarged Share Capital. At the Placing Price, the Company's market capitalisation on Admission will be £28,681,285.50.

Following Admission, and assuming the completion of the Subscription by Peter Earl and Technology Finance Limited referred to above, the Directors (and companies connected and/or associated with them) will hold, in aggregate, approximately 16.04 per cent. of the Enlarged Share Capital.

The Placing Shares will rank *pari passu* in all respects with the Existing Ordinary Shares. Dealings in the Placing Shares (other than the Subscription Shares to be subscribed by Peter Earl and Technology Finance Limited, dealings in which are expected to commence not later than 5 business days later) are expected to commence on 6 January 2006. It is anticipated that CREST accounts will be credited on the day of Admission and that certificates will be despatched by first class post by 16 January 2006.

9. Directors

Biographical details of the Directors are as follows:

James West, *Chairman and Non-Executive Director*, aged 58. Following a successful career as Managing Director of Globe Investment Trust plc, Jimmy West became the 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. He is now Chairman of Gartmore Fledgling Trust plc and Jupiter Second Enhanced Income Trust plc and is a non-executive Director of a number of diverse companies including Candover Investments plc, British Assets Trust plc and Global Natural Energy plc.

Peter Earl, *Managing Director*, aged 50, began his career at the Boston Consulting Group advising state-owned companies. He has advised ministries of finance and central banks in Abu Dhabi, Albania, Kuwait and Saudi Arabia. He is the author of the standard European textbook on cross-border takeovers published by Euromoney. Formerly Chief Executive of Tranwood plc and The Carter Organization Inc., in New York, he acted on secondment to the World Bank and the United Nations Development Programme, advising on privatisations in Latin America and Eastern Europe, where he has served as Deputy Chairman for the United Nations Economic Commission for Europe infrastructure finance group. He was a director of Fieldstone Private Capital Group Limited ("Fieldstone") in London. In the mid-1990's, he advised on US\$6 billion of cross-border power sector acquisitions and bids, involving 5,000 MW of installed capacity and more than 2 million distribution customers. In 1995, he founded IPC which has owned, developed and operated 4,000 MW of power projects around the world including in Kazakhstan, USA, Argentina and Bolivia. He is an Oxford University graduate and was a Kennedy Scholar at Harvard University.

John Michael Eyre, *Director of Engineering*, aged 51, is both a Chartered and European Engineer and has extensive experience in project management and development in the power sector. As a Central Electricity Generating Board engineer, he spent part of his early career on secondment to Eskom of South Africa with

responsibility for maintenance of a portfolio of 26 power plants. He subsequently became Head of Engineering Quality with National Power plc, where he developed and implemented policy for risk management of their UK assets as well as leading the technical due diligence for significant international acquisitions such as Hub, a 1,200 MW oil-fired plant in Pakistan, and Marmara, a 500 MW combined cycle power plant in Turkey. Recently, he led business development at Lloyds' Register power division (subsequently Ingenco) and advised developers on renewable energy projects. At IPC, he is responsible for operations and maintenance activities and supervising technical due diligence for proposed acquisitions and greenfield development in Latin America and Central Asia.

Elizabeth Shaw, Director of Finance, aged 45, has been involved in the electricity sector since 1994. 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. In Bolivia, she advised on the spin-off of the Electropaz distribution business of Compañía Boliviana de Energía Eléctrica S.A. to Iberdrola S.A. of Spain and on the sale by ENDE of its electricity distribution interests in Cochabamba. Prior to joining Fieldstone, Elizabeth was extensively involved in the financing of small-to-medium sized companies in the UK, including raising equity for both listed and unlisted companies. Currently she is responsible for business development and finance at IPC. She is a graduate of Exeter University.

Francis Mattos, Non-Executive Director, aged 72, has over 40 years' broad-based power sector engineering and management experience, initially as a senior manager with the Central Electricity Generating Board. In 1984 he was seconded to British Electricity International (BEI), where he was responsible for overseas business and project development. On privatisation of the U.K. electricity sector, BEI became National Power International with a focus on international utility acquisitions and power plant construction projects. These projects included the acquisition in 1993 of the Pego power station in Portugal, then the largest, privatised, power project in Europe where he was a director. Recently he was an adviser to Sithe Energies, Inc. and is a registered consultant to the World Bank and other funding agencies. He has written and presented papers on power system economics and control, tariffs, substation switching, planning and operations reliability standards. He is both a Chartered Engineer and a Chartered Manager. On 19 July 2004 the Company passed a resolution at an extraordinary general meeting to approve his appointment as a Director notwithstanding that he has attained the age of 70, in accordance with section 293(5) of the Act.

Sir Robin Christopher KBE CMG, Non-Executive Director, aged 61, retired from the Foreign and Commonwealth Office in 2004. Since 1994, Sir Robin has been British ambassador to Ethiopia, Indonesia and Argentina. Sir Robin first lived in Latin America forty years ago. He knows Bolivia well. He is a trustee for The Brooke Hospital, Prospect Burma and St. Matthew's Children Fund (Ethiopia), all of which are charitable trusts. He is also an Hon. Fellow of the Institute for the Study of the Americas (ISA) at London University. He is a graduate from Oxford University.

10. Lock-ins and orderly market arrangements

Following Admission and the Subscription by Peter Earl and Technology Finance Limited, the Directors (and companies connected and/or associated with them) and certain senior management will be interested, in aggregate, in 10,952,721 Ordinary Shares representing approximately 16.04 per cent. of the Enlarged Share Capital. Details of these shareholdings are set out in paragraph 6(a) of Part VIII of this document. Under the terms of the Lock-in Agreement each of the Directors and their connected persons including IPC, save in certain limited circumstances, will not dispose of any interest in any Ordinary Shares held by them for a period of twelve months from Admission other than with prior written consent of both the Broker and Nominated Adviser and for a further twelve months, only having consulted the Broker and Nominated Adviser, or the Company's then broker and nominated adviser, so as to ensure the maintenance of an orderly market in the Ordinary Shares.

Under the terms of the Orderly Market Agreement, Technology Finance Limited will not dispose of any interest in any Ordinary Shares held by them for a period of 12 months, without consulting the Broker and Nominated Adviser, or the Company's then broker and nominated adviser, so as to ensure the maintenance of an orderly market in the Ordinary Shares.

11. Share option scheme

The Directors believe that the Company's success is highly dependent on the quality of its employees. To assist in the recruitment, retention and motivation of employees, an important part of the future remuneration strategy will be the ability to award equity incentives and in particular share options to employees. The Directors intend to adopt a share option scheme pursuant to which options may be granted to Directors and employees of the Group, at a subscription price equal to the greater of the nominal value per Ordinary Share and the market value of an Ordinary Share at the time of grant, over an aggregate maximum of 10 per cent. of the Company's issued share capital from time to time.

12. Dividend policy

On 5 November 2005 the Company announced its preliminary results for the year to 30 June 2005 in which the Directors have recommended a dividend of 0.5 pence per share which was approved by Shareholders at the AGM of the Company held on 12 December 2005. The Directors intend to continue to pay dividends in the future when it is prudent to do so, having regard to the availability of the Company's distributable profits and the retention of funds required to finance future growth. In the medium term the Directors intend that dividend income will be a significant source of shareholder value.

13. Corporate governance

The Directors support high standards of corporate governance and have adopted the Combined Code as far as is applicable for a company of its size and nature.

An audit committee, comprising Elizabeth Shaw and Jimmy West, determines the application of the financial reporting and internal control principles, including reviewing the effectiveness of the Group's financial reporting, internal control and risk management procedures and the scope, quality and results of the external audit. The audit committee is chaired by Mr. West.

A remuneration committee, comprising Peter Earl and Jimmy West, reviews the performance of the executive directors and will set their remuneration and consider bonus and share option schemes. No Director will take part in discussions concerning their own remuneration. The remuneration committee is chaired by Mr. West.

The Company holds bi-monthly Board meetings. The Company has adopted the model code for Directors' and key employee share dealings which is appropriate for an AIM quoted company and in accordance with Rule 21 of the AIM Rules.

14. Extraordinary General Meeting

At the end of this document you will find a notice convening an extraordinary general meeting of the Company which is to be held at 10.00 a.m. on 5 January 2006. The Resolutions will provide as follows:

- (a) to approve the Acquisition;
- (b) to increase the authorised share capital of the Company from £850,000 to £2,400,000 by the creation of a further 77,500,000 Ordinary Shares;
- (c) to authorise the Directors to allot (i) new Ordinary Shares pursuant to the Placing; (ii) new Ordinary Shares pursuant to the Warrants; and (iii) otherwise up to a maximum nominal amount of £409,732.65 (representing approximately 30 per cent. of the Enlarged Share capital of the Company);
- (d) to authorise the Directors to allot equity securities for cash as if the statutory pre-emption rights set out in section 89 of the Act did not apply to enable the Directors to allot the new Ordinary Shares pursuant to the Placing; pursuant to rights or other offers and otherwise up to a maximum nominal amount of £68,288.78 (representing approximately 5 per cent. of the Enlarged Share Capital of the Company).

15. Admission, settlement and CREST

Application will be made to the London Stock Exchange for the Existing Ordinary Shares and Investor Warrants to be readmitted to trading on AIM and for the Placing Shares to be admitted to trading on AIM. Re-admission of the Existing Ordinary Shares and Investor Warrants and admission of the Placing Shares to trading on AIM (other than in respect of the Subscription by Peter Earl and Technology Finance Limited which is expected to take place not later than six business days later) is expected to take place on 6 January 2006.

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles contain provisions concerning the transfer of shares which are consistent with the transfer of shares in dematerialised form under the CREST Regulations. The consent of CRESTCo has been sought to issue the Placing Shares in uncertificated form and, accordingly, settlement of transactions in the Placing Shares following Admission may take place within the CREST system if Shareholders and holders of Placing Shares so wish. CREST is a voluntary system and holders of Placing Shares who wish to receive and retain share certificates will be able to do so.

16. Additional information

Your attention is drawn to the Risk Factors set out in Part II and to the information contained in Parts III to VIII of this document.

17. Action to be taken

You will find enclosed with this document a form of proxy for use in connection with the EGM. Whether or not you intend to be present at the EGM, you are asked to complete the form of proxy in accordance with the instructions printed on it so as to be received by the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4BR, as soon as possible but in any event not later than 10.00 a.m. on 3 January 2006. Completion of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

18. Recommendation

The Independent Directors, having consulted with Daniel Stewart, consider that the terms of the transaction are fair and reasonable insofar as Shareholders are concerned. In advising the Independent Directors, Daniel Stewart has relied on their commercial assessments. The Independent Directors believe that the Acquisition and Placing are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Independent Directors recommend that you vote in favour of the Resolutions to be proposed at the EGM. The Independent Directors intend to vote in favour of the Resolutions to be proposed at the EGM in respect of their own beneficial holdings of an aggregate of 25,000 Ordinary Shares, representing approximately 0.12 per cent. of the Existing Ordinary Shares.

Yours faithfully

Francis Mattos

Independent Director

Sir Robin Christopher

Independent Director

PART II

RISK FACTORS

An investment in Ordinary Shares involves a high degree of risk. Accordingly, prospective investors should consider carefully the specific risk factors set out below in addition to the other information contained in this document before investing in Ordinary Shares.

There are various risk and other factors associated with an investment of the type described in this document. The Directors consider the risk factors described below to be most relevant in considering an investment in the Company. Any one or more of these risks may have a material effect on the value of any investment in the Company. You should note that the risks described below are not the only risks faced by the Company and there may be additional risks and uncertainty that the Directors currently consider not to be material or of which they are not presently aware and which may also have an adverse effect on the Group.

Specific Risks Relating to EGSA

1. *New Hydrocarbon Law*

The Bolivian electrical industry as a whole may be affected by the new Hydrocarbons Law (promulgated on 17 May 2005) insofar as gas prices and available volumes are concerned. Section 87 of the new law provides that domestic gas prices may not exceed 50 per cent. of the export price of natural gas. Since electricity prices are determined through marginal costs, of which fuel inputs are the largest single component, a reduction in actual gas prices would mean a reduction in power generation costs, which could translate into higher margins on energy sales. Any windfall element of profits for generators based on the new law may in turn encourage the imposition of a windfall profits tax on energy revenues from the production of electricity.

2. *Political conflicts*

Bolivia has been undergoing some political unrest for a number of years and the current government is a transitional one whose president, Eduardo Rodriguez was appointed after the resignation of Carlos Mesa in June 2005. A general election has been brought forward by two years and is planned for 18 December 2005.

The manifesto of the MAS party's Presidential Candidate, Evo Morales, contains certain policies, which, if implemented, might adversely affect the interests of foreign owned entities, including in relation to taxation.

3. *Profit Distribution*

Following completion of the Acquisition, Rurelec will indirectly own 50.00125 per cent. of the share capital of EGSA. Under Bolivian law certain decisions require consent of 75 per cent. of the votes cast at a shareholder meeting. This includes, but is not limited to, the distribution of profits in excess of 30 per cent. of a company's annual profits.

4. *Limitations on effective ability to recover under the warranties*

IPC and Southern Integrated are jointly and severally liable under the warranties and the tax indemnity in an amount up to US\$35 million, the maximum consideration payable. However, the ability to recover against IPC and Southern Integrated may be limited if IPC or Southern Integrated distributes or otherwise pays out to its shareholders or third parties the consideration monies. This is because Southern Integrated has no significant net assets and IPC had, as at 31 December 2004 prior to the acquisition of Southern Integrated, net assets of approximately £183,000. Moreover, there can be no guarantee that IPC's net asset value will not further reduce prior to the making of a warranty claim or claim under the tax indemnity. To partially redress this situation, warranty claims (and claims under the tax indemnity and certain other claims under the Acquisition Agreement) may be set off against

amounts unpaid under the Loan Note. US\$5 million of the Loan Note will remain unpaid prior to 30 April 2006 and a minimum of US\$2 million of the Loan Note will remain unpaid prior to 31 December 2007. These amounts represent the principal security that Rurelec has in relation to warranty and tax indemnity claims under the Acquisition Agreement. The Independent Directors note, therefore, that the effective amount of cover in relation to the warranties and tax indemnity may be limited.

Specific Risks Relating to Patagonia Group

1. *Profit Retentions*

CAMMESA currently retains a proportion of the profit made by EDS. 35 per cent. of such retention is not subject to any specific repayment conditions. There can be no guarantee that in any event these funds will be repaid to the Company.

The other 65 per cent. is withheld pending financial investment to carry out the projects needed to comply with the adjustment of MEM. Should EDS be unable to fund such investment, this part of the retention may not be released to the Company. There can be no guarantee in any event that these retained funds will be repaid to the Company. In the event that CAMMESA does not make the additional payments detailed above, there is no guarantee that EDS will be able to operate profitably.

EDS is subject to changes in the Argentine legal and regulatory system. In particular EDS is subject to regulation by CAMMESA. Following congressional elections in October 2005 and subsequent changes in government, the Directors are not aware of any intention to alter the prevailing regulation. However, there is no guarantee that regulatory changes will not occur and if so it may not be possible to mitigate such adverse changes.

2. *Joint venture and Basic Acquisition Agreement*

Patagonia Energy is a deadlock joint venture company whose operation is subject to the provisions of the Patagonia Shareholders' Agreement as described in paragraph 8(d) Part VIII of this document. It may not be possible to resolve differences between the parties to the joint venture on a timely basis or at all. Moreover, in the event that consensual cooperation between the parties is lost, the operation and financial performance of the joint venture may be adversely effected notwithstanding the Patagonia Shareholders' Agreement. There are limitations on warranty cover obtained by the Company in connection with the Basic Acquisition Agreement under which the Company acquired its shareholding in Patagonia Energy.

3. *Long term service agreement*

Long term planned maintenance is undertaken by Capime under an 18 year contract which is payable in US dollars. The income received by the plant from CAMMESA is in Argentine Pesos and any deterioration in the exchange rate will have an adverse effect on EDS. In the event of failure by Capime, alternatives are available, but it may be difficult to obtain the same services for the price negotiated with Capime under the long term service agreement. In addition, breakdown of the plant while a new maintenance supplier is found could have a material effect on EDS.

Industry specific risks

1. *Regulation*

The Bolivian and Argentine electricity sectors need to attract private investment. Any changes in the operating regimes, particularly regarding the manner in which tariffs are set, could affect the Enlarged Group's ability to generate profits. The possibility that a future government of a country in which the Group operates may adopt substantially different policies, which might extend to the nationalisation or appropriation of the Company's or its suppliers assets cannot be ruled out. In Bolivia, the risk of such expropriation of assets may be mitigated by the 1988 Bolivia-UK Treaty, which provides for financial compensation to UK entities in the event of nationalisation of their asset.

2. *Capital Equipment*

In order to invest in new capacity, including the conversion to combined cycle, the Company must source competitively priced capital equipment. There is no guarantee that the Company will be able to source such equipment nor that the Company will obtain the necessary financing for such equipment.

3. *Gas supply*

Both EGSA and EDS rely on third parties for the supply and delivery of its fuel. Any interruption to the gas supply caused, including but not limited by physical damage to the pipeline, financial failure of the supplier, or political intervention could prevent the operation of the generating units and adversely effect the financial performance of the Group. In Argentina there have been no significant interruptions of gas supply since 1996 when EDS's plant was built and although there is a shortage of gas in Argentina there are alternative suppliers of gas in the region. Since Southern Integrated has owned Bolivia Integrated, EGSA have reported no difficulties with the supply of gas in Bolivia.

4. *Electricity market and demand*

Demand for electricity in Bolivia and Argentina is not static and may fall as well as rise. In the event that additional generation or transmission capacity is built or if there is a significant fall in demand within the systems, EGSA and EDS are likely to be adversely affected to the extent that cost of generation exceeds the marginal cost in the system. Furthermore, EDS may be unable to renew the contract with Sociedad Cooperativa Popular Limitada de Comodoro Rivadavia on satisfactory terms and this may result in it becoming more dependent on the volatile spot market.

5. *Availability of key personnel*

Owing to the technical nature of the operations and particularly the conversions to combined cycle, the generating plants will require specialist personnel on site for protracted periods. There can be no guarantee that such expertise can be recruited locally.

6. *Counterparty credit*

The Company's profitability is dependent to some extent on the ability of third parties to perform. In particular, the Company's revenues depend on the creditworthiness of its contractual counterparties such as the distributors of electricity. In turn, their ability to perform depends on their capacity to collect revenues from their retail operations. Such risk may be mitigated through escrow or lock-box arrangements.

7. *Cost Control*

The ability of the Company's subsidiaries to control costs, including fuel costs, or to pass them on to customers to ensure that they are not forced to generate electricity at a loss is an important part of the Company's strategy but there can be no guarantee that it will always succeed in this and a number of these factors are outside of the Company's control.

8. *Industrial accident*

The Company's operations will be subject to all of the risks incidental to the ownership of electricity generation facilities and the management of rural electrification projects, any of which could result in damage to life or property, environmental damage and legal liability. Whilst insurance against such risks is in place, there can be no certainty that the proceeds of an insurance claim will cover such liability.

9. *Machinery breakdown*

Notwithstanding the long term maintenance agreement in place, in the case of EDS (there is no such agreement for EGSA's plants) there is a risk of plant failure and even though insurance covers machinery breakdown and business interruption, there is a potential exposure to loss of revenue.

10. *Weather*

The Company's individual project activities, particularly construction, may be subject to disruption due to natural phenomena depending on the location of the activity. It is possible to mitigate such risk through using design standards appropriate to each location with a fallback of business interruption insurance where appropriate in the event of machinery breakdown or natural perils.

Political and country risks

1. *Political Risk*

The Directors believe that the governments of the countries in which it invests support the provision of power generation by foreign operators as owners of regional power companies. However, there is no assurance that future political and economic conditions in these countries will not result in their governments adopting different policies with respect to foreign investment in electricity generating assets. Any such changes in policy may, amongst other things, affect ownership of assets, taxation, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, thereby influencing the Company's ability to generate profits. Such policy changes could extend to the expropriation of assets.

2. *Approvals, licences and permits*

The intended future and ongoing operations of the Enlarged Group require approvals, licences and permits from various governmental and other regulatory authorities. The Directors are not aware of any reason to suggest that the Company will not continue to maintain or obtain the necessary approvals, licences and permits under applicable laws and regulations. However, such approvals, licences and permits are subject to change and there can be no guarantee that the Enlarged Group will be able to obtain or maintain all necessary approvals, licences and permits that may be required by it in connection with its business.

3. *Foreign exchange rates*

Currency fluctuations may affect the cash flow that the Company receives as payments for the electricity generated by members of the Group. Although payments under Power Purchase Agreements may be designated in US dollars, the underlying payments and many of the costs are in local currency and the Company is exposed to exchange risk. However, the Directors do not consider the extent of such exposure to justify hedging against currency movements.

4. *Development Funding*

Rural electrification projects may be reliant on development funding from the international donor community. There can be no guarantee that the Company will be selected by donors to manage such projects nor of the donors' continued support of such projects.

General risks

1. There can be no guarantee that the Placing Price will reflect the actual or potential market value of the Placing Shares.
2. It may be necessary for the Company to raise additional capital to finance growth. It is likely that further issues of equity would be made on a non pre-emptive and dilutive basis. There is also a risk that such capital may not be available on acceptable terms.
3. The price at which investors realise their Ordinary Shares will be influenced by a large number of factors; some specific to the Company and its proposed operations, and some generally. These factors could include the performance of the Company's operations, large purchases or sales of shares in the Company, absence of liquidity in the Ordinary Shares, legislative or regulatory changes affecting the business of the Company and general economic conditions. All of these factors could affect the value of the Ordinary Shares and investors could lose some or all of their investment.

4. The Company's future performance, and that of any companies which it invests in or acquires, will depend on its ability to retain the services of the Directors and to be able to attract, motivate and retain the services of suitable personnel. Although such individuals have entered into service or employment agreements with the Company, the loss of the services of any such individual may affect the business, operations, revenues and/or prospects of the Company. The operations of the Company are specialised and its ability to recruit high calibre individuals in this sector may be difficult.
5. Although the Company has a defined strategy, there can be no guarantee that any of its strategic objectives will be achieved on a timely basis or at all.
6. Unexpected problems associated with the integration of new projects, assets or companies may be encountered. Such problems could adversely affect or delay the Company's ability to generate profits in the short to medium term.
7. Potential investors should be aware that the value of the Ordinary Shares can go down as well as up and that an investment in a share which is to be traded on AIM is likely to be less realisable and to carry a higher degree of risk than an investment in a share listed on the Official List.
8. The Company may face competition from other entities with comparatively greater resources to invest in similar target companies and assets. There can be no assurance that competition will not limit the Company's ability to implement its strategy or affect its ongoing profitability.
9. Certain members of the Board are also board members of other companies which, from time to time, are expected to be party to agreements with the Company. As a result, conflicts of interest may arise.
10. The information in this document is based upon current tax law and practice and other legislation and changes in the legislation or in the levels and bases of, and reliefs from, taxation may affect the value of an investment in the Company.

Investors should consider carefully whether investment in the Company is suitable for them in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.

PART III SECTION A

HISTORICAL FINANCIAL INFORMATION RELATING TO THE COMPANY (“THE COMPANY”)

1 Introduction

- 1.1 The historical financial information on Rurelec PLC and its subsidiary undertaking (together, “the Group”) set out in this Part III A, has been prepared solely for the purpose of the AIM Admission Document of Rurelec PLC and does not constitute audited statutory accounts within the meaning of Section 240 of the Companies Act 1985.

Basis of preparation

- 1.2 The historical financial information set out below is based on the audited consolidated financial statements of Rurelec PLC for the periods ended 30 June 2004 and 30 June 2005, after making such adjustments as considered necessary. The financial information for the period ended 30 June 2004 relates to the period from incorporation on 26 June 2003 to 30 June 2004.
- 1.3 The audited consolidated financial statements of the Group were prepared under the historical cost convention and in accordance with UK GAAP. The Group’s next set of published financial statements will be prepared in accordance with International Financial Reporting Standards, including International Accounting Standards (IAS) and Interpretations (“IFRS”) as developed and published by the International Accounting Standards Board and as adopted for use in the European Union. Accordingly, the historic financial information on the Group set out in this Part III A has been re-presented in accordance with IFRS. The adjustments to the audited consolidated financial information comprise those adjustments necessary to translate the historic financial information of the Group from UK GAAP to IFRS.
- 1.4 The Group’s first published financial statements prepared under IFRS will be those for the six month period ending 31 December 2005. The Group’s date of transition to IFRS will therefore be 1 July 2004. IFRS standards effective for accounting periods commencing on or after 1 January 2005 have been applied to all periods as if they had always been in existence, unless stated differently in the note of accounting policies.

Responsibilities

- 1.6 The historical financial information of the Group set out in this Part III A is the responsibility of the directors of Rurelec PLC.
- 1.7 The directors of Rurelec PLC are responsible for the contents of the Admission Document in which this historical financial information is included.

2 Statutory information

- 2.1 The Company was incorporated in England and Wales under the Companies Act 1985 on 26 June 2003 under the name Independent Power International Limited, with company number 4812855. The Company changed its name to Rurelec Ltd on 16 February 2004 and was re-registered as a public limited company on 19 July 2004 under the name Rurelec PLC.

On 6 August 2004 the Company applied for its shares to be admitted to the AIM market of the London Stock Exchange, with trading in the shares commencing on 18 August 2004.

3 Principal accounting policies

3.1 Overall considerations

The significant accounting policies which have been used in the preparation of this consolidated historical financial information are summarised below. The consolidated historical financial information has been prepared on the historical cost basis. It should be noted that accounting estimates and assumptions were used in the preparation of the historical financial information. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The main estimate made by management during the periods relates to the fair value of assets and liabilities acquired on the purchase of a subsidiary, Energia Para Sistemas Aislados S.A. (see note 8.17).

3.2 Segmental reporting

The Directors do not consider that any separate business or geographic segment reporting disclosures are required or appropriate as all of the Group's activities arose from one business activity conducted in one geographic area.

3.3 Consolidation and investment in subsidiaries

Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through voting rights. The consolidated historical financial information of the Group incorporates the historical financial information of the parent company as well as those entities controlled by the Group by full consolidation.

In addition, acquired subsidiaries are subject to application of the purchase method of accounting. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they are recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Where arising, goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

3.4 Income and expense recognition

Revenue is recognised upon the performance of services or transfer of risk to the customer.

Operating expenses are recognised in the income statement upon utilisation of the service or at the date of origin. All other income and expenses are reported on an accruals basis.

3.5 Property, plant and equipment

Tangible fixed assets are stated at acquisition cost (or fair value at date of acquisition of a subsidiary) less depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful economic life, as follows:

Generation equipment over 15 to 20 years, straight line

Depreciation is not charged until the asset is brought into use.

3.6 Foreign currency translation

The financial information is presented in pounds sterling, which is also is the functional currency of the parent company.

In the separate financial information 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 monetary assets and liabilities at year-end exchange rates are recognised and disclosed separately in the income statement.

In the consolidated financial information, the financial information of the subsidiary originally presented in a currency different from the Group's presentation currency have been converted into pounds sterling at the closing rate at the balance sheet date. Income and expenses have been converted into the Group's presentation currency at the average rates over the reporting period. Any differences arising from this procedure have been charged/credited to the currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into pounds sterling at the closing rate. Any such differences were immaterial for the periods presented below.

3.7 *Financial instruments*

The Group's financial instruments are cash and cash equivalents, trade and other receivables, and trade and other payables, which are recorded at fair value on recognition. The Group has not entered into any derivative financial instruments for hedging or trading purposes.

3.8 *Cash and cash equivalents*

Cash and cash equivalents include cash at bank and in hand as well as short term liquid investments such as bank deposits.

3.9 *Financial assets*

The Group's financial assets include cash and financial instruments such as receivables. Receivables are non-derivative financial assets with fixed or determinable payments 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 receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any impairment is recognised in profit or loss.

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 future cash flows.

3.10 *Financial liabilities*

The Group's financial liabilities are trade and other payables. They are included in balance sheet line items 'trade and other payables' and 'other taxation and social security'. Financial liabilities are recognised when the group becomes a party to the contractual agreements of the instrument. Trade payables are recognised initially at their nominal value.

Dividend distributions to shareholders are included in 'other short term financial liabilities' when they have been approved by the shareholders' meeting prior to the balance sheet date.

3.11 *Equity*

- (a) Share capital is determined using the nominal value of shares that have been issued.
- (b) Share premium includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.
- (c) Retained earnings include all current and prior period results as determined in the income statement.
- (d) Warrants – all warrants issued by the Group vested prior to 1 January 2005. The Group has not retrospectively applied IFRS 2 in respect of these warrants. No accounting entries have been reflected in the historic financial information of the Group with respect to these warrants on the grounds that

their exercise price exceeded the market value of the Company's shares at the dates of issue and the warrants had no intrinsic value on date of issue.

3.12 Pensions

The Group does not operate or contribute to any pension schemes.

3.13 Deferred tax

Current income tax assets and/or 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 year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

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 information with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised in conjunction with goodwill. This applies also to temporary differences associated with shares in subsidiaries and joint ventures if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. 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 always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

4 Consolidated income statements

		<i>Period ended</i> 30 June 2004 £'000	<i>Year ended</i> 30 June 2005 £'000
	<i>Note</i>		
Revenue	8.2	–	1,000
Cost of sales	8.2	–	(666)
Gross profit		–	334
Administrative expenses	8.2	–	(174)
Operating result	8.3	–	160
Finance income	8.4	–	11
Result for year before taxation		–	171
Tax expense	8.6	–	(33)
Net result for the year		–	138
Earnings per share (pence)	8.7		
Basic and diluted		–	1.41p

5 Consolidated statements of changes in equity

	<i>Note</i>	<i>Share capital £'000</i>	<i>Share premium £'000</i>	<i>Retained earnings £'000</i>	<i>Total equity £'000</i>
On incorporation	–	–	–	–	–
Shares issued	8.11	200	–	–	200
Net result for period	–	–	–	–	–
Balance at 30 June 2004		<u>200</u>	<u>–</u>	<u>–</u>	<u>200</u>
Shares issued	8.11	52	764	–	816
Net result for year		–	–	138	138
Balance at 30 June 2005		<u>252</u>	<u>764</u>	<u>138</u>	<u>1,154</u>

6 Consolidated balance sheets

	<i>Note</i>	<i>As at 30 June 2004 £'000</i>	<i>As at 30 June 2005 £'000</i>
Assets			
Non-current			
Property, plant and equipment	8.9	–	724
Deferred tax asset	8.14	–	5
		<u>–</u>	<u>729</u>
Current assets			
Trade and other receivables	8.10	–	239
Cash and cash equivalents		200	463
		<u>200</u>	<u>702</u>
Total assets		<u>200</u>	<u>1,431</u>
Equity attributable to the shareholders of the company			
Called up share capital	8.11	200	252
Share premium	8.12	–	764
Retained earnings	8.13	–	138
Total equity		<u>200</u>	<u>1,154</u>
Liabilities			
Non-current			
Deferred tax liability	8.14	–	38
		<u>–</u>	<u>38</u>
Current			
Other tax and social security		–	3
Trade and other payables		–	236
		<u>–</u>	<u>239</u>
Total liabilities		<u>–</u>	<u>277</u>
Total equity and liabilities		<u>200</u>	<u>1,431</u>

7 **Consolidated statements of cash flows**

		<i>Period ended</i>	<i>Year ended</i>
		<i>30 June</i>	<i>30 June</i>
		<i>2004</i>	<i>2005</i>
	<i>Note</i>	<i>£'000</i>	<i>£'000</i>
Operating activities			
Result for the year before tax		–	171
Adjustment: add back interest income		–	(11)
Increase in trade and other receivables		–	(239)
Increase in trade and other payables		–	221
Net cash from operating activities		<u>–</u>	<u>142</u>
Investing activities			
Additions to plant and equipment		–	(414)
Acquisition of subsidiary	8.17	–	(292)
Interest received	8.4	–	11
Net cash used in investing activities		<u>–</u>	<u>(695)</u>
Financing activities			
Proceeds from share issue	8.11	200	816
Net cash from financing activities		<u>200</u>	<u>816</u>
Net increase in cash and cash equivalents		200	263
Cash and cash equivalents at beginning of year		<u>–</u>	<u>200</u>
Cash and cash equivalents at end of year		<u>200</u>	<u>463</u>

8 Notes to the consolidated financial information

8.1 Principal activity and business segment

The Group's activities comprise the acquisition and development of power generation assets to support rural electrification projects, initially in markets in South America. In addition, and as opportunities arise, the Group purchases and sells power generation equipment.

During the year to 30 June 2005, all of the Group's revenues arose in the UK and were derived from the sale of power generation equipment. Accordingly, no business or geographic segment reporting is appropriate.

8.2 Revenue and nature of costs

Revenue in the year to 30 June 2005 arose from the sale of 6 power generation machines which were originally acquired as part of a larger set and which were surplus to the Group's immediate requirements.

Cost of sales represents the acquisition cost of the 6 power generation machines sold during the years to 30 June 2005.

The nature of administrative costs incurred was as follows:

	<i>Period ended</i> <i>30 June 2004</i>	<i>Year ended</i> <i>30 June 2005</i>
	<i>£'000</i>	<i>£'000</i>
Employment costs	–	57
Office costs	–	73
Legal & professional fees	–	44
Total	<u>–</u>	<u>174</u>

8.3 Operating result

The operating result is stated after charging:

	<i>Period ended</i> <i>30 June 2004</i>	<i>Year ended</i> <i>30 June 2005</i>
	<i>£'000</i>	<i>£'000</i>
Auditors' remuneration – audit fees	<u>–</u>	<u>15</u>

Non audit fees of £10,000 were charged during the year to 30 June 2005 for services relating to the admission of the Company's ordinary shares to the AIM market of the London Stock Exchange and have been offset against the share premium account.

8.4 Finance income

	<i>Period ended</i> <i>30 June 2004</i>	<i>Year ended</i> <i>30 June 2005</i>
	<i>£'000</i>	<i>£'000</i>
Interest income from short term deposits	<u>–</u>	<u>11</u>

8.5 Staff costs

	<i>Period ended</i> <i>30 June 2004</i> £'000	<i>Year ended</i> <i>30 June 2005</i> £'000
Wages and salaries	–	60
Social security costs	–	4
	<u>–</u>	<u>64</u>

£6,600 of directly attributable staff costs were capitalised in the year to 30 June 2005 as part of other directly attributable costs (see note 8.9).

8.6 Taxation

The relationship between the expected tax expense based on the smaller companies rate of 19% and the tax expense actually recognised in the income statement can be reconciled as follows:

Period ended Year end

	<i>30 June 2004</i> £'000	<i>30 June 2005</i> £'000
Result for the year before taxation	–	171
Tax rate	19%	19%
Expected tax charge	–	(32)
Adjustments	–	(1)
Actual tax expense, net	<u>–</u>	<u>(33)</u>
Comprising:		
Current tax expense	–	–
Deferred tax expense	–	(33)
– originating from capital allowances	–	(38)
– less: unutilised tax losses	–	5

8.7 Earnings per share

The calculation of earnings per share is based on the result for the year after taxation of £171,000 (2004 – nil) and on 12,121,096 (2004 – 10,000,000) ordinary shares, being the average weighted number of ordinary shares in issue and ranking for dividend during the year. The fully diluted calculation of earnings per share is unchanged from the basic calculation as the warrants (details of which are set out in note 8.11) are anti-dilutive.

As described in note 8.20, the Company issued a further 8.75 million ordinary 2p shares after 30 June 2005. These additional shares are not included in the earnings per share calculation.

8.8 Dividends

A dividend of 0.5p per share payable to all shareholders on record at 18 November 2005 will be proposed at the next shareholders' annual general meeting. The total cash amount of the dividend will be £106,750.

8.9 Property, plant and equipment

	<i>Generation equipment £'000</i>
On incorporation	–
Additions to 30 June 2004	–
	<hr/>
At 30 June 2004	–
Additions to 30 June 2005	
– by the Company	414
– arising on acquisition of subsidiary	310
	<hr/>
At 30 June 2005	724
	<hr/>

The additions by the Company include £67,300 of fees charged by Independent Power Corporation PLC (see note 8.15) and £7,585 of other directly attributable costs. No depreciation has been charged in the year as the assets are in the course of construction.

8.10 Trade and other receivables

	<i>30 June 2004 £'000</i>	<i>30 June 2005 £'000</i>
Trade receivables	–	175
Other receivables	–	64
	<hr/>	<hr/>
	–	239
	<hr/>	<hr/>

8.11 Share Capital

	<i>30 June 2004 £'000</i>	<i>30 June 2005 £'000</i>
Authorised:		
30,000,000 ordinary shares of 2p each – (2004 – 12,500,000)	250	600
	<hr/>	<hr/>
Allotted, called up and fully paid:		
12,600,000 ordinary shares of 2p each – (2004 – 10,000,000)	200	252
	<hr/>	<hr/>

Share capital represents the nominal value of shares issued and fully paid. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the company.

Share capital history

	<i>Ordinary shares of 2p each</i>
On incorporation	2
Allotment on 14 May 2004 at 2p per share	9,999,998
	<hr/>
At 30 June 2004	10,000,000
Allotment on 18 August 2004 at 40p per share	2,000,000
Allotment on 5 November 2004 at 42.5p per share	600,000
	<hr/>
At 30 June 2005	12,600,000
	<hr/>

8.11 Share Capital (continued)

(a) Ordinary shares:

On 14 May 2004, the Company issued as fully paid 9,999,998 ordinary 2p shares for cash at par to provide initial working capital for the company.

On 18 August 2004, the Company issued as fully paid 2,000,000 ordinary 2p shares for cash at 40p per share on initial admission to the Alternative Investment Market of London Stock Exchange plc. The difference between the total consideration of £800,000 and the nominal value of £40,000 has been credited to the share premium account (£760,000).

On 5 November 2004, the Company issued as fully paid 600,000 ordinary 2p shares for cash at 42.5p per share to provide additional capital for development of equipment. The difference between the total consideration of £255,000 and the nominal value of £12,000 has been credited to the share premium account (£243,000).

(b) Warrants:

On 18 August 2004, the Company issued:

– 75,000 warrants to subscribe for ordinary shares on a 1:1 basis at 40p per share. These warrants expire on 17 August 2006.

– 1,000,000 warrants to subscribe for ordinary shares on a 1:1 basis at 60p per share (if exercised prior to 12 August 2005) or 80p per share (if exercised after 12 August 2005 but before 17 August 2006). These warrants expire on 17 August 2006.

All of these warrants vested on issue, none have been exercised to date and all were outstanding at 30 June 2005.

8.12 Share premium

	<i>£'000</i>
On incorporation	–
At 30 June 2004	–
Arising on share issue on 18 August 2004	760
Arising on share issue on 5 November 2004	243
Share issue costs deducted from share premium account	(239)
At 30 June 2005	<u>764</u>

Share premium represents the excess paid for shares over the par value of the shares, less issuing expenses.

8.13 Retained earnings

	<i>30 June 2004</i>	<i>30 June 2005</i>
	<i>£'000</i>	<i>£'000</i>
At beginning of period	–	–
Net result for the year	–	138
At end of year	<u>–</u>	<u>138</u>

8.14 Deferred tax assets and liabilities

There were no deferred tax assets or liabilities as at 30 June 2004. Deferred taxes arising from temporary differences and unused tax losses as at 30 June 2005 can be summarised as follows:

	<i>30 June 2005</i>	
	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>
	<i>£,000</i>	<i>£,000</i>
Non-current assets		
Property, plant & equipment	–	38
Unused tax losses	5	–
Total	<u>5</u>	<u>38</u>

8.15 Related party transactions

No related party transactions arose during the period to 30 June 2004. During the year to 30 June 2005, the Company had the following related party transactions:

(i) *with key management personnel*

A sum of £7,750 was paid to Jimmy West Associates Ltd, a company in which Jimmy West is a shareholder and director, for management services.

Total remuneration paid to key management personnel is disclosed in Note 8.16.

(ii) *with other related parties*

(a) paid £110,000 to Independent Power Corporation PLC under a “Shared Services Agreement”. £67,300 of this sum of £110,000 has been capitalised in fixed assets as fees directly attributable to specific projects undertaken in relation to the Group’s plant and equipment and £42,700 has been expensed as fees relating to the provision of serviced offices and other administrative overheads. Peter Earl is a shareholder and director and Jimmy West and Elizabeth Shaw are directors. A sum of £11,750 was outstanding at the year end.

(b) sold 4 generation machines to Independent Power Generation Ltd, a wholly owned subsidiary of European Power Systems A.G., a shareholder in the Company, for £666,667.

(c) acquired 100 per cent. of the equity of Energia Para Sistemas Aislados S.A. from Empresa Eléctrica Guaracachi S.A. (see note 8.17) on 8 October 2004 for £292,110. Peter Earl is a director of Empresa Eléctrica Guaracachi S.A.

8.16 Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, whether executive or otherwise.

	<i>Period ended 30 June 2004</i>	<i>Year end 30 June 2005</i>
	<i>£’000</i>	<i>£’000</i>
Remuneration of key personnel	<u>–</u>	<u>53</u>

Remuneration paid to key management personnel included fees to personal services companies, salaries and social security contributions, paid annual leave and paid sick leave. No bonuses were paid and no non-monetary benefits were provided.

8.17 Acquisition of subsidiary

On 8 October 2004, the Company acquired 100 per cent. of the equity of Energia Para Sistemas Aislados S.A. (ESA), a company incorporated in Bolivia, for a total consideration (payable in cash) of £292,110 (US\$550,000). Its principal activity is the implementation of power generation projects in Bolivia.

The fair values of assets and liabilities acquired was as follows:

	<i>£'000</i>
Fixed assets acquired	309
Current liabilities acquired:	
Creditors	(17)
Net assets acquired	<u>292</u>
Cash consideration	<u>292</u>

The principal assets of ESA were two power generation machines. No goodwill arose on the acquisition as the price paid for the shares represented the fair value of the machines acquired less the liabilities of the company at the date of acquisition. The carrying value of ESA's fixed assets immediately before the acquisition was £156,222. The carrying value of ESA's liabilities immediately before the acquisition was £17,145.

If ESA had been acquired on 1 July 2004, the consolidated revenue and net result for the group would have remained unchanged.

8.18 Fair values

In the opinion of the Directors, there is no significant difference between the fair value of assets and liabilities and their carrying values due to their short term nature.

8.19 Financial risk management

The Group is exposed to a variety of financial risks which result from both its operating and investing risks. The Group's risk management is coordinated to secure the Group's short to medium term cash flows by minimising the 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.

(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 amount. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. All of the Group's cash at 30 June 2005 was on deposit with one financial institution.

8.20 Post balance sheet events

On 29 July 2005, the Company issued 8,750,000 ordinary 2p shares for 40p each for cash by way of placing, raising £3 million, net of expenses.

Subsequent to the placing, on 29 July 2005 the Company acquired a 50 per cent. interest in Patagonia Energy Limited, a company registered in the British Virgin Islands for a consideration of US\$6 million in cash. The first tranche of US \$4.5 million has been paid. The timing of the balance payable of US\$1.5 million is dependent upon the timing of future profits of Energia del Sur S.A., a company incorporated in Argentina. Patagonia Energy Limited wholly owns directly (and indirectly through Electrica del Sur S.A.) Energia del Sur S.A., a company which owns and operates a generating plant supplying electricity in Southern Patagonia, Argentina.

On 29 July 2005 the Company increased its authorised share capital from £600,000 to £850,000 by the creation of an additional 12,500,000 shares.

**PART III
SECTION B**

ACCOUNTANTS' REPORT ON THE COMPANY

Grant Thornton Corporate Finance

Grant Thornton 

Grant Thornton UK LLP
Chartered Accountants
UK Member of
Grant Thornton International

The Directors
Rurelec PLC
Prince Consort House, 5th floor
27-29 Albert Embankment
LONDON
SE1 7TJ

13 December 2005

Dear Sirs

RURELEC PLC

We report on the financial information on Rurelec PLC set out in Part IIIA. This financial information has been prepared for inclusion in the AIM admission document dated 13 December 2005 of Rurelec PLC (the Admission Document) on the basis of the accounting policies set out in paragraph 3 of Part IIIA. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that Schedule and for no other purpose.

RESPONSIBILITIES

As described in paragraph 1.6 of Part III A, the Directors of Rurelec PLC are responsible for preparing the financial information on the basis of preparation set out in paragraphs 1.2 to 1.4 to the financial information and in accordance with International Financial Reporting Standards as adopted for use in the European Union.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

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Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

OPINION

In our opinion, the financial information gives, for the purposes of the Admission Document dated 13 December 2005, a true and fair view of the state of affairs of Rurelec PLC as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in paragraph 1 to the financial information and in accordance with International Financial Reporting Standards as adopted for use in the European Union.

DECLARATION

For the purposes of Paragraph a of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

GRANT THORNTON UK LLP

PART IV SECTION A

HISTORICAL FINANCIAL INFORMATION RELATING TO BOLIVIA INTEGRATED ENERGY LIMITED

1 Introduction

- 1.1 The historical financial information on Bolivia Integrated Energy Limited (“BIE”) set out in this Part IV A has been prepared solely for the purpose of the AIM Admission Document of Rurelec PLC and does not constitute audited statutory accounts within the meaning of Section 240 of the Companies Act 1985.
- 1.2 BIE, a company registered in the British Virgin Islands, is an intermediate holding company.
- 1.3 The historical financial information on BIE is being presented in this AIM Admission Document as BIE owns, indirectly through its wholly-owned subsidiary Guaracachi America Inc. (a company incorporated in Delaware, U.S.A.) 1,679,184 ordinary shares of par value 100 Bolivianos each in Empresa Electrica Guaracachi S.A., representing 50.00125 per cent. of the share capital of Empresa Electrica Guaracachi S.A.

Basis of preparation

- 1.3 BIE has not prepared audited accounts as, being a company registered in the British Virgin Islands, there is no statutory requirement to do so. The historical financial information set out below is based on BIE’s management accounts for the periods ended 31 December 2003, 30 June 2004, 31 December 2004 and 30 June 2005. The historical financial information for the period ended 31 December 2003 relates to the period from incorporation to 31 December 2003. No trading occurred between 22 August 2002 and 31 December 2002.
- 1.4 BIE’s historical financial information has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards, including International Accounting Standards (IAS) and Interpretations (“IFRS”) as developed and published by the International Accounting Standards Board and as adopted for use in the European Union, in order to make the historical financial information comparable with the historical financial information presented on Rurelec PLC in Part III A.
- 1.5 IFRS standards effective for accounting periods commencing on or after 1 January 2005 have been applied to all periods as if these had always been in existence, unless stated differently in the note of accounting policies.

Responsibilities

- 1.6 The historical financial information of BIE set out in this Part IV A is the responsibility of the directors of Rurelec PLC.
- 1.7 The directors of Rurelec PLC are responsible for the contents of the Admission Document in which this historical financial information is included.

2 Statutory information

- 2.1 BIE was incorporated on 22 August 2002 under the laws of the British Virgin Islands, with company number 510247.
- 2.2 BIE has an issued share capital of US\$100 comprising 100 ordinary shares with a par value of US\$1 each.

- 2.3 BIE is a wholly-owned subsidiary of Southern Integrated Energy Limited (“SIE”), a company incorporated in the British Virgin Islands.
- 2.4 SIE is a wholly owned subsidiary of Independent Power Corporation PLC, a company incorporated in England and Wales.
- 2.5 Independent Power Corporation PLC acquired 100 per cent. of SIE from Integrated Energy Limited on 15 February 2005 for a total consideration of US\$25 million.

3 Principal accounting policies

3.1 Overall considerations

The significant accounting policies that have been used in the preparation of this historical financial information are summarised below. The historical financial information has been prepared on the historical cost basis. It should be noted that accounting estimates and assumptions are used in preparation of the financial information. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3.2 Income and expense recognition

All income and expenses are reported on an accruals basis.

3.3 Cash and cash equivalents

BIE has no cash or cash equivalents. All of BIE’s transactions are recorded through BIE’s inter-company account with its immediate parent company.

3.4 Financial liabilities

BIE’s financial liabilities comprise deferred consideration for the acquisition of its subsidiary and a loan from its parent undertaking. Financial liabilities are initially recorded at their nominal value and subsequently measured at amortised cost.

3.5 Investment in subsidiaries

Subsidiaries are all entities over which BIE has the power to control the financial and operating policies. BIE obtains and exercises control through voting rights.

Investments in subsidiaries are recorded at cost

3.6 Dividends

Dividends received and paid are recorded when the distributions to shareholders have been approved by the shareholders prior to the balance sheet date.

3.7 Equity

- a) Share capital is determined using the nominal value of shares that have been issued.
- b) Retained earnings include all current and prior period results as determined in the income statement, less dividends paid.

4 Income statements

	<i>Note</i>	<i>Period ended</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>Year ended</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>6 months ended</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>	<i>6 months ended</i> <i>30 June</i> <i>2004</i> <i>\$'000</i>
Finance costs	8.2	(22)	(379)	(45)	(201)
Dividends received	8.3	—	958	1,904	958
Result for the period before tax		(22)	579	1,859	757
Tax income/(expense)	8.4	—	—	—	—
Net result for period		<u>(22)</u>	<u>579</u>	<u>1,859</u>	<u>757</u>

5 Statements of changes in equity

	<i>Note</i>	<i>Share capital</i> <i>\$'000</i>	<i>Retained earnings</i> <i>\$'000</i>	<i>Total equity</i> <i>\$'000</i>
On incorporation		—	—	—
Issue of shares	8.6	—	—	—
Net result for the period		—	(22)	(22)
Balance at 31 December 2003		—	(22)	(22)
Net result for the year		—	579	579
Dividend paid	8.3	—	(557)	(557)
Balance at 31 December 2004		—	—	—
Net result for the period		—	1,859	1,859
Dividend paid	8.3	—	(1,859)	(1,859)
Balance at 30 June 2005		—	—	—

6 Balance sheets

	<i>Note</i>	<i>As at 31 December 2003 \$'000</i>	<i>As at 31 December 2004 \$'000</i>	<i>As at 30 June 2005 \$'000</i>	<i>As at 30 June 2004 \$'000</i>
Assets					
Non-current					
Fixed asset investment	8.5	10,000	10,000	10,000	10,000
		<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Current assets					
		–	–	–	–
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total assets		<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Equity attributable to the shareholders of BIE					
Called-up share capital	8.6	–	–	–	–
Retained earnings		(22)	–	–	–
		<u>(22)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total equity		<u>(22)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Liabilities					
Non-current					
Other liabilities	8.7	9,000	6,000	10,000	4,777
		<u>9,000</u>	<u>6,000</u>	<u>10,000</u>	<u>4,777</u>
Current					
Other liabilities	8.7	1,022	4,000	–	5,223
		<u>1,022</u>	<u>4,000</u>	<u>–</u>	<u>5,223</u>
Total liabilities		<u>10,022</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Total equity and liabilities		<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>

7 Statement of cash flows

	<i>Note</i>	<i>Period ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>	<i>6 months ended 30 June 2004 \$'000</i>
Operating activities					
Result for the period before tax		(22)	579	1,859	757
Adjustments (see below)		22	(579)	(1,859)	(757)
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total operating activities		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net (decrease) / increase in cash and cash deposits		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Cash and cash deposits at beginning of period		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Cash and cash deposits at end of period		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

Adjustments:

BIE has no cash at bank or bank borrowings. All of BIE's transactions are recorded through the inter-company account with SIE. Accordingly, all of BIE's transactions are non-cash items.

8 Notes to the financial information

8.1 Principal activity

BIE is an intermediary holding company. BIE's only asset is its 100 per cent. ownership of Guaracachi America Inc., which owns 50.00125 per cent. of Empresa Electrica Guaracachi S.A., an electricity generation company located in Bolivia.

8.2 Finance costs

	<i>Period ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>	<i>6 months ended 30 June 2004 \$'000</i>
Interest expense arising from deferred consideration payable	22	379	45	201
Total	<u>22</u>	<u>379</u>	<u>45</u>	<u>201</u>

The deferred consideration (see note 8.5) arising on BIE's purchase of Guaracachi America Inc. carried interest at 8 per cent. per annum.

8.3 Dividends

The dividends received represent dividends from BIE's wholly-owned subsidiary, Guaracachi America Inc. which in turn represents dividends received by Guaracachi America Inc. from EGSA. The dividends paid represent dividends declared and paid during the periods to BIE's parent undertaking.

8.4 Tax income/expense

BIE is not liable to any tax on income.

8.5 Fixed asset investment

The fixed asset investment comprises the cost of acquiring 100 per cent. of the issued share capital of Guaracachi America Inc., a company incorporated in Delaware, USA, that was acquired on 11 December 2003 for US\$10 million. Under the terms of the purchase agreement, US\$5 million was paid on completion. The balance of US\$5 million was paid as follows - US\$750,000 on 16 August 2004, US\$250,000 on 31 December 2004 and US\$4 million on 21 February 2005. Interest at 8 per cent. was paid on the deferred consideration owing. SIE paid all of these amounts on behalf of BIE.

8.6 Share capital

The authorised share capital of BIE is US\$50,000 divided into 50,000 shares with a par value of US\$1 each.

The issued share capital of BIE is US\$100, comprising 100 shares of US\$1 each.

8.7 Other liabilities

	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>	<i>As at</i> <i>30 Jun</i> <i>2004</i> <i>\$'000</i>
Due to immediate parent company	5,000	6,000	10,000	4,777
Deferred consideration and interest	5,022	4,000	–	5,223
Total	<u>10,022</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Less: included in current liabilities	(1,022)	(4,000)	–	(5,223)
Total - non current portion	<u>9,000</u>	<u>6,000</u>	<u>10,000</u>	<u>4,777</u>

8.8 Fair values

BIE considers that the fair value of its investment in Guaracachi America Inc. is US\$35 million as at 30 June 2005 due to the value of the investment held by Guaracachi America Inc. in Empresa Eléctrica Guaracachi S.A.

8.9 Financial risk management

BIE is exposed to a variety of financial risks which result from its investment in Guaracachi America Inc. The most significant risk to which BIE is exposed is foreign currency risk since BIE's only asset is its indirect 50.00125 per cent. investment in Empresa Eléctrica Guaracachi S.A., a company with trading operations based in Bolivia. As a result the value of BIE's investment is dependent, to an extent, upon exposure to fluctuations in the value of the Boliviano.

BIE has no interest rate, or liquidity or credit risk as BIE has no financial assets or liabilities.

**PART IV
SECTION B**

**ACCOUNTANTS' REPORT ON BOLIVIA INTEGRATED
ENERGY LIMITED**

Grant Thornton UK LLP
Chartered Accountants
UK Member of
Grant Thornton International

Grant Thornton 

The Directors
Rurelec PLC
Prince Consort House, 5th floor
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LONDON
SE1 7TJ

13 December 2005

Dear Sirs

BOLIVIA INTEGRATED ENERGY LIMITED

We report on the financial information on Bolivia Integrated Energy Limited set out in Part IV A. This financial information has been prepared for inclusion in the AIM admission document dated 13 December 2005 of Rurelec PLC (the Admission Document) on the basis of the accounting policies set out in paragraph 3 of Part IV A. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that Schedule and for no other purpose.

RESPONSIBILITIES

As described in paragraph 1.6 of Part IV A, the Directors of Rurelec PLC are responsible for preparing the financial information on the basis of preparation set out in paragraphs 1.3 to 1.5 to the financial information and in accordance with International Financial Reporting Standards as adopted for use in the European Union.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

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Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

OPINION

In our opinion, the financial information gives, for the purposes of the Admission Document dated 13 December 2005, a true and fair view of the state of affairs of Bolivia Integrated Energy Limited as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in paragraph 1 to the financial information and in accordance with International Financial Reporting Standards as adopted for use in the European Union.

DECLARATION

For the purposes of Paragraph a of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

GRANT THORNTON UK LLP

PART V SECTION A

HISTORICAL FINANCIAL INFORMATION RELATING TO EMPRESA ELÉCTRICA GUARACACHI S.A.

1 Introduction

1.1 The historical financial information on Empresa Eléctrica Guaracachi S.A. (“EGSA”) set out in this Part VA has been prepared solely for the purpose of the AIM Admission Document of Rurelec and does not constitute audited statutory accounts within the meaning of Section 240 of the Companies Act 1985.

1.2 EGSA is a Bolivian entity which generates and sells electricity to the wholesale market in Bolivia, operating from three separate plants.

Basis of preparation

1.3 The historical financial information set out below is based on the audited financial statements of EGSA for the years ended 31 December 2002, 31 December 2003 and 31 December 2004 and the six months ended 30 June 2005, after making such adjustments as considered necessary.

1.4 The audited financial statements of EGSA for the three years ended 31 December 2004 were prepared under the historical cost convention and in accordance with generally accepted accounting principals in Bolivia (Bolivian GAAP). EGSA will not be adopting International Financial Reporting Standards, including International Accounting Standards (IAS) and Interpretations (“IFRS”) as developed and published by the International Accounting Standards Board in its next set of audited annual financial statements. However, as Rurelec PLC will be adopting IFRS as adopted for use in the European Union in its next set of consolidated financial statements, the historic financial information on EGSA set out in this Part VA has been re-presented in accordance with IFRS in order to make the historical financial information on EGSA comparable with the historical financial information presented on Rurelec in Part IIIA. The audited financial statements for the six months ended 30 June 2005 were prepared under IFRS.

1.5 IFRS standards effective for accounting periods commencing on or after 1 January 2005 have been applied to all periods as if these had always been in existence, unless stated differently in the note of accounting policies, using a transition date of 1 January 2002.

Responsibilities

1.6 The historical financial information of EGSA set out in this Part VA is the responsibility of the Directors of Rurelec PLC.

1.7 The Directors of Rurelec PLC are responsible for the contents of the Admission Document in which this historical financial information is included.

2 Statutory information

2.1 EGSA was incorporated on 19th October 1995 under the laws of Bolivia following the privatisation and re-capitalisation of three thermo electrical plants which were formerly owned by Empresa Nacional de Electricidad (ENDE).

EGSA is registered at the Bolivian Commerce Department under registration number 07-037168-03. EGSA’s shares are listed on the Bolivian Stock Exchange.

2.2 *Share capital*

The total authorised share capital of EGSA at 30 June 2005 was US\$140,371,018 comprising 6,716,568 ordinary shares with a par value of Bs100 each. The issued share capital of EGSA at 30 June 2005 was 3,358,284 ordinary shares of Bs100 each.

Guaracachi America Inc. (a company incorporated in Delaware U.S.A.) owns 1,679,184 ordinary shares of Bs100 each, representing 50.00125 per cent. of the issued share capital.

Guaracachi America Inc. is a wholly-owned subsidiary of Bolivia Integrated Energy Limited (BIE), a company incorporated in the British Virgin Islands. BIE is an indirect wholly owned subsidiary of Independent Power Corporation PLC, a company incorporated in England and Wales.

3 **Principal accounting policies**

3.1 *Overall considerations*

The significant accounting policies that have been used in the preparation of this historical financial information are summarised below. The historical financial information has been prepared on the historical cost basis. It should be noted that accounting estimates and assumptions are used in preparation of the financial information. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The significant estimates made by management relate to the carrying value of the employee indemnity provision (see note 8.22), the impairment provision for obsolete inventories (see note 8.13), the disclosed fair value estimates for EGSA's long-term financial obligations (see note 8.24) and the depreciation expense and residual value of fixed assets (see note 3.4).

3.2 *Segmental reporting*

The directors do not consider that any separate business or geographic segment reporting disclosures are required or appropriate as all of EGSA's activities arose from one business activity conducted in one geographic area.

3.3 *Income and expense recognition*

EGSA has two material revenue streams, energy sales and capacity sales, both of which are derived from the same fixed assets.

Revenues from energy sales relate to the sale of electricity generated at spot prices, net of VAT. Sales of electricity are recognised in the accounting period in which the quantities of energy are delivered to the customers at the sale point determined by the regulator. EGSA bill its customers (distribution companies) for electricity at the Application Node Prices determined by the Bolivian Electricity Superintendency and books this amount as a receivable to be collected from customers. The difference between the spot price at which the electricity is sold and the Application Node Price used for billing is booked as a debit or credit to the stabilisation fund asset or liability (see Note 8.25).

Revenues from capacity sales relate to compensation for power capacity, being compensation for keeping power plants available for dispatch into the grid as required. These fees are set by the regulator in Bolivia and are recognised as notified by the regulator.

Operating expenses are recognised in the income statement upon utilisation of the goods or service or at the date of origin. All other income and expenses are reported on an accruals basis.

3.4 *Property, plant and equipment*

Property, plant and equipment includes land and buildings, generation equipment and other fixtures and fittings. Property, plant and equipment contributed by ENDE under the framework privatisation process are included at amounts approved by DINE (the Bolivian electricity regulator until 31 December 1995) less depreciation. Subsequent additions are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful economic life. The useful lives of property, plant and equipment can be summarised as follows:

Buildings	over 40 years, straight line
Electricity generation equipment:	
(a) up to 31 December 2003	over 15 to 20 years, straight line
(b) from 1 January 2004	operating hours
Other	over 5 years, straight line

Land is not depreciated as no finite useful life for land can be determined.

EGSA changed its methodology for allocating depreciation as from 1 January 2004 from a straight line basis to a method based on operating hours following a reassessment of its depreciation methodology during 2004. Management consider that the new methodology better approximates the pattern in which the assets' remaining future economic benefits are expected to be consumed due to the fact that the new methodology shows a direct relationship between operating revenues and depreciation expense, improving the comparability of the operating results and the financial position with similar entities. As required by IAS 16 "Property, Plant and Equipment", the change in depreciation method has been accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Property, plant and equipment is subject to impairment testing. The individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying value of an asset is written down to its recoverable amount if the carrying value is estimated to be greater than its estimated recoverable amount.

3.5 *Foreign currency translation*

The financial information is presented in US dollars, which has been determined as the functional currency of EGSA. EGSA also maintains its records in Bolivianos (the national currency of Bolivia) for statutory purposes.

Foreign currency transactions are translated into the functional currency of EGSA 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 monetary assets and liabilities at year-end exchange rates are recognised and separately disclosed in the income statement.

3.6 *Financial instruments*

EGSA's financial instruments are cash and cash equivalents, trade and other receivables, trade and other payables, bank borrowings and other financial obligations, which are recorded at fair value on recognition, save for the financial obligations set out in note 8.24 which have been recorded at their historic values. These financial obligations arose from the acquisition by EGSA of the trade and assets of Empresa Nacional de Electricidad (ENDE), accounted for as a business combination. The financial obligations were initially recognised at the amount of the future principal payments due under Bolivian GAAP. EGSA has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred prior to the date of transition to IFRS (as set out in the Basis of preparation paragraph) and the carrying value of the assets and liabilities assumed in the business combination (including the financial obligations) has been treated as their deemed cost under IFRS.

EGSA has not entered into any derivative financial instruments for hedging or trading purposes.

3.7 *Cash and cash equivalents*

Cash and cash equivalents include cash at bank and in hand as well as short term liquid investments such as bank deposits.

3.8 *Financial assets*

EGSA's financial assets include cash and financial instruments such as receivables. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when EGSA provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any impairment is recognised in profit or loss.

Trade receivables are provided against if objective evidence is received that EGSA 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 future cash flows.

3.9 *Financial liabilities*

EGSA's financial liabilities are trade and other payables, bank borrowings, and the other financial obligations as set out in note 8.24. Financial liabilities are recognised when the Company becomes a party to the contractual agreements of the instrument. Trade payables are initially recognised at their nominal value and subsequently measured at amortised cost less settlement payments.

Bank loans are initially recognised at proceeds received, net of direct issue costs. Finance charges are charged to profit or loss on an accruals basis using the effective interest method.

Dividend distributions to shareholders are included in 'other short term financial liabilities' when they have been approved by the shareholders' meeting prior to the balance sheet date.

3.10 *Equity*

- (a) Share capital is determined using the nominal value of shares that have been issued.
- (b) Share premium includes any premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.
- (c) Other reserves comprise legal reserves, in accordance with Bolivian Commerce Code, and special reserves determined by shareholders in shareholder meetings.
- (d) Retained earnings include all current and prior period results as determined in the income statement, plus or minus transfers from other reserves as approved by the shareholders under Bolivian Commerce Code and dividends paid.

3.11 *Deferred tax*

Current income tax assets and/or 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 year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

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 information with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised in conjunction with goodwill. This applies also to temporary differences associated with shares in subsidiaries and joint ventures if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. 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 always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets

and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

3.12 *Employee indemnity provision and pensions*

Provisions are recognised when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably. Timing or amount of the outflow may still be uncertain.

EGSA has an obligation to employees in respect of their entitlement under Bolivian Law, after 5 years service, to one month salary per year of service. The entitlement has been accounted for as an ‘Other Long-Term Employee Benefit’ under IAS 19 ‘Employee Benefits’, rather than as a ‘Post-Employment Benefit’ as employees are entitled to receive payment after the end of each 5-year period of employment and typically request such payments in these intervals. The liability recognised in the balance sheet is the present value of the obligation at the balance sheet date. The provision is calculated on an individual employee basis using a) the estimated dates of payment, b) a projected 4.5 per cent. increase in salaries per annum and c) a discount factor of 12 per cent. per annum.

EGSA does not contribute to any pension plans for employees.

4 **Income statements**

		<i>Year ended 31 December</i>	<i>Year ended 31 December</i>	<i>Year ended 31 December</i>	<i>6 months ended 30 June</i>
		<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Revenue	8.1	27,354	27,688	25,632	14,594
Cost of sales	8.2	(21,651)	(24,781)	(18,469)	(9,473)
Gross profit		5,703	2,907	7,163	5,121
Administrative expenses	8.3	(1,544)	(1,493)	(1,693)	(1,085)
Trading result		4,159	1,414	5,470	4,036
Other income	8.4	1,305	98	404	63
Income from sale of parts	8.5	–	–	2,500	–
Turbine repair costs	8.5	–	(1,850)	(3,565)	–
Foreign currency (losses)/gains		(319)	(566)	(1,211)	1,482
Finance costs	8.6	(1,499)	(1,169)	(1,000)	(450)
Finance income	8.7	485	319	244	146
Result for the period before tax		4,131	(1,754)	2,842	5,277
Tax income/(expense)	8.8	146	273	159	(909)
Net result for period		4,277	(1,481)	3,001	4,368
Earnings/(loss) per share (\$ per share)					
Basic and diluted	8.9	1.27	(0.44)	0.89	1.30

5 Statements of changes in equity

		<i>Share capital</i>	<i>Share premium</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Non assigned earnings</i>	<i>Total equity</i>
	<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
At 1 January 2002		70,186	12,222	1,164	9,789	–	93,361
Dividend	8.10	–	–	–	(7,990)	–	(7,990)
Transfer to legal reserve	8.20	–	–	497	(497)	–	–
Transfer to special reserve	8.20	–	–	1,523	(1,523)	–	–
Net result for year		–	–	–	4,277	–	4,277
Balance at 31 December 2002		70,186	12,222	3,184	4,056	–	89,648
Dividend	8.10	–	–	–	(1,760)	–	(1,760)
Transfer to non- assigned reserve	8.21	–	–	–	(2,166)	2,166	–
Transfer to legal reserve	8.20	–	–	206	(206)	–	–
Net result for year		–	–	–	(1,481)	–	(1,481)
Balance at 31 December 2003		70,186	12,222	3,390	(1,557)	2,166	86,407
Transfer from legal reserve	8.20	–	–	(1,090)	1,090	–	–
Dividend	8.10	–	–	–	–	(2,166)	(2,166)
Transfer from special reserve	8.20	–	–	(1,523)	1,523	–	–
Other adjustment		–	–	–	4	–	4
Net result for year		–	–	–	3,001	–	3,001
Balance at 31 December 2004		70,186	12,222	777	4,061	–	87,246
Transfer to legal reserve	8.20	–	–	151	(151)	–	–
Dividend	8.10	–	–	–	(4,374)	–	(4,374)
Net result for period		–	–	–	4,368	–	4,368
Balance at 30 June 2005		70,186	12,222	928	3,904	–	87,240

6 Balance sheets

		<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>As at</i>
		<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>30 June</i>
		<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Assets					
Non-current					
Property, plant and equipment	8.12	87,740	83,720	80,461	78,674
Spare parts and materials	8.13	5,494	4,599	4,593	10,396
Deferred tax asset	8.14	221	495	1,056	510
Deferred charges	8.15	–	–	471	1,079
Other investments		33	33	33	33
		<u>93,488</u>	<u>88,847</u>	<u>86,614</u>	<u>90,692</u>
Current assets					
Trade and other receivables	8.16	8,065	9,101	8,310	4,794
Cash and cash equivalents	8.17	19,119	15,544	20,727	17,162
		<u>27,184</u>	<u>24,645</u>	<u>29,037</u>	<u>21,956</u>
Total assets		<u>120,672</u>	<u>113,492</u>	<u>115,651</u>	<u>112,648</u>
Equity attributable to the shareholders of EGSA					
Called-up share capital	8.18	70,186	70,186	70,186	70,186
Share premium	8.19	12,222	12,222	12,222	12,222
Other reserves	8.20	3,184	3,390	777	928
Retained earnings	8.21	4,056	609	4,061	3,904
Total equity		<u>89,648</u>	<u>86,407</u>	<u>87,246</u>	<u>87,240</u>
Liabilities					
Non-current					
Employee indemnity provision	8.22	626	1,053	1,036	1,207
Deferred tax liability	8.14	–	–	402	765
Long term financial obligations	8.24	11,728	13,011	13,080	11,284
Bank borrowings	8.23	9,281	5,156	4,254	3,480
		<u>21,635</u>	<u>19,220</u>	<u>18,772</u>	<u>16,736</u>
Current					
Stabilisation fund	8.25	–	485	3,345	2,616
Income tax liability	8.26	1,208	–	965	536
Trade and other payables	8.27	2,483	2,383	2,839	3,133
Short term financial obligations	8.24	1,573	872	938	841
Bank borrowings	8.23	4,125	4,125	1,546	1,546
		<u>9,389</u>	<u>7,865</u>	<u>9,633</u>	<u>8,672</u>
Total liabilities		<u>31,024</u>	<u>27,085</u>	<u>28,405</u>	<u>25,408</u>
Total equity and liabilities		<u>120,672</u>	<u>113,492</u>	<u>115,651</u>	<u>112,648</u>

7 Statement of cash flows

		<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Operating activities					
Result for the period before tax		4,130	(1,754)	2,842	5,277
Adjustments	8.11	7,361	8,737	4,103	637
Change in trade and other receivables		(266)	(1,035)	(1,260)	3,263
Change in trade and other payables		(276)	(61)	474	361
Change in materials in store and deferred charges		1,037	745	(43)	(6,381)
Change in stabilisation fund		–	485	2,860	(729)
Change in other taxes		1,208	–	965	760
Tax paid		(545)	(1,209)	–	(965)
Total operating activities		<u>12,649</u>	<u>5,908</u>	<u>9,941</u>	<u>2,223</u>
Investing activities					
Additions to property, plant and equipment	8.12	(184)	(1,135)	(56)	(16)
Proceeds from disposals of plant, property and equipment		200	–	2,601	158
Interest received		485	319	244	146
Total investing activities		<u>501</u>	<u>(816)</u>	<u>2,789</u>	<u>288</u>
Financing activities					
Proceeds from bank loans		16,500	–	–	–
Repayment of bank loans		(21,906)	(5,698)	(4,368)	(1,183)
Interest paid		(1,454)	(1,209)	(1,013)	(519)
Dividends paid		(7,990)	(1,760)	(2,166)	(4,374)
Total financing activities		<u>(14,850)</u>	<u>(8,667)</u>	<u>(7,547)</u>	<u>(6,076)</u>
Net (decrease)/increase in cash and cash deposits		(1,700)	(3,575)	5,183	(3,565)
Cash and cash deposits at beginning of period	8.17	<u>20,819</u>	<u>19,119</u>	<u>15,544</u>	<u>20,727</u>
Cash and cash deposits at end of period	8.17	<u>19,119</u>	<u>15,544</u>	<u>20,727</u>	<u>17,162</u>

8 Notes to the financial information

8.1 Principal activity and revenue

EGSA is an electricity generation company located in Bolivia. It generates and sells electricity to the wholesale electricity market.

All of EGSA's revenues arise from activities in Bolivia and from the same generation assets. Accordingly, management consider no business or geographic segment reporting is appropriate.

EGSA has two material revenue streams, energy sales and capacity sales. Revenues from energy sales relate to the sale of electricity generated at spot prices, net of VAT. Revenues from capacity sales relate to compensation for keeping power plants available for dispatch into the grid as required. An analysis of revenue is shown below.

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Energy sales	12,124	12,297	13,646	8,435
Capacity sales	15,230	15,391	11,986	6,159
Total revenue	<u>27,354</u>	<u>27,688</u>	<u>25,632</u>	<u>14,594</u>

8.2 Cost of sales

The nature of cost of sales incurred was as follows:

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Gas consumption	10,962	13,845	10,363	5,435
Depreciation	5,526	5,065	3,140	1,611
Obsolescence provision	150	150	(422)	(1)
Maintenance	1,000	1,003	718	27
Salaries	689	700	758	397
Energy transportation	1,079	1,404	1,048	621
Transactions tax	948	972	984	479
Insurance	757	929	980	451
Other costs	540	713	900	453
Total	<u>21,651</u>	<u>24,781</u>	<u>18,469</u>	<u>9,473</u>

8.3 Administrative expenses

The nature of administrative costs incurred was as follows:

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Salaries	632	636	601	392
Depreciation	119	89	87	36
Financial transaction tax	–	–	114	127
Other costs	793	768	891	530
	<u>1,544</u>	<u>1,493</u>	<u>1,693</u>	<u>1,085</u>

8.4 Other income

Included in other income in 2002 is US\$1,175,000 relating to the profit arising on the sale of turbines GCH-3 and GCH-5 for US\$2,280,000. On 21 February 2003, the Public Ministry of the Republic of Bolivia initiated an investigation into the regularity of the sale of these turbines. This investigation process concluded favourably to EGSA on 27 August 2003 and was subsequently ratified in favour of EGSA on 17 September 2003.

Included in other income in 2004 is US\$281,000 relating to the profit arising on the sale of two dual-fuel motors to Rurelec PLC for US\$550,000 (see note 8.28).

8.5 Turbine repair costs

During 2003 one of EGSA's turbines, GCH-9, suffered a technical malfunction resulting in EGSA incurring exceptional repair costs estimated by management at US\$1,850,000, net of insurance claims, in 2003. Following the conclusion of the repair work and resolution of the insurance claims, a further US\$3,565,000 was expensed in 2004. The exceptional expense in 2004 is offset by US\$2,500,000 of consideration received from the sale of parts recovered during the repair work to turbine GCH-9, which EGSA sold with the consent of the insurance company.

8.6 Finance costs

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Interest expense arising from:				
(a) long term borrowings and other financial obligations	1,225	911	847	382
(b) short term borrowings	274	258	153	68
Total	<u>1,499</u>	<u>1,169</u>	<u>1,000</u>	<u>450</u>

8.7 Finance income

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Interest income arising from short term cash deposits	485	319	244	146

8.8 Tax income/(expense)

(a) Corporate income tax

The relationship between the expected corporate tax expense based on the actual tax rate in Bolivia (25 per cent.) and the tax charge/credit in the income statements is as follows:

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Result for the period before tax	4,131	(1,754)	2,842	5,277
Tax rate	25%	25%	25%	25%
Expected tax (expense)/income	(1,033)	438	(711)	(1,319)
Adjustments:				
Transaction tax paid	(228)	(217)	(79)	(36)
Foreign income	102	70	160	35
Stabilisation fund	–	(121)	(718)	178
Obsolescence provision	(38)	(38)	–	–
Capital allowances	–	–	402	371
Loss carry forward	–	(48)	–	–
Loss from 2003	–	–	48	–
Other	(28)	(84)	(32)	235
Total adjustments	(192)	(438)	(219)	783
Less: transaction tax treated as prepayment of liability	1,225	–	930	536
Actual expense/income	–	–	–	–

No charge or credit is shown in the income statements for EGSA's corporate tax expense as the tax paid is treated as an advance payment of transaction tax (3% of billings) arising over the 12 month period following the payment of the corporate income tax.

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
(b) Deferred tax - relating to:				
Provision for obsolescence	130	38	(105)	–
Bonus provision	16	(16)	–	–
Stabilisation fund	–	122	714	(577)
Unused tax losses	–	47	(48)	–
Accelerated capital allowances	–	–	(402)	(363)
Employee indemnity provision	–	82	–	31
Tax income/(expense)	146	273	159	(909)

8.9 Earnings/(loss) per share

	<i>Year ended 31 December 2002</i>	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2004</i>	<i>6 months ended 30 June 2005</i>
Basic and diluted (\$ per share)	1.27	(0.44)	0.89	1.30

Basic and diluted earnings per share have been calculated by dividing the net result of EGSA for the period by the weighted average number of ordinary shares in issue during the relevant period.

Net result for the period (\$'000)	<u>4,277</u>	<u>(1,481)</u>	<u>3,001</u>	<u>4,368</u>
Weighted average number ('000) of shares	<u>3,358</u>	<u>3,358</u>	<u>3,358</u>	<u>3,358</u>

There is no difference between the Basic calculation and the Diluted calculation since there are no other equity instruments other than the ordinary shares.

8.10 Dividends

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Dividends paid in the period	<u>7,990</u>	<u>1,760</u>	<u>2,166</u>	<u>4,374</u>

Dividends paid amounted to US\$1.35 per share for the six months to 30 June 2005 (2004: US\$0.64, 2003:US\$0.52, 2002:US\$2.36)

8.11 Cash flow statement

The following non cash flow adjustments have been made to the pre-tax result for the period to arrive at operating cash flow:

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Depreciation	5,646	5,155	3,046	1,644
Interest received	(485)	(319)	(244)	(146)
Interest paid	1,499	1,169	1,000	450
Change in employee indemnity provision	(79)	427	(17)	171
Obsolescence provision	150	150	(422)	(1)
Exchange losses/(gains)	1,881	2,155	1,021	(1,481)
Profit on disposals of plant	(1,251)	–	(281)	–
Total	<u>7,361</u>	<u>8,737</u>	<u>4,103</u>	<u>637</u>

8.12 Property, plant and equipment

	<i>Land and buildings</i> \$'000	<i>Plant and equipment</i> \$'000	<i>Other</i> \$'000	<i>Total</i> \$'000
Cost - 1 January 2002	8,118	188,955	1,479	198,552
Additions	1	–	183	184
Disposals	–	(17,552)	(30)	(17,582)
Cost - 31 December 2002	8,119	171,403	1,632	181,154
Additions	–	1,023	112	1,135
Cost - 31 December 2003	8,119	172,426	1,744	182,289
Additions	–	13	43	56
Disposals	–	(4,480)	(4)	(4,484)
Cost - 31 December 2004	8,119	167,959	1,783	177,861
Additions	5	–	11	16
Disposals	(191)	–	(74)	(265)
Cost - 30 June 2005	7,933	167,959	1,720	177,612
Depreciation - 1 January 2002	4,884	99,181	805	104,870
Charge for year	178	5,281	187	5,646
Disposals	–	(17,071)	(31)	(17,102)
Depreciation - 31 December 2002	5,062	87,391	961	93,414
Charge for year	178	4,810	167	5,155
Depreciation - 31 December 2003	5,240	92,201	1,128	98,569
Charge/(adjustment) for year	138	2,688	222	3,048
Disposals	–	(4,213)	(4)	(4,217)
Depreciation - 31 December 2004	5,378	90,676	1,346	97,400
Charge for period	86	1,476	82	1,644
Disposals	(33)	–	(73)	(106)
Depreciation - 30 June 2005	5,431	92,152	1,355	98,938
Net book values: 31 December 2002	3,057	84,012	671	87,740
31 December 2003	2,879	80,225	616	83,720
31 December 2004	2,741	77,283	437	80,461
30 June 2005	2,502	75,807	365	78,674

Modifications to a turbine during 2003 resulted in technological improvements leading to increased efficiency. As permitted by IFRS (IAS) 16, EGSA capitalised the cost of these improvements (2004:US\$13,000, 2003:US\$1,023,000).

EGSA has given a fixed legal charge over a GCH 9 turbine as a guarantee in respect of the loan from Banco de Credito de Bolivia S.A. The net book value of this turbine at the balance sheet dates was US\$26,282,000 at 30 June 2005 (2004: US\$26,746,000, 2003: US\$27,671,000, 2002: US\$29,537,000).

As noted in the principal accounting policies above, EGSA changed its method of depreciating electricity generation equipment from a straight line method to an operating hours method. Both methods are accepted accounting practices. If EGSA had continued to use the straight line method, the depreciation charge in the year to 31 December 2004 would have been increased by \$2,112,000.

8.13 Spare parts and materials

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Spare parts in store	5,563	4,895	4,571	4,279
Materials in store	454	377	273	260
Spare parts in transit	–	–	–	6,107
Less: provisions	(523)	(673)	(251)	(250)
Total	5,494	4,599	4,593	10,396

8.14 Deferred tax

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
(a) Deferred tax asset	221	495	1,056	510
Arising in respect of:				
Obsolescence provisions	146	168	63	63
Stabilisation provision	–	121	836	259
Tax losses	–	49	–	–
Employee indemnity provision	75	157	157	188
(b) Deferred tax liability	–	–	402	765
Arising in respect of:				
Accelerated capital allowances	–	–	402	765

8.15 Deferred charges

Deferred charges principally represents costs associated with two projects under development - a) a proposed major investment in a combined cycle upgrade project and b) a proposed investment in a new plant for the export of electricity.

8.16 Trade and other receivables

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Trade receivables	3,835	3,192	3,393	2,841
Prepaid taxes	1,462	586	965	1,430
Value added tax	142	603	281	299
Prepaid insurance	451	620	537	–
Due from sale of turbines	2,052	2,052	–	–
Insurance claim receivable	–	1,986	–	–
Receivable from sale of parts	–	–	2,500	–
Due from Rurelec PLC	–	–	577	–
Other receivables	123	62	57	224
Total	8,065	9,101	8,310	4,794

The amount due from the sale of turbines at 31 December 2002 and 31 December 2003 represents the unpaid amount of the consideration for the sale of turbines GCH-3 and GCH-5 in 2002 discussed in note 8.4. The amount was received on 13 January 2004 following the conclusion of the investigation by the Public Ministry of the Republic of Bolivia in 2003.

The amount due from the insurance claim at 31 December 2003 represented management's estimate of insurance proceeds receivable in respect of the technical problems with the GCH-9 turbine discussed in note 8.5.

8.17 Cash and cash equivalents

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
(a) Cash at bank	19,119	15,544	20,727	8,301
(b) Cash on deposit	—	—	—	8,861
Total	<u>19,119</u>	<u>15,544</u>	<u>20,727</u>	<u>17,162</u>

EGSA's cash is held in interest bearing instant access accounts with both Bolivian and highly rated non-Bolivian banks. At 31 December 2002 and 31 December 2003, EGSA had the equivalent of US\$9,447,604 and US\$10,021,378 respectively deposited in Euros to cover exchange rate risks relating to liabilities denominated in Euros. At 31 December 2004, EGSA had US\$14,277,202 deposited in US dollars. At 30 June 2005, EGSA had US\$17,054,784 in US\$ (including maturing short term deposits). The balance of the funds at each balance sheet date were held in Bolivianos.

Cash on deposit at 30 June 2005 included US\$5 million (maturing on 19 September 2005 at an interest rate of 3.22 per cent. p.a.) and US\$3,861,205 (maturing on 22 August 2005 at an interest rate of 3.29 per cent. p.a.)

EGSA is required to maintain quarterly revolving deposits in its bank account with Banco de Credito. The average balances required to be maintained were established under the contractual terms of the loan from the same bank. The balances held at the balance sheet dates were US\$333,333 on 31 December 2002, US\$666,667 on 31 December 2003, US\$257,813 on 31 December 2004 and US\$106,770 on 30 June 2005.

8.18 Share capital

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Authorised	<u>140,371</u>	<u>140,371</u>	<u>140,371</u>	<u>140,371</u>
Issued and fully paid	<u>70,186</u>	<u>70,186</u>	<u>70,186</u>	<u>70,186</u>

EGSA's authorised share capital comprises 6,716,568 ordinary shares of par value 100 Bolivianos each (equivalent to US\$140,371,018 at a historic exchange rate of US\$1: Boliviano 4.78).

EGSA's issued share capital comprises 3,358,284 ordinary shares of par value 100 Bolivianos each (equivalent to US\$70,185,509 at the historic exchange rate at date of issue of US\$1: Boliviano 4.78). All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of EGSA.

8.19 Share premium

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Share premium	12,222	12,222	12,222	12,222

The share premium represents the excess paid for shares over the par value of the shares.

8.20 Other reserves

	<i>Legal</i> <i>reserve</i> <i>\$'000</i>	<i>Special</i> <i>reserve</i> <i>\$'000</i>	<i>Total</i> <i>\$'000</i>
At 1 January 2002	1,164	–	1,164
Transfer from retained earnings	497	1,523	2,020
Balance at 31 December 2002	1,661	1,523	3,184
Transfer from retained earnings	206	–	206
Balance at 31 December 2003	1,867	1,523	3,390
Transfer to retained earnings	–	(1,523)	(1,523)
Transfer to retained earnings	(1,090)	–	(1,090)
Balance at 31 December 2004	777	–	777
Transfer from retained earnings	151	–	151
Balance at 30 June 2005	928	–	928

a) Legal reserve:

In accordance with the Bolivian Commerce Code and with EGSA's articles, subsequent to a year end 5 per cent. of the net income for the prior period must be transferred from retained earnings to a legal reserve until the legal reserve amounts to 50 per cent. of the paid in share capital. No transfer to the legal reserve was made in 2004 as the company made a loss in 2003.

On 31 July 2004, and as allowed under the Bolivian Commerce Code, the shareholders approved an absorption of US\$1,089,621 of the net loss for 2003 against the legal reserve, thereby increasing retained earnings.

b) Special reserve:

On 14 March 2002, the shareholders approved the establishment of a special reserve of US\$1,522,961, through a transfer from the retained earnings reserve, to cover future major maintenance contingencies. During 2003, exceptional maintenance costs of US\$1,850,261 were incurred following a technical failure of one of EGSA's turbines. On 28 December 2004, the shareholders approved the reclassification of the special reserve back to the retained earnings reserve.

8.21 Retained earnings

	<i>Not-assigned earnings</i> \$'000	<i>Retained earnings</i> \$'000	<i>Total</i> \$'000
At 1 January 2002	–	9,789	9,789
Dividend paid	–	(7,990)	(7,990)
Transfer to legal reserve	–	(497)	(497)
Transfer to special reserve	–	(1,523)	(1,523)
Net result for the year	–	4,277	4,277
Balance at 31 December 2002	–	4,056	4,056
Dividend paid	–	(1,760)	(1,760)
Transfer to legal reserve	–	(206)	(206)
Transfer to assigned earnings	2,166	(2,166)	–
Net result for the year	–	(1,481)	(1,481)
Balance at 31 December 2003	2,166	(1,557)	609
Transfer from legal reserve	–	1,090	1,090
Dividend paid	(2,166)	–	(2,166)
Transfer from special reserve	–	1,523	1,523
Other adjustment	–	4	4
Net result for the year	–	3,001	3,001
Balance at 31 December 2004	–	4,061	4,061
Dividend paid	–	(4,374)	(4,374)
Transfer to special reserve	–	(151)	(151)
Net result for the period	–	4,368	4,368
Balance at 30 June 2005	–	3,904	3,904

On 21 March 2003, the shareholders approved the transfer of US\$2,166,000 from the retained earnings reserve to a not-assigned earnings reserve which was subsequently paid out as a dividend during 2004. This reserve represented 95 per cent. of the sale proceeds of the GCH-3 and GCH-5 turbines discussed in note 8.4.

8.22 Employee indemnity provision

	<i>As at 31 December 2002 \$'000</i>	<i>As at 31 December 2003 \$'000</i>	<i>As at 31 December 2004 \$'000</i>	<i>As at 30 June 2005 \$'000</i>
Provision for employee benefits	626	1,053	1,036	1,207

Under current Bolivian legislation, employees, after five years of service, are entitled to a payment equal to one month salary per year of service. The provision is calculated on an individual employee basis using a) the estimated dates of payments, b) a projected 4.5 per cent. increase in salaries per annum and c) a discount factor of 12 per cent. per annum.

8.23 Bank borrowings

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Amount outstanding	13,406	9,281	5,800	5,026
Less: included in current liabilities	(4,125)	(4,125)	(1,546)	(1,546)
Total: non-current portion	<u>9,281</u>	<u>5,156</u>	<u>4,254</u>	<u>3,480</u>

On 13 February 2002, EGSA obtained a US\$12 million loan from Banco de Credito de Bolivia and a US\$4.5 million loan from Banco de Credito del Peru. In 2003, EGSA refinanced the loan from Banco Credito del Peru by replacing it with a matching additional loan from Banco de Credito de Bolivia. On 21 September 2004, EGSA extended the terms of the loans from Banco de Credito de Bolivia until July 2008. The interest rate on the loans was also changed from LIBOR (90days) +3.4 per cent. per annum to TRE +4 per cent. per annum, with the change in the interest rate being effective as from 26 January 2006 until the maturity of the loan. (TRE is an Average Borrowing Rate used by banks and determined by the Central Bank of Bolivia each fortnight).

The amount owing to Banco de Credito is secured by a fixed charge over one of EGSA's gas turbines. The net book values of this turbine are shown in note 8.12.

8.24 Financial obligations

The financial obligations outstanding and interest rates are as follows:

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Loan granted to ENDE by KFW 87-65-166, payable in semi-annual instalments from 30 June 1995 to 31 December 2017, interest 4.5%	4,174	4,667	4,688	4,006
Loan granted to ENDE by KFW 92-65-711, payable in semi-annual instalments from 30 June 1997 to 31 December 2022, interest 4.5%	6,577	7,484	7,669	6,627
Loan granted to ENDE by NDF 45, payable in semi-annual instalments from 24 April 1996 to 24 October 2015, interest 4.5%	1,716	1,732	1,661	1,492
Loan granted to ENDE by CAF 085-A, payable in semi-annual instalments from 27 September 1995 to 27 March 2003, interest rate determined by CAF	834	—	—	—
Total	<u>13,301</u>	<u>13,883</u>	<u>14,018</u>	<u>12,125</u>
Less: included in current liabilities	(1,573)	(872)	(938)	(841)
Total: non-current portion	<u>11,728</u>	<u>13,011</u>	<u>13,080</u>	<u>11,284</u>

On the acquisition of the business from ENDE, as part of the privatisation and recapitalisation process, EGSA signed an agreement with ENDE and the Bolivian Treasury Department whereby EGSA undertook to make a series of payments to the Treasury Department on behalf of ENDE.

The assets of EGSA are pledged as security for these obligations.

EGSA's payment obligations with respect to KFW 87-65-166 and KFW 92-65-711 are in Euros, the loans having originally been denominated in Deutschmarks. EGSA's payment obligations with respect to NDF 45 are in Special Drawing Rights. EGSA's payment obligations with respect to CAF 085-A are in US dollars. EGSA is therefore exposed to currency exchange rate movement risk on these obligations. Translation differences arising from currency exchange rate movements between balance sheet dates are taken to the Income Statement. The interest rates are fixed and accordingly EGSA is not exposed to interest rate risk on these loans.

The fixed rate of interest on these financial obligations is below the rate which would be available for loans with similar maturity profiles in these currencies in the open market. The estimated fair values of the financial obligations are as follows:

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Carrying value	13,301	13,883	14,018	12,125
Fair value	<u>9,870</u>	<u>10,131</u>	<u>10,555</u>	<u>9,485</u>

In determining the fair values, EGSA has used interest rates prevailing at the balance sheet dates 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:

	<i>As at</i> <i>31 December</i> <i>2002</i>	<i>As at</i> <i>31 December</i> <i>2003</i>	<i>As at</i> <i>31 December</i> <i>2004</i>	<i>As at</i> <i>30 June</i> <i>2005</i>
Swap rate for 15 year Euro loans	4.7%	4.7%	4.1%	3.5%
Adjustment for country and credit risk	5.0%	5.0%	5.0%	5.0%
Totals	<u>9.7%</u>	<u>9.7%</u>	<u>9.1%</u>	<u>8.5%</u>
Swap rate for 10 year US\$ loans	4.2%	4.6%	4.6%	4.3%
Adjustment for country and credit risk	5.0%	5.0%	5.0%	5.0%
Totals	<u>9.2%</u>	<u>9.6%</u>	<u>9.6%</u>	<u>9.3%</u>

8.25 Stabilisation fund

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Stabilisation fund	–	485	3,345	2,616

Under Resolution No. 014/2002 of 30 January 2002, the Superintendent of Electricity in Bolivia set up a Stabilisation Fund to stabilise the electricity tariffs that end users pay. The purpose of these funds is to help to smooth the impact on consumers of changes in spot prices. The fund represents the difference between the amount that EGSA has invoiced and the spot price revenue that has been booked and arises from the key provision of Resolution 014/2002 which provides that the average price of electricity supplied by each distributor to its customers may not vary, due to the effects of variations in spot prices, by more than 3 per cent. per semester.

The Superintendent of Electricity determines the stabilisation factors to be applied to the node price in order to establish distribution tariffs that comply with the maximum 3 per cent. variation.

The amounts in the Stabilisation Fund are adjusted by the annual interest rate applied to 30 day bank deposits in the local currency (approx. 4.4 per cent.).

8.26 Income tax liability

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Provision for corporate income tax	1,208	–	965	535

EGSA is subject to corporate income tax which is calculated by applying a rate of 25 per cent. to the net income as determined by generally accepted accounting principles in Bolivia. The net income is adjusted for certain allowances which are set out in the Bolivian tax law. The amount of corporate tax which is paid is treated by the Bolivian tax authorities as a prepayment of EGSA's transaction tax liability arising over the 12 month period following payment of the corporate income tax. If the corporate tax payable is greater than the transaction tax already paid, then the excess becomes payable.

At 31 December 2002, the tax provision amounted to US\$1,208,151. An equal amount has been recorded as prepaid taxes and included in current assets since this tax is treated as a payment on account of future transactions tax.

At 31 December 2003, no liability arose as EGSA made a loss.

At 31 December 2004, the tax provision amounted to US\$965,287. An equal amount has been recorded as prepaid taxes and included in current assets for the reasons set out above.

At 30 June 2005, the tax provision amounted to US\$535,000. An equal amount has been recorded as prepaid taxes.

8.27 Trade and other payables

	<i>As at</i> <i>31 December</i> <i>2002</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2003</i> <i>\$'000</i>	<i>As at</i> <i>31 December</i> <i>2004</i> <i>\$'000</i>	<i>As at</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Trade payables	1,834	1,759	2,139	2,554
Other taxes and benefits payable	523	472	622	498
Other accounts payable	5	70	10	13
Interest payable	121	82	68	68
	<u>2,483</u>	<u>2,383</u>	<u>2,839</u>	<u>3,133</u>

8.28 Related party transactions

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Fees				
Technical assistance - GPU Power	184	156	–	–
Technical assistance - IPOL	–	12	300	150
Special Project fees - IPC	–	–	300	195
Total	<u>184</u>	<u>168</u>	<u>600</u>	<u>345</u>
Expenses				
Administrative charges - GPU Power	21	32	–	–
Administrative expenses - IPOL	–	–	20	–
Administrative expenses - IPC	–	–	112	51
Director payments	2	–	–	–
Total	<u>23</u>	<u>32</u>	<u>132</u>	<u>51</u>

Balances owed by EGSA:

	<i>Rurelec PLC \$'000</i>	<i>GPU Power \$'000</i>	<i>IPOL \$'000</i>	<i>IPC \$'000</i>	<i>Total \$'000</i>
31 December 2002	–	21	–	–	21
31 December 2003	–	46	–	–	46
31 December 2004	–	–	–	–	–
30 June 2005	–	–	32	41	73

Balances owed to EGSA:

	<i>Rurelec PLC \$'000</i>	<i>GPU Power \$'000</i>	<i>IPOL \$'000</i>	<i>IPC \$'000</i>	<i>Total \$'000</i>
31 December 2002	–	–	–	–	–
31 December 2003	–	–	–	–	–
31 December 2004	577	–	–	–	577
30 June 2005	–	–	–	–	–

Fees and expenses were paid to GPU Power and Independent Power Operations Ltd (IPOL) in connection with services provided to EGSA under a management and administration contract. The contract with GPU Power was terminated when its parent, First Energy Inc., ceased to be an indirect controlling shareholder of EGSA. Following the change of control, IPOL entered into an administration contract on similar terms. Independent Power Corporation PLC (IPC), the parent company of IPOL, received fees in connection with the development of special projects. These services were sub-contracted to it by IPOL under the administration contract.

On 8 October 2004 Rurelec PLC acquired 100 per cent. of the equity of Energia Para Sistemas Aislados S.A. (ESA) from EGSA for US\$550,000. ESA was incorporated by EGSA in 2004 in order to facilitate the sale of 2 dual fuel motors to Rurelec PLC and did not otherwise engage in any trading activity.

Nature of relationship with EGSA

GPU Power is a wholly-owned subsidiary of First Energy Inc., the indirect controlling shareholder of EGSA until 11 December 2003.

Between 11 December 2003 and 18 February 2005 Peter Earl was both a director and President of EGSA and a director and the controlling shareholder of IPC of which IPOL is a wholly-owned subsidiary. Peter Earl was also a director of IPOL until 8 February 2005. Mike Eyre is a director of IPOL and was also a director of EGSA between 11 December 2003 and 8 June 2004. Elizabeth Shaw is a director of both IPOL and IPC and was also a director of EGSA between 11 December 2003 and 8 June 2004.

On 18 February 2005, IPC acquired an indirect controlling interest in EGSA.

Rurelec PLC and EGSA are connected by virtue of Peter Earl being a director of both companies.

8.29 Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of EGSA, directly or indirectly, including any director, whether executive or otherwise.

	<i>Year ended 31 December 2002 \$'000</i>	<i>Year ended 31 December 2003 \$'000</i>	<i>Year ended 31 December 2004 \$'000</i>	<i>6 months ended 30 June 2005 \$'000</i>
Remuneration of key personnel:				
Salary	198	180	166	125
Bonus	56	51	47	32
Indemnity provision	28	25	23	16
Total	<u>282</u>	<u>256</u>	<u>236</u>	<u>173</u>

Remuneration paid to key management personnel included salaries, social security contributions, paid annual leave and paid sick leave.

8.30 Fair values

In the opinion of the directors, there is no significant difference between the fair values of EGSA's assets and liabilities and their carrying values, except for the financial obligations set out in note 8.24.

8.31 Financial risk management

EGSA is exposed to a variety of financial risks which result from both its operating and investing risks. EGSA's risk management is coordinated to secure EGSA's short to medium term cash flows by minimising the exposure to financial markets. EGSA does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant risks to which EGSA is exposed are described below:

a) Foreign currency risk

EGSA is exposed to translation and transaction foreign exchange risk. Foreign exchange differences on retranslation of assets and liabilities are taken to the income statement.

EGSA has financial obligations denominated in US\$, SDRs and Euros whilst its operating revenues are generated in bolivianos. Accordingly EGSA has exposure to currency exchange rate fluctuations in the US\$ and Euros, though the exposure to US\$ risks are limited since EGSA's functional currency is the US\$. Until April 2004 the exposure to the Euro was minimised by the holding of cash deposits in Euros. Since April 2004 EGSA has converted the current portion of the financial obligations when due at the prevailing rate of exchange, leaving the long term portion unhedged. This policy is under continuous review.

b) Interest rate risk

EGSA's funds are invested in short term bank deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

EGSA's borrowings are at floating rate and therefore EGSA is exposed to interest rate risk. However, the risk is minimised as EGSA's deposits are generally in currencies matching the borrowings.

EGSA's long term financial obligations as described in note 8.24 are at fixed rates of interest.

c) Liquidity risk

EGSA 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 sheets (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 amount. EGSA's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. As at 30 June 2005, approximately US\$13.9 million was deposited with one financial institution in London and US\$3 million with one financial institution in Bolivia.

**PART V
SECTION B**

**ACCOUNTANTS' REPORT ON
EMPRESA ELÉCTRICA GUARACACHI S.A.**

Grant Thornton Corporate Finance

Grant Thornton 

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13 December 2005

Dear Sirs

EMPRESA ELÉCTRICA GUARACACHI SA

We report on the financial information on Empresa Eléctrica Guaracachi SA set out in Section A of Part V. This financial information has been prepared for inclusion in the AIM admission document dated 13 December 2005 of Rurelec PLC (the Admission Document) on the basis of the accounting policies set out in paragraph 3 of Part V A. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that Schedule and for no other purpose.

RESPONSIBILITIES

As described in paragraph 1.6 of Part V A, the Directors of Rurelec PLC are responsible for preparing the financial information on the basis of preparation set out in paragraphs 1.3 to 1.5 to the financial information and in accordance with International Financial Reporting Standards as adopted for use in the European Union.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement, whether caused by fraud or other irregularity or error.

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Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

OPINION

In our opinion, the financial information gives, for the purposes of the Admission Document dated 13 December 2005, a true and fair view of the state of affairs of Empresa Eléctrica Guaracachi SA as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in paragraph 1 to the financial information and in accordance with International Financial Reporting Standards as adopted for use in the European Union.

DECLARATION

For the purposes of Paragraph a of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

GRANT THORNTON UK LLP

**PART V
SECTION C**

**UNAUDITED INTERIM FINANCIAL INFORMATION ON EMPRESA
ELÉCTRICA GUARACACHI S.A.**

1 Introduction

- 1.1 This supplementary interim financial information is provided for comparative purposes.
- 1.2 It represents abridged extracts from the Income Statements, Statements of Changes in Equity, Balance Sheets and Statement of Cash Flows of EGSA for the six month periods ended 30 June 2004 and 30 June 2005.
- 1.3 The financial information in respect of the six month period to 30 June 2004 has been extracted from EGSA's management accounts. The information for the six month period to 30 June 2005 has been extracted from the audited results of EGSA for that period.

2 Basis of preparation

- 2.1 The unaudited interim financial information has been prepared on a basis consistent with the basis of preparation notes set out above in paragraph 1 of Part V A of this Admission Document.

3 Principal accounting policies

- 3.1 The unaudited interim financial information has been prepared using the same accounting policies as set out in paragraph 3 of Part V A of this Admission Document.

4 Income statements

	<i>Notes</i>	<i>Unaudited 6 months ended 30 June 2004 \$'000</i>	<i>Unaudited 6 months ended 30 June 2005 \$'000</i>
Revenue	8.1	12,083	14,594
Cost of sales		(9,758)	(9,473)
Gross profit		2,325	5,121
Administrative expenses		(740)	(1,085)
Trading result		1,585	4,036
Other income		48	63
Foreign currency gains		157	1,482
Net interest expense		(372)	(304)
Result for the period before tax		1,418	5,277
Tax income/(expense), net		98	(909)
Net result for the period		1,516	4,368

5 Statements of changes in equity

	<i>Share capital \$'000</i>	<i>Share premium \$'000</i>	<i>Other reserves \$'000</i>	<i>Retained earnings \$'000</i>	<i>Net assigned earnings reserve \$'000</i>	<i>Total equity \$'000</i>
At 1 January 2004	70,186	12,222	3,390	(1,557)	2,166	86,407
Dividend	–	–	–	–	(2,166)	(2,166)
Result for the period	–	–	–	1,516	–	1,516
Other adjustment	–	–	–	4	–	4
At 30 June 2004	<u>70,186</u>	<u>12,222</u>	<u>3,390</u>	<u>(37)</u>	<u>–</u>	<u>85,761</u>
At 1 January 2005	70,186	12,222	777	4,061	–	87,246
Transfer to legal reserve	–	–	151	(151)	–	–
Dividend	–	–	–	(4,374)	–	(4,374)
Result for the period	–	–	–	4,368	–	4,368
At 30 June 2005	<u>70,186</u>	<u>12,222</u>	<u>928</u>	<u>3,904</u>	<u>–</u>	<u>87,240</u>

6 Balance sheets

	<i>Notes</i>	<i>Unaudited 30 June 2004 \$'000</i>	<i>Unaudited 30 June 2005 \$'000</i>
Assets			
Non-current			
Property, plant and equipment		82,019	78,674
Spare parts and materials		5,271	10,396
Deferred tax asset		926	510
Deferred charges		232	1,079
Other investments		33	33
		<u>88,481</u>	<u>90,692</u>
Current assets			
Trade and other receivables		5,239	4,794
Cash and cash equivalents		18,804	17,162
		<u>24,043</u>	<u>21,956</u>
Total assets		<u>112,524</u>	<u>112,648</u>
Equity attributable to the shareholders of EGSA			
Called-up share capital		70,186	70,186
Share premium		12,222	12,222
Other reserves	8.2	3,390	928
Retained earnings		(37)	3,904
Total equity		<u>85,761</u>	<u>87,240</u>
Liabilities			
Non-current			
Employee indemnity provision		1,093	1,207
Deferred tax liability		172	765
Long term financial obligations		12,150	11,284
Bank borrowings		3,094	3,480
		<u>16,509</u>	<u>16,736</u>
Current			
Stabilisation fund		2,329	2,616
Income tax liability		–	536
Trade and other payables		2,959	3,133
Short term financial obligations		841	841
Borrowings		4,125	1,546
		<u>10,254</u>	<u>8,672</u>
Total liabilities		<u>26,763</u>	<u>25,408</u>
Total equity and liabilities		<u>112,524</u>	<u>112,648</u>

7 Statement of cash flows

	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>30 June</i> <i>2004</i> <i>\$'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Result for the period before tax	1,418	5,277
Adjustments	1,684	637
Change in trade and other receivables	1,810	3,263
Change in trade and other payables	432	361
Change in materials in store and deferred charges	(905)	(6,381)
Change in stabilisation fund	1,844	(729)
Change in other taxes	–	760
Tax paid	–	(965)
Total operating activities	<u>6,283</u>	<u>2,223</u>
Investing activities		
Additions to property, plant and equipment	(40)	(16)
Proceeds from disposals of plant, property and equipment	2,052	158
Interest received	113	146
Total investing activities	<u>2,125</u>	<u>288</u>
Financing activities		
Repayment of bank loans	(2,483)	(1,183)
Interest paid	(499)	(519)
Dividends paid	(2,166)	(4,374)
Total financing activities	<u>(5,148)</u>	<u>(6,076)</u>
Net increase/(decrease) in cash and cash deposits	<u>3,260</u>	<u>(3,565)</u>
Cash and cash deposits at beginning of period	<u>15,544</u>	<u>20,727</u>
Cash and cash deposits at end of period	<u>18,804</u>	<u>17,162</u>

The following non cash flow adjustments have been made to the pre-tax result for the period to arrive at operating cash flow:

	<i>6 months</i> <i>ended</i> <i>30 June</i> <i>2004</i> <i>\$'000</i>	<i>6 months</i> <i>ended</i> <i>30 June</i> <i>2005</i> <i>\$'000</i>
Depreciation	1,742	1,644
Interest received	(113)	(146)
Interest paid	485	450
Change in employee indemnity provision	39	171
Obsolescence provision	–	(1)
Exchange (gains)	(469)	(1,481)
Total	<u>1,684</u>	<u>637</u>

8 Notes to the financial information

8.1 Principal activity and revenue

	<i>Unaudited 6 months ended 30 June 2004 \$'000</i>	<i>Unaudited 6 months ended 30 June 2005 \$'000</i>
Energy sales	6,591	8,435
Capacity sales	5,492	6,159
Total revenue	<u>12,083</u>	<u>14,594</u>

8.2 Other reserves

	<i>Legal reserve \$'000</i>	<i>Special reserve \$'000</i>	<i>Total \$'000</i>
At 1 January 2004 and 30 June 2004	<u>1,867</u>	<u>1,523</u>	<u>3,390</u>
At 1 January 2005	777	–	777
Transfer from retained earnings	<u>151</u>	<u>–</u>	<u>151</u>
At 30 June 2005	<u>928</u>	<u>–</u>	<u>928</u>

In accordance with Bolivian Commerce Code and with the Company's articles, 5 per cent. of the net income for the year must be transferred from the profit for the period to a legal reserve until the legal reserve amounts to 50 per cent. of the paid in share capital. No transfer to the legal reserve was made in 2004 as the company made a loss in 2003.

PART VI SECTION A

PRO FORMA STATEMENT OF NET ASSETS

Set out below is an unaudited pro forma statement of net assets prepared to illustrate the effect on the net assets of the Group of the proceeds of the Placing and of the Acquisition as if the Placing and Acquisition had taken place as at 30 June 2005. It has been prepared, on the basis of the notes set out below, for illustrative purposes only. Because of its nature, this pro forma statement of net assets may not give a true picture of the position of the Group.

	<i>Rurelec</i> £'000	<i>Bolivia</i> <i>Integrated</i> US\$'000	<i>Bolivia</i> <i>Integrated</i> £'000	<i>EGSA</i> US\$'000	<i>EGSA</i> £'000	<i>Adj 1</i> £'000	<i>Adj 2</i> £'000	<i>Pro forma</i> <i>net assets</i> £'000
Assets								
Non-current								
Property, plant & equipment	724	–	–	78,674	44,957	–	–	45,681
Materials and supplies	–	–	–	10,396	5,941	–	–	5,941
Deferred tax asset	5	–	–	510	291	–	–	296
Deferred charges	–	–	–	1,079	617	–	–	617
Investments	–	10,000	5,714	33	19	20,000	(25,714)	19
	<u>729</u>	<u>10,000</u>	<u>5,714</u>	<u>90,692</u>	<u>51,825</u>	<u>20,000</u>	<u>(25,714)</u>	<u>52,554</u>
Current								
Trade and other receivables	239	–	–	4,794	2,739	–	–	2,978
Cash and cash equivalents	463	–	–	17,162	9,807	1,386	–	11,656
	<u>702</u>	<u>–</u>	<u>–</u>	<u>21,956</u>	<u>12,546</u>	<u>1,386</u>	<u>–</u>	<u>14,634</u>
Liabilities								
Non-current								
Employee indemnity provision	–	–	–	(1,207)	(690)	–	–	(690)
Deferred tax liability	(38)	–	–	(765)	(437)	–	–	(475)
Long term financial obligations	–	–	–	(11,284)	(6,448)	–	–	(6,448)
Bank borrowings	–	–	–	(3,480)	(1,989)	–	–	(1,989)
	<u>(38)</u>	<u>–</u>	<u>–</u>	<u>(16,736)</u>	<u>(9,564)</u>	<u>–</u>	<u>–</u>	<u>(9,602)</u>
Current								
Due to Southern Integrated	–	(10,000)	(5,714)	–	–	2,857	–	(2,857)
Stabilisation fund	–	–	–	(2,616)	(1,495)	–	–	(1,495)
Income tax liability	–	–	–	(536)	(306)	–	–	(306)
Trade and other payables	(239)	–	–	(3,133)	(1,790)	–	–	(2,029)
Short term financial obligations	–	–	–	(841)	(481)	–	–	(481)
Bank borrowings	–	–	–	(1,546)	(883)	–	–	(883)
	<u>(239)</u>	<u>(10,000)</u>	<u>(5,714)</u>	<u>(8,672)</u>	<u>(4,955)</u>	<u>2,857</u>	<u>–</u>	<u>(8,051)</u>
Net assets	<u>1,154</u>	<u>–</u>	<u>–</u>	<u>87,240</u>	<u>49,852</u>	<u>24,243</u>	<u>(25,714)</u>	<u>49,535</u>

Notes

- (1) The net assets of Rurelec at 30 June 2005 have been extracted without material adjustment from the Historical Financial Information set out in Part IIIA of this document.
- (2) The net assets of Bolivia Integrated at 30 June 2005 have been extracted without material adjustment from the Historical Financial Information set out in Part IVA of this document and have been converted from US dollars to Pounds Sterling using an exchange rate of US\$1.75:£1.
- (3) The net assets of EGSA at 30 June 2005 have been extracted without material adjustment from the Historical Financial Information set out in Part VA of this document and have been converted from US dollars to Pounds Sterling using an exchange rate of US\$1.75:£1.
- (4) The adjustments in the column entitled 'Adj1' represent:
 - (a) the net placing proceeds of £18.529 million, being gross placing proceeds of £19.714 million (46,938,775 new shares issued at a placing price of 42 pence per share), net of estimated expenses of £1.185 million;
 - (b) the acquisition of Bolivia Integrated for £20.0 million, being US\$35 million an exchange rate of US\$1.75:£1, payable £17.143 million in cash (being US\$30 million an exchange rate of US\$1.75:£1) and £2.857 million in deferred consideration (being US\$5 million an exchange rate of US\$1.75:£1);

- (c) the elimination on acquisition of the amount owed by Bolivia Integrated to Southern Integrated.
- (5) The adjustment in the column entitled 'Adj2' represents the elimination of the cost of investment in Rurelec and Bolivia Integrated on consolidation.
- (6) No fair value adjustments arising from acquisition accounting under IFRS 3 "Business Combinations" have been made to the carrying values of the assets and liabilities of Bolivia Integrated or EGSA acquired in the pro forma statement of net assets. The difference of £4.927 million between the consideration payable for the acquisition of Bolivia Integrated (£20.0 million) and Rurelec's share of the net assets of EGSA acquired (£24.927 million, being 50.00125 per cent. of the net assets of EGSA of £49.852 million) has been treated as an increase in the net assets of the Enlarged Group.
- (7) The pro forma net assets of the Enlarged Group includes an amount of £24.925 million attributable to the minority interest shareholders of EGSA (being 49.99875 per cent. of the net assets of EGSA of £49.852 million). The pro forma net assets of the Enlarged Group attributable to the equity shareholders of Rurelec amounts to £24.610 million.
- (8) No adjustment has been made for any event save as disclosed above. In particular, no adjustment has been made to reflect the acquisition by Rurelec of 50 per cent. of Patagonia Energy Ltd, as disclosed in paragraph 8.20 of Part IIIA.

**PART VI
SECTION B**

**ACCOUNTANTS' OPINION ON PRO FORMA STATEMENT OF
NET ASSETS**

Grant Thornton Corporate Finance

Grant Thornton 

Grant Thornton UK LLP
Chartered Accountants
UK Member of
Grant Thornton International

The Directors
Rurelec PLC
Prince Consort House, 5th floor
27-29 Albert Embankment
LONDON
SE1 7TJ

13 December 2005

Dear Sirs

RURELEC PLC

We report on the pro forma statement of net assets as at 30 June 2005 (the "Pro forma financial information") set out in Part VI A of the AIM admission document dated 13 December 2005, which has been prepared on the basis of the accounting policies adopted by Rurelec PLC in preparing the financial statements for the period ended 30 June 2005.

RESPONSIBILITIES

It is the responsibility of the Directors of Rurelec PLC to prepare the Pro forma financial information in accordance with Schedule Two of the AIM Rules with reference to paragraph 20.2 of Annex I of the PD Regulation attached to the AIM Rules.

It is our responsibility to form an opinion as required by paragraph 7 of Annex II of the PD Regulation attached to the AIM Rules as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Rurelec plc.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated.

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OPINION

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of Rurelec PLC.

DECLARATION

For the purposes of Paragraph a of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM admission document in compliance with Paragraph a of Schedule Two of the AIM Rules.

Yours faithfully

GRANT THORNTON UK LLP

PART VII

SUMMARY OF ACQUISITION AGREEMENT AND LOAN NOTE

Pursuant to the Acquisition Agreement, Southern Integrated will sell to Birdsong Overseas Limited the entire issued share capital of Bolivia Integrated. Rurelec will guarantee the obligations of Birdsong Overseas Limited under the terms of the Acquisition Agreement and the Loan Note.

Completion, which will take place on Admission, is conditional upon, *inter alia*:

Conditionally

- (i) the passing of the Resolutions;
- (ii) the conditions of the Placing Agreement (save for any conditions relating to Admission and to the Acquisition Agreement becoming unconditional) being satisfied or waived in accordance with its terms;
- (iii) each of the warranties and tax warranties being true and accurate in all material respects as at the date of completion; and
- (iv) there not having occurred prior to satisfaction of the conditions (i) to (iii) above a material adverse change or any event or circumstances that is reasonably likely to result in a material adverse effect.

Consideration

The consideration will be an amount of up to US\$35 million. On completion of the Acquisition a total amount of US\$20 million will be satisfied in cash. In addition, subject to completion occurring and to Peter Earl and Technology Finance Limited subscribing for in aggregate 13,605,442 shares in the capital of Rurelec at a subscription price of 42 pence per share not later than five business days after Admission (which Peter Earl is contractually obliged to do and procure) US\$10 million will be satisfied in cash not later than seven business days after Admission. In addition the Loan Note in the amount of US\$5,000,000 shall be issued to Southern Integrated and shall be redeemed in any number of payments as follows:

- between 30 April 2006 and 30 December 2007, in an amount equal to the aggregate amount of dividends paid after Admission by EGSA and distributed up to Birdsong Overseas Limited (net of costs and taxes) (“Received Dividends”) subject to a maximum aggregate amount of US\$3,000,000; the first payment being due within 10 business days after 30 April 2006 and subsequent payments becoming due within 10 business days after receipt of further Received Dividends.
- from 31 December 2007, in an amount equal to the aggregate amount of Received Dividends (less any amounts already paid under the Loan Note) subject to an overall maximum principal amount payable under the Loan Note of US\$5,000,000; such amounts becoming due within 10 business days after receipt of further Received Dividends.
- to the extent not previously redeemed, the Loan Note shall be redeemed in full by Birdsong Overseas Limited on 31 December 2010.

Interest at LIBOR plus 5 per cent. per annum shall accrue on the Loan Note to the extent of any outstanding unredeemed capital, which shall be payable after all principal amounts have been paid.

Warranties

The Acquisition Agreement includes warranties and a tax indemnity given by IPC and Southern Integrated, the scope of which is fairly standard for transactions similar in nature to the Acquisition. The time limit for non-tax warranty claims is 2 years from Admission and the time limit for tax warranty claims and claims under the tax indemnity is 7 years from Admission. No warranty or tax indemnity claim may be made under the Acquisition Agreement unless the aggregate amount of such claims exceeds US\$250,000.

IPC and Southern Integrated are jointly and severally liable under the warranties and the tax indemnity in an amount up to US\$35 million, the maximum consideration payable. However, the ability to recover against IPC and Southern Integrated may be limited if IPC or Southern Integrated distributes or otherwise pays out to its shareholders or third parties the consideration monies. This is because Southern Integrated has no significant net assets and IPC had, as at 31 December 2004 prior to the acquisition of Southern Integrated, net assets of approximately £183,000. Moreover, there can be no guarantee that IPC's net asset value will not further reduce prior to the making of a warranty claim or claim under the tax indemnity. To partially redress this situation, warranty claims and claims under the tax indemnity (and certain other claims under the Acquisition Agreement) may be set off against amounts unpaid under the Loan Note. US\$5 million of the Loan Note will remain unpaid prior to 30 April 2006 and a minimum of US\$2 million of the Loan Note will remain unpaid prior to 31 December 2007. These amounts represent the principal security that Rurelec has in relation to warranty and tax indemnity claims under the Acquisition Agreement. The Independent Directors note, therefore, that the effective amount of cover in relation to the warranties and tax indemnity may be limited.

Southern Integrated, its subsidiaries, IPC and Peter Earl have all given a non-compete covenant for a period of three years following Completion and the following covenants have been given for a period of 24 months following completion: non-solicitation of employees, non-employment of existing employees, non-solicitation of customers and non-interference with suppliers. However, the non-compete covenant does not prevent Southern Integrated, IPC or Peter Earl from engaging in the provision of operations, maintenance and technical advisory services for power generation facilities owned by third parties.

There is also a clause in the Acquisition Agreement dealing with the appointment of an independent committee of Birdsong Overseas Limited so as to ensure that there is no ongoing conflict of interest with Southern Integrated in relation to any disputes under the Acquisition Agreement.

PART VIII

ADDITIONAL INFORMATION

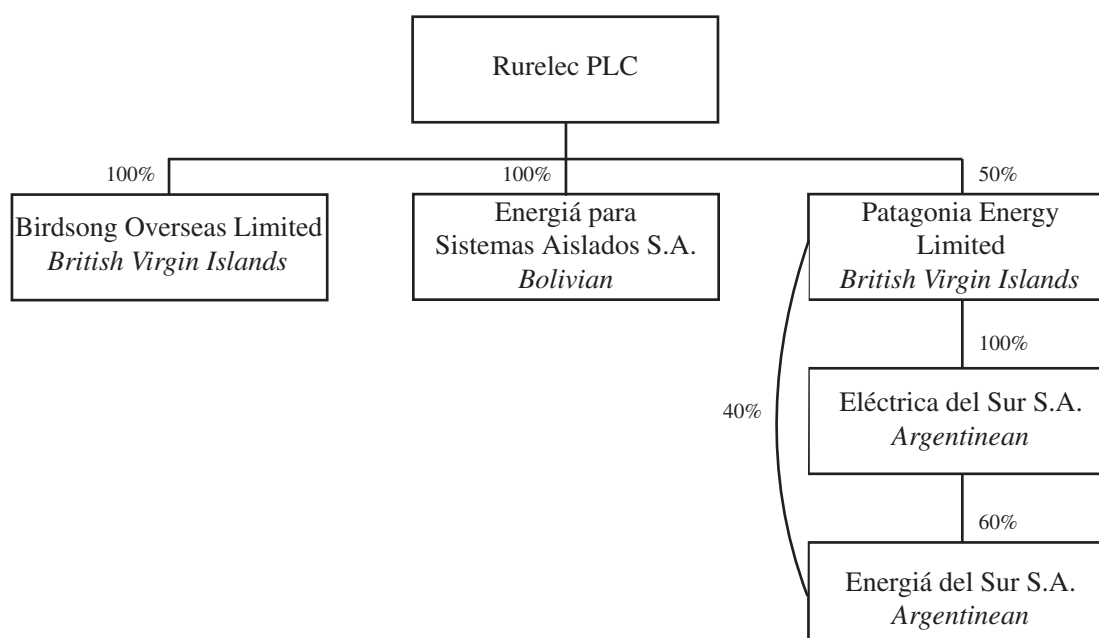
1 RESPONSIBILITY STATEMENT

The Directors of Rurelec whose names, business address and functions appear on page 3 of this document, accept responsibility, individually and collectively, for the information contained in this document. To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this documents is in accordance with the facts and contains no omission likely to affect the import of such information.

2 INCORPORATION AND STATUS OF THE COMPANY

- (a) On 26 June 2003 the Company was incorporated in England and Wales under the Act as a private company limited by shares with the name Independent Power International Limited and with registered number 4812855. On 16 February 2004, the Company changed its name to Rurelec Limited. On 19 July 2004 the Company re-registered as a public limited company with the name Rurelec PLC.
- (b) The principal legislation under which the Company operates is the Act and regulations made thereunder.
- (c) The Company's registered office, which is also its principal place of business, is at 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ and the telephone number is 020 7 793 7676.
- (d) The accounting reference date of the Company is 30 June.
- (e) Details of the Group are set out in paragraph 3 below.

3 SUBSIDIARY UNDERTAKINGS



Birdsong Overseas Limited is a company registered in the British Virgin Islands under registration number 688032 whose registered office is at Nerine Chambers, 5 Columbus Centre, Road Town, Tortola, British Virgin Islands. The Company holds 100 per cent. of the issued share capital of Birdsong Overseas Limited.

Energía para Sistemas Aislados S.A., is a company registered in Bolivia under registration number 107752 whose principal office is at Calle Los Pitones No. 2038, Avenida Beni entre segundo y terrier, anillo, Santa Cruz, Bolivia. The Company holds 100 per cent. of the issued share capital of ESA.

Patagonia Energy Limited, is a company registered in the British Virgin Islands under registration number 620522, whose registered office is at the offices of Walker (BVI) Limited, Walkers Chambers, P.O. Box 92, Road Town, Tortola, British Virgin Islands. The Company holds 50 per cent. of the issued share capital of Patagonia Energy Limited.

Eléctrica del Sur, S.A., is a corporation duly incorporated and existing under the laws of the Republic of Argentina, domiciled at Alicia Moreau de Justo 2050, 3rd floor, office 307, City of Buenos Aires, Republic of Argentina. The Company indirectly owns 50 per cent. in Eléctrica del Sur, S.A. through its 50 per cent. interest in Patagonia Energy Limited.

Energía del Sur S.A., is a corporation duly incorporated and existing under the laws of the Republic of Argentina, domiciled at Alicia Moreau de Justo 2050, 3rd floor, office 307, City of Buenos Aires, Republic of Argentina.

The Company indirectly owns 50 per cent. of Energia del Sur through its 50 per cent. interest in Patagonia Energy Limited.

4 SHARE CAPITAL OF THE COMPANY

- (a) The authorised share capital of the Company on incorporation was £100, consisting of 100 ordinary shares of £1.00 each.
- (b) Save as set out below, there have been no changes in the issued share capital of the Company since its incorporation.
- (c) The voting rights attaching to the Ordinary Shares apply to all the Ordinary Shares issued.
- (d) On 14 May 2004, pursuant to resolutions of the Company passed on that date:
 - (i) the authorised share capital of the Company was increased from £100 to £250,000 by the creation of an additional 249,900 ordinary shares of £1.00 each in the capital of the Company;
 - (ii) the Directors were generally and unconditionally authorised until 14 May 2009, to allot relevant securities for the purposes of section 80 of the Act up to an aggregate nominal amount of £250,000;
 - (iii) the Directors were authorised and empowered pursuant to section 95 of the Act to allot equity securities until 14 May 2009, as if section 89(1) of the Act did not apply to the allotment of any such securities;
 - (iv) the 250,000 Ordinary Shares of £1.00 in the capital of the Company were subdivided into 12,500,000 Ordinary Shares of £0.02 each.
- (e) On 19 July 2004, pursuant to resolutions of the Company passed on that date:
 - (i) the authorised share capital of the Company was increased from £250,000 to £600,000 by the creation of an additional 17,500,000 Ordinary Shares;
 - (ii) the Directors were generally and unconditionally authorised until the earlier of the anniversary of the resolution and the next annual general meeting of the Company to allot relevant securities for the purposes of section 80 of the Act up to an aggregate nominal amount of £83,800;
 - (iii) the Directors were authorised and empowered pursuant to section 95 of the Act until the earlier of the anniversary of the resolution and the next annual general meeting of the Company to allot equity securities as if section 89(1) of the Act did not apply to the allotment of any such securities, provided that such power was limited to:

- (A) the proposed issue of 2,500,000 Ordinary Shares to be issued in connection with the placing to take place on the Company's admission to AIM;
 - (B) in connection with an issue by way of rights (including, without limitation, under a rights issue, open offer or similar arrangement) to holders of equity securities (as so defined) in proportion as nearly as may be to their respective holdings of such securities or in accordance with the rights attaching to them (but with such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, record dates or other legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or as regards shares held by an approved depository or in issue in uncertificated form);
 - (C) the allotment of equity securities in connection with the exercise of the Warrants; and
 - (D) the allotment of equity securities up to a maximum aggregate nominal amount of £12,500 for any other purpose.
- (f) On 18 August 2004, upon admission of the Company to AIM, the Company issued 2,000,000 Ordinary Shares pursuant to the placing agreement summarised in paragraph 6(h) below.
- (g) On 5 November 2004, pursuant to a resolution of the Directors of the same date, the Company issued 600,000 Ordinary Shares to HSBC Global Custody Nominees (UK) Limited at a subscription price of 42.5 pence per Ordinary Share.
- (h) On 29 July 2005, pursuant to the resolutions of the Company passed on the date:
- (i) the Patagonia Acquisition, which constituted a reverse takeover for the purposes of the AIM Rules, was approved;
 - (ii) the authorised share capital of the Company was increased from £600,000 to £850,000 by the creation of an additional 12,500,000 Ordinary Shares;
 - (iii) the Directors were generally and unconditionally authorised until the earlier of 15 months from the date the resolution as passed and the next annual general meeting of the Company to allot relevant securities (as defined in section 80(2) of the Act) in the capital of the Company up to:
 - (A) a maximum nominal amount of £175,000 in connection with the Placing;
 - (B) a maximum nominal amount of £21,500 in connection with the exercise of the Warrants; and
 - (C) a maximum nominal amount of £128,100 (representing approximately 30 per cent. of the issued share capital of the Company following the Placing;
 - (iv) the Directors were authorised and empowered pursuant to the provisions of section 95 of the Act until the earlier of 15 months from the date the resolution was passed and the next annual general meeting of the Company to allot equity securities provided that this power was limited to:
 - (A) the allotment of equity securities up to an aggregate nominal amount of £175,000 in connection with the Placing;
 - (B) the allotment of equity securities up to an aggregate nominal amount of £21,500 in connection with the exercise of the Warrants;
 - (C) the allotment of equity securities otherwise than pursuant to sub-paragraphs (A) and (B) above in connection with any issue by way of rights or other offer where the number of equity securities to be allotted to holders of ordinary shares of the Company on a fixed record date is proportionate (as nearly as may be) to the number of ordinary shares then held by such shareholders, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems

under the laws of, or the requirements of, any regulatory or stock exchange authority in any jurisdiction or in relation to fractional entitlements; and

- (D) otherwise than pursuant to sub-paragraphs (A), (B) and (C) above, the allotment of equity securities up to an aggregate nominal amount of £21,350 for any other purpose.
- (i) On 12 December 2005 at the Annual General Meeting of the Company pursuant to resolutions of the Company passed on that date:
- (a) The Directors were generally and unconditionally authorised until the earlier of 15 months from the date the resolution was passed and the next annual general meeting of the Company to allot securities for the purpose of section 80 of the Act up to an aggregate nominal amount of £163,833.34; and
- (b) The directors were generally and unconditionally authorised until the earlier of 15 months from the date the resolution was passed and the next annual general meeting of the Company to allot equity securities provided that this power was limited to (a) the allotment of equity securities in connection with a rights issue or other pro rata offer to holders of ordinary shares where the equity securities are offered to the ordinary shareholders in proportion (as nearly as they may be) to the respective numbers of ordinary shares held by them subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical difficulties under the laws of any territory or the requirements of any regulatory body; and (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £21,350 (being 5 per cent. of the issued share capital at the date of the resolution).
- (j) At the Extraordinary General Meeting, the Shareholders of the Company will consider and, if thought fit, pass the following resolutions, of which (i) (ii), and (iii) will be proposed as ordinary resolutions and (iv) will be proposed as a special resolution, namely that:
- (i) the Acquisition, which constitutes a reverse takeover for the purposes of the AIM Rules, be approved;
- (ii) the authorised share capital of the Company be increased from £850,000 to £2,400,000 by the creation of an additional 77,500,000 Ordinary Shares;
- (iii) in substitution for all previous authorities the Directors be generally and unconditionally authorised pursuant to section 80 of the Act, to exercise all or any powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) in the capital of the Company up to:
- (A) a maximum nominal amount of £938,775.50 in connection with the Placing;
- (B) a maximum nominal amount of £21,500 in connection with the exercise of the Warrants; and
- (C) a maximum nominal amount of £409,732.65 (representing approximately 30 per cent. of the issued share capital of the Company following the Placing,
- provided that such authority shall, unless it is (prior to expiry) duly revoked or varied or renewed by the company in general meetings, expire on the day falling 15 months after the date of the passing of such resolution or, if earlier, at the conclusion of the next annual general meeting of the Company to be held in 2006 save that the Company may make an offer or agreement before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred by such resolution had not expired; and
- (iv) subject to and conditional upon the passing of resolution (iii) and in substitution for all previous authorities, the Directors be and are hereby empowered pursuant to the provisions of section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to any such allotment, provided that this power shall be limited to:

- (A) the allotment of equity securities up to an aggregate nominal amount of £938,775.50 in connection with the Placing;
 - (B) the allotment of equity securities up to an aggregate nominal amount of £21,500 in connection with the exercise of the Warrants;
 - (C) the allotment of equity securities otherwise than pursuant to sub-paragraphs (A) and (B) above in connection with any issue by way of rights or other offer where the number of equity securities to be allotted to holders of ordinary shares of the Company on a fixed record date is proportionate (as nearly as may be) to the number of ordinary shares then held by such shareholders, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of, any regulatory or stock exchange authority in any jurisdiction or in relation to fractional entitlements; and
 - (D) otherwise than pursuant to sub-paragraphs (A), (B) and (C) above, the allotment of equity securities up to an aggregate nominal amount of £68,288.78 (representing approximately 5 per cent. of the issued share capital of the Company following the Placing).
- (k) Following Admission the authorised share capital of the Company will be £2,400,000 divided into 120,000,000 Ordinary Shares of which 68,288,775 will be issued and fully paid up with a further 75,000 Ordinary Shares being subject to the Broker Warrants and a further 1,000,000 Ordinary Shares being subject to the Investor Warrants.
 - (l) The provisions of sections 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of securities which are, or are to be, paid up in cash other than by way of allotment to employees under any employees' share scheme as defined in section 743 of the Act) apply to the authorised but unissued ordinary share capital of the Company to the extent not disapplied as described in paragraphs 2(i) and 2(j) above. The disapplications referred to in 2(i) and (j) above will give the Directors limited flexibility to issue shares for cash. Subject to these disapplications and certain limited exceptions, unless the approval of Shareholders in general meeting is obtained, the Company must normally offer Ordinary Shares to be issued for cash to existing holders of Ordinary Shares on a *pro rata* basis. No such issue is presently in contemplation by the Board (other than in respect of the Placing).
 - (m) Save as disclosed in this document, no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option.
 - (n) Save for the issue of the Placing Shares (including the Subscription Shares to be subscribed by Peter Earl and Technology Finance Limited) and any Ordinary Shares issued in respect of the Warrants, there is no present intention to issue either fully or partly paid up for cash or otherwise any of the authorised but unissued share capital of the Company.
 - (o) Save as disclosed in this document, no persons have preferential subscription rights in respect of any authorised but unissued share or loan capital of the Company.

5 MEMORANDUM AND ARTICLES

- (a) The memorandum of association of the Company provides that the Company's principal objects are to carry on business as a general commercial company. The objects of the Company are set out in full in clause 3 of the memorandum of association, which is available for inspection at the address specified in paragraph 16 below.
- (b) The Articles contain provisions, *inter alia*, to the following effect, which is a description of significant rights and does not purport to be complete or exhaustive:

- (i) *Share capital*

The share capital of the Company is divided into shares of one class, namely Ordinary Shares.

(ii) *Voting rights*

Subject to the Articles and any special rights or restrictions as to voting for the time being attached to any share at a general meeting every member holding an Ordinary Share present in person shall upon a show of hands have one vote and on a poll every member present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder. A proxy cannot vote on a show of hands. Except as otherwise provided in the Articles, two persons entitled to vote upon the business to be transacted at the meeting each being a member or a proxy for a member of a duly authorised representative of a corporation shall be a quorum.

Unless the Board otherwise decides, a member shall not be entitled to attend or vote, either in person or by proxy, at any general meeting of the Company or to exercise any other right as a member in respect of any share held by him unless and until all calls and other sums presently payable by him in respect of that share have been paid.

(iii) *Dividends*

Subject to the Statutes (meaning the Act and every other statute (including any orders, regulations or other legislation made under them) for the time being in force concerning companies and affecting the Company, (and every statutory modification or re-enactment of the same for the time being in force) the Company may by ordinary resolution declare dividends to be paid to the members according to their respective rights and interests in the profits of the Company. No dividend shall exceed the amount recommended by the Directors. Subject to the Statutes, the Directors may pay such interim dividends (including any dividend payable at a fixed rate) as appear to them to be justified by the financial position of the Company. Except insofar as the rights attaching to, or the terms of issue of, any shares otherwise provide, all dividends shall be declared and paid according to the amounts paid up (other than amounts paid up in advance of calls) on the shares in respect of which the dividend is paid and all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. All unclaimed dividends, interest or other sums payable may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not constitute a trustee in respect of such dividends, interest or other sums. All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall be forfeited and cease to remain owing by the Company. The Directors may, with the authority of an ordinary resolution of the Company, direct that the payment of any dividend may be satisfied wholly or in part by the distribution of specific assets and, in particular, of paid up shares or debentures of any other company. The Board may, with the authority of an ordinary resolution of the Company and in accordance with the Articles, offer any holders of Ordinary Shares the right to elect to receive further new shares credited as fully paid instead of cash in respect of all (or some part) of any dividend specified by the ordinary resolution.

(iv) *Distribution of assets on a winding up*

If the Company is wound up, the liquidator may, with the authority of an extraordinary resolution of the Company and any other authority required by the Statutes, divide among the members *in specie* the whole or any part of the assets of the Company and, for that purpose, value any assets and determine how the division shall be carried out as between members or different classes of members or vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but no member shall be compelled to accept any assets upon which there is any liability.

(v) *Transfer of shares*

Subject to the restrictions in the Articles, a member may transfer all or any of his shares in any manner which is permitted by the Statutes and is from time to time approved by the Board. The Company shall register the transfer of any uncertificated shares in accordance with the Regulations and other Statutes and where permitted by the CREST Regulations and other

statutes the Board may, in its absolute discretion and without giving any reason for its decision, refuse to register any transfer of an uncertificated share. An instrument of transfer of a certificated share may be in any usual form or in any other form which the Board may approve and shall be signed by or on behalf of the transferor and (except in the case of a fully paid share) by or on behalf of the transferee. An instrument of transfer need not be under seal. Save in the case of a class of shares which has been admitted to the Official List or whose shares are admitted to CREST the Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a certificated share unless:

- (A) it is in respect of a share which is fully paid up;
- (B) the instrument of transfer is left at the registered office or at such place as the Board may decide, for registration;
- (C) the instrument of transfer is accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his right to transfer the shares;
- (D) the instrument of transfer is duly stamped (if so required);
- (E) it is in respect of only one class of shares; and
- (F) it is in favour of not more than four transferees.

(vi) *Power to increase, consolidate, sub-divide and cancel shares*

The Company may by ordinary resolution:

- (A) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;
- (B) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- (C) subject to the Statutes, sub-divide its shares, or any of them, into shares of smaller amount and the resolution may determine that, as between the shares resulting from the sub-division, one or more of the shares may, as compared with the others, have such preferred, deferred or other special rights, or be subject to such restrictions, as the Company has power to attach to unissued or new shares; and
- (D) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

(vii) *Fractions*

Whenever as a result of a consolidation or sub-division of shares any member would become entitled to a fraction of a share, the Board may on behalf of the members deal with the fractions as it thinks fit. In particular, but without limitation, the Board may sell the shares representing the fractions for the best price reasonably obtainable to any person (including, subject to the Statutes, the Company) and distribute the net proceeds of sale in due proportion among those members (except that any amount otherwise due to a member, being less than £3 or such other sum as the Board may from time to time determine, may be retained for the benefit of the Company).

(viii) *Power to reduce capital*

Subject to the Statutes, and to any rights for the time being conferred on the holders of any class of shares, the Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any way.

(ix) *Power to purchase own shares*

Subject to the Statutes, and to any rights for the time being conferred on the holders of any class of shares, the Company may purchase all or any of its shares of any class, including any redeemable shares.

(x) *Variation of rights*

If at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any class of shares may be varied or abrogated (whether or not the Company is being wound up) in such manner (if any) as may be provided by those rights or, if no such provision is made, either:

- (A) with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class; or
- (B) with the authority of an extraordinary resolution passed at a separate general meeting of the holders of those shares.

The provisions of the Articles relating to general meetings of the Company or to the proceedings at general meetings shall apply, *mutatis mutandis*, to every meeting of the holders of any class of shares, except that:

- (A) the quorum at any such meeting (other than an adjourned meeting) shall be two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class;
- (B) at an adjourned meeting the quorum shall be one person holding shares of the class or his proxy;
- (C) every holder of shares of the class shall, on a poll, have one vote in respect of every share of the class held by him; and
- (D) a poll may be demanded by any one holder of shares of the class whether present in person or by proxy.

(xi) *Disclosure of interests*

If a holder of, or any other person appearing to be interested in, any shares has been issued with a notice by the Company pursuant to section 212 of the Act (a "Section 212 Notice") and has failed in relation to any shares (the "Default Shares") to comply with the Section 212 Notice within 14 days from the service of the notice:

- (A) the holder of the Default Shares shall not be entitled in respect of the Default Shares to be present or to vote (either in person or by proxy) at any general meeting of the Company or at any separate meeting of the holders of any class of shares; and
- (B) if the Default Shares represent 0.25 per cent. or more in nominal value of the issued shares of their class, the holder of the Default Shares shall not be entitled in respect of the Default Shares to receive any dividend or other distribution or other than an Exempt Transfer to transfer or agree to transfer any of those shares.

An "Exempt Transfer" in relation to any shares means a transfer pursuant to:

- (C) a sale on a Recognised Investment Exchange (as defined in FSMA) or any other stock exchange outside the United Kingdom on which the Company's shares are normally traded;
- (D) a sale of the whole beneficial interest in the shares to a person whom the Board is satisfied is unconnected with the existing holder or with any other person appearing to be interested in the shares; or

- (E) a sale by way of or pursuant to acceptance of a takeover offer (as defined in section 428 of the Act).

(xii) *Directors*

Subject to the Statutes, the memorandum of association of the Company, the Articles and any directions given by special resolution of the Company, the business of the Company shall be managed by the Board which may exercise all the powers of the Company. A Director need not hold any shares of the Company. Each Director shall be entitled to attend and speak at any general meeting of the Company whether or not he is a member. The Board may from time to time appoint one or more Directors to hold any executive office (including that of chief executive or managing Director) for such term (subject to the Statutes) and on such terms as the Board may decide. The Board may revoke or terminate any such appointment without prejudice to any claim for damages for breach of contract between the Director and the Company.

Subject to the Statutes and subject to disclosure of his interests, a Director notwithstanding his office:

- (A) may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested;
- (B) may hold any other office or place of profit under the Company (except as its auditor or auditor of a subsidiary of the Company) in conjunction with the office of Director for such period (subject to the Statutes) and upon such terms as the Board may decide and may be paid such extra remuneration for so doing (whether by way of salary, commission, participation in profits or otherwise) as the Board may decide, either in addition to or in lieu of any remuneration under any other provision of the Articles;
- (C) may be or become a member or Director of, or hold any other office or place of profit under, or otherwise be interested in, any other company in which the Company may be interested;
- (D) may act by himself or his firm in a professional capacity for the Company (except as its auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;
- (E) shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal and no such contract, arrangement, transaction or proposal shall be avoided on the grounds of any such interest or benefit.

Save as otherwise provided by the Articles, a Director shall not vote or be counted in the quorum at a meeting in relation to any resolution of the Board or a committee of the Board relating to any contract, arrangement, transaction or other proposal in which he has an interest which, together with any interest of a person connected with him (within the meaning of section 346 of the Act), is to his knowledge a material interest and, if he purports to do so, his vote shall not be counted. The prohibition shall not apply and a Director may vote and be counted in the quorum in respect of any resolution concerning any one or more of the following matters:

- (A) any contract, arrangement, transaction or proposal in which he is interested by virtue of an interest in shares, debentures or other securities of the Company or otherwise in or through the Company;
- (B) the giving of any guarantee, security or indemnity in respect of:
 - (I) money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings; or

- (II) a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part (either alone or jointly with others) under a guarantee or indemnity or by the giving of security;
- (III) any issue or offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings in respect of which he is or may be entitled to participate in his capacity as a holder of any such securities or as an underwriter or sub-underwriter;
- (IV) any contract, arrangement, transaction or proposal concerning any other company in which he, and any persons connected with him (within the meaning of section 346 of the Act), do not to his knowledge hold an interest in shares (within the meaning of sections 198 to 211 of the Act) representing one per cent. or more of any class of the equity share capital of that company or of the voting rights available to members of that company;
- (V) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which does not accord to him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and/or
- (VI) the purchase or maintenance of insurance for the benefit of Directors or for the benefit of persons including Directors.

A Director shall not vote or be counted in the quorum at a meeting in respect of any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying its terms) or the termination of his own appointment, to an office or place of profit with the Company or any other Company in which the Company is interested but, where proposals are under consideration concerning the appointment (including fixing or varying its terms), or the termination of the appointment, of two or more Directors to offices or places of profit with the Company or any other company in which the Company is interested, those proposals may be divided and a separate resolution may be put in relation to each Director and, in that case, each of the Directors concerned (if not otherwise debarred from voting under the Articles) shall be entitled to vote (and be counted in quorum) in respect of each resolution unless it concerns his own appointment or the termination of his own appointment. The Directors (other than any Director who for the time being holds an executive office or employment with the Company or a subsidiary of the Company) shall be paid out of the funds of the Company by way of remuneration for their services as Directors such fees, not exceeding in aggregate £120,000 per annum (or such larger sum as the Company may, by ordinary resolution, determine), as the Board may decide. Such sum shall be divided among the Directors in such proportion and manner as the Board may agree or, failing agreement, equally. Any fee payable shall be distinct from any remuneration or other amounts payable to the Director under other provisions of the Articles and shall accrue from day to day. The Directors shall be paid out of the funds of the Company all reasonable traveling, hotel and other expenses properly incurred by him in and about the performance of his duties as Director, including his expenses of traveling to and from Board meetings, committee meetings, general meetings or separate meetings of the holders of any class of shares or debentures in the Company. If, by arrangement with the Board, any Director performs or renders any special duties or services outside his ordinary duties as a Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable special remuneration (whether by way of lump sum, salary, commission, participation in profits or otherwise) as the Board may decide in addition to any remuneration payable under or pursuant to any provision of the Articles. The number of Directors (other than alternate Directors) shall not, unless otherwise determined by ordinary resolution of the Company be less than three nor more than ten.

(xiii) *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled

capital of the Company and, subject to the Statutes, to create and issue debenture and other loan stock and debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company and exercise all voting and other rights and powers of control exercisable by the Company in respect of its subsidiary undertakings so as to procure (but as regards its subsidiary undertakings only so far as it can procure by such exercise) that the aggregate principal amount at any one time outstanding of all monies borrowed by the Company and/or its group, (excluding amounts borrowed by any member of the Company's group from any other member of the Company's group and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to four times the Company's adjusted capital and reserves.

(xiv) *Pensions and benefits*

The Board may exercise all the powers of the Company to pay, provide or procure the grant of pensions or other retirement or superannuation benefits and death, disability or other benefits, allowances or gratuities to any person who is or has been at any time a Director of the Company or in the employment or service of the Company or of any company which is or was a subsidiary of or associated with the Company or of the predecessors in business of the Company or of any such subsidiary or associated company or the relatives or dependants of any such person. For that purpose the Board may procure the establishment and maintenance of, or participate in, or contribute to, any non-contributory or contributory pension or superannuation fund, scheme or arrangement and pay any insurance premiums.

(xv) *Uncertificated securities*

Pursuant to and subject to the CREST Regulations, the Board may permit shares of any class to be held in uncertificated form and to be transferred or otherwise dealt with by means of a Relevant System (as defined in the CREST Regulations), and may revoke such permission.

(xvi) *General meetings*

An annual general meeting and an extraordinary general meeting shall be convened for the purpose of passing a special resolution on 21 clear days notice and in all other circumstances on not less than 14 clear days notice. No business shall be transacted at a general meeting unless a quorum is present when the meeting proceeds to business and if within 30 minutes of the time fixed for the meeting no quorum is present then the meeting shall be adjourned to such time and place as determined by the chairman. If at an adjourned meeting a quorum is not present within 15 minutes then meeting shall be dissolved. Whenever a meeting is adjourned for 30 days or more or for an indefinite period at least 7 clear days notice of the adjourned meeting shall be given. Members may appoint a proxy in writing, not less than 48 hours before the meeting and shall be entitled to vote at a meeting notwithstanding the appointment of a proxy.

Any resolution shall be decided on a show of hands unless a poll is: (i) demanded by the chairman, or; (ii) at least 5 members present in person or by proxy; or (iii) a member present in person or by proxy representing not less than one-tenth of the total voting rights of all the members entitled to vote at the meeting; or (iv) by a member present in person or by proxy holding shares conferring the right to vote at the meeting on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the share conferring that right. If a poll is demanded it shall be taken in such manner as the chairman shall direct. The poll shall be taken either at the meeting or within 30 days after the meeting as the chairman shall direct.

On a show of hands, every member present in person or by proxy has one vote, and on a poll every member shall have one vote for every share. In the case of joint holders of shares, it is the vote of the senior that counts, this being determined by the order in which the names are entered in the register. In a poll, a member need not cast all his votes the same way. All members are

entitled to vote in person or by proxy, except where any calls have not been paid or the member has not complied with a section 212 notice. Any corporation which is a member may authorise such person as it thinks fit to act as its representative at any meeting of the Company.

6 DIRECTORS' AND OTHER INTERESTS

(a) Holdings in Ordinary Shares

- (i) The interests of the Directors (all of which are beneficial save where otherwise stated) in the issued share capital of the Company as at the date of this document and as they are expected to be immediately following Admission, which are required to be shown in the register maintained under section 325 of the Act or which are required to be notified by a director and the persons connected (within the meaning of section 346 of the Act) with them (or in the case of such a connected person, would be required to be notified by that person had he been a director) to the Company pursuant to sections 324 and 328 of the Act are as follows:

	<i>At the date of this document</i>		<i>Following Admission and Completion of the Placing</i>	
	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of Existing Ordinary Shares</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
Jimmy West	1,250,000	5.27	1,250,000	1.65
Peter Earl	2,000,000	9.37	8,802,721	12.89
Mike Eyre	500,000	2.34	500,000	0.73
Elizabeth Shaw	500,000	2.34	500,000	0.73
Frank Mattos	25,000	0.12	25,000	0.04
Sir Robin Christopher	Nil	Nil	Nil	Nil

- (ii) Save as disclosed below and in paragraph 6(a)(i) above, the Directors are not aware of any interest (within the meaning of Part VI of the Act) in the Company's issued share capital which, at the date of this document and immediately following Admission and Completion of the Placing, would amount to 3 per cent. or more of the Company's issued share capital:

	<i>At the date of this document</i>		<i>Following Admission and Completion of the Placing</i>	
	<i>Number of Existing Ordinary Shares</i>	<i>Percentage of Existing Ordinary Shares</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
Park Avenue Nominees Limited ¹	2,130,000	9.98	2,130,000	3.03
Secteur Holdings Limited	2,000,000	9.37	2,000,000	2.93
HSBC Global Custody Nominees (UK) Limited ²	2,475,000	11.59	2,475,000	3.62
Pershing Keen Nominees Limited ³	1,853,000	8.68	1,853,000	2.71
Technology Finance Limited	–	–	6,802,721	9.96

¹ Park Avenue Nominees Limited is a nominee company that holds 62,500 shares on behalf of European Power Systems A.G.

² HSBC Global Custody Nominees (UK) Limited is a nominee company holding shares on behalf of Gartmore Investments Limited.

³ Pershing Keen Nominees Limited is a nominee company holding shares on behalf of Hichens Harrison.

Following Admission and pursuant to the Placing there may be further disclosures in respect of holders of 3 per cent. or more of the Enlarged Share Capital of the Company. In the event that there are further disclosures, an announcement will be made.

- (b) The Company is not indirectly controlled by anyone.
- (c) No shareholder is entitled to exercise different voting rights to the other shareholders.

- (d) Save as disclosed in paragraphs 6(a)(i) to 6(a)(ii) above, the Directors are not aware of any person or persons who directly or indirectly, jointly or severally exercise or could exercise control over the Company.
- (e) Save as disclosed in this document:
- (i) no Director has any interest in the issued share capital of the Company and no Director will acquire shares in the Company pursuant to the Placing;
 - (ii) no contract or arrangement with the Company subsists or has subsisted since incorporation in which any Director is or was materially interested and which is significant in relation to the business of the Company taken as a whole;
 - (iii) no Director has had any interest, direct or indirect, in any asset since incorporation which has been or which is proposed to be acquired, disposed of by or leased to the Company; and
 - (iv) no amount or benefit has been paid or given by the Company since incorporation to any promoter nor is any such payment or gift intended.
- (f) No Director has or has had any interest, direct or indirect, in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Company and which was effected by the Company during the current year and remains, in any respect, outstanding or unperformed.
- (g) No loans are outstanding by the Company to or for the benefit of any of the Directors or their connected persons, nor has any guarantee been provided by the Company for the benefit of any Director or his connected persons.
- (h) For the financial year ended 30 June 2005, the aggregate remuneration paid to the Directors by the Company was £70,000. Under arrangements now in force, conditional on Admission, the Directors' aggregate remuneration and benefits in kind for the financial year ending 30 June 2006 are estimated to be £150,000.
- (i) In addition to their directorships of the Company, the Directors currently hold, and in the previous five years have held, the following directorships and are or were partners of the following partnerships:

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Jimmy West	Aberdeen New Dawn Investment Trust plc Associated British Foods Pension Trustees Limited Bioethanol Limited British Assets Trust plc Candover Investments plc Gartmore Fledgling Trust plc Global Natural Energy plc Independent Power Corporation plc IPSA Group plc I value plc (formerly Intrinsic Value plc) Jimmy West Associates Limited Jupiter Second Enhanced Income Trust plc New City High-Yield Trust plc Scottish & Newcastle Pensions Limited Shires Smaller Companies plc UK Select Trust Limited	Catalyst Fund Management & Research Limited Courage Pensions Investments Limited Courage Pensions Limited Embankment Holdings Limited European Financial Services Venture Fund (General Partner) Limited JFIT Securities Limited Jupiter Financial Trust plc LEPCO plc Principal Healthcare Finance Limited Scottish & Newcastle Pensions Limited Snackhouse plc Themis FTSE Fledgling Index Trust plc

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Peter Earl	<p>Celtic Integrated Energy Limited The Database Correction Company Limited Guaracachi America Inc. Embankment Investments Limited Independent Power Corporation plc Independent Power International Limited (formerly Independent Power South Africa Limited) Integrated Energy Limited IPSA Group plc Nepal Integrated Energy Limited Peru Integrated Energy Limited Sloane Corporate Finance Limited The Sloane Wine Company Limited South Asia Integrated Energy Limited Strategic Natural Resources Plc The Wychwood Regeneration Company plc Empresa Eléctrica Guaracachi, S.A. Bolivia Integrated Energy Limited Argentina Integrated Energy Limited Southern Integrated Energy Limited</p>	<p>Gori Mayu Limited Consort Resources Limited (now Caledonia Energy Limited) Independent Power (UK) Limited IPC Operations Limited Kazakh Independent Power Limited Kyrgyz Independent Hydro Power Corporation Limited Nepal Independent Hydro Limited Superski Limited Park Avenue Nominees Limited Ukraine Independent Power Limited Independent Power Generation Limited Independent Power Operations Limited</p>
Mike Eyre	<p>Bioblend plc Bioethanol Limited Greenheart Heating Systems Limited Independent Power International Limited (formerly Independent Power Southern Africa Limited) Independent Power Operations Limited IPSA Group plc IPSA Development Company Limited</p>	<p>Bioethanol Automotive Limited Embankment Investments Limited Empresa Eléctrica Guaracachi, S.A. Integrated Development Projects Limited Peninsular Power Limited TV Energy Limited Independent Power Southern Africa plc</p>
Elizabeth Shaw	<p>Blazeway Engineering Limited The Database Correction Company Limited Embankment Investments Limited Independent Power Corporation plc Independent Power International Limited Independent Power Operations Limited IPSA Development Company Limited IPSA Group plc Newcastle Cogeneration (Proprietary) Company Limited Strategic Natural Resources plc</p>	<p>Empresa Eléctrica Guaracachi, S.A.</p>

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Frank Mattos	None	Franklands Court Limited
Sir Robin Christopher	None	None

- (j) (i) Save as disclosed below, none of the Directors has any previous names.
- (A) Elizabeth Shaw's maiden name was Cowx.
- (ii) None of the Directors has any unspent convictions in relation to indictable offences.
- (iii) None of the Directors has ever had a bankruptcy order made against him or entered into an individual voluntary arrangement or had a receiver appointed to any of his assets.
- (iv) None of the Directors has, save as set out below, been a director of a company at the time of, or within the preceding 12 months of, that company being the subject of a receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or where it has made any composition or arrangement with its creditors or generally or any class of its creditors:
- (A) Jimmy West is a non-executive director of IV plc (formerly Intrinsic Value plc), which went into members' voluntary liquidation on 10 June 2004. He was a non-executive director of Latchly Management Limited, which went into creditors' voluntary liquidation on 28 March 2000 and a non-executive director of Snackhouse plc, which went into creditors' voluntary liquidation on 5 October 2001.
- (v) None of the Directors has been a partner of a partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement or had a receiver appointed to any partnership asset whilst he was a partner of that partnership at the time or within 12 months after he ceased to be a partner of that partnership.
- (vi) None of the Directors has been publicly criticised by any statutory or regulatory authority (including recognised professional bodies), or disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7 DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

(a) Executive Directors' service agreements

The appointments of Peter Earl, Elizabeth Shaw and Mike Eyre are governed by the terms of their respective Executive Directors service agreements each dated 1 August 2004, which became unconditional on the Company's admission to AIM on 18 August 2004. The amount of time each of the Executive Directors devotes to the affairs of the Company varies based on the requirements of the business. Pursuant to the terms of his/her agreement the Executive Directors are each entitled to a gross annual fee of £24,000 payable monthly in arrears and subject to annual review by the remuneration committee of the Board. No compensation is payable for loss of office. There is no provision for any further benefit to be provided to the Executive Directors under the service agreements. The service agreements are terminable on 6 months' written notice from either party. They also contain 6 month post-termination restrictions on the Executive Director being engaged by any customer of the Company, soliciting any customer of the Company, dealing with any customer of the Company, soliciting any key employee, or employing any key employee. Each of the Executive Directors agrees to conform to such hours of work as may be from time to time reasonably required of him.

(b) Non-Executive Directors' letters of appointment

- (i) The appointments of Jimmy West and Frank Mattos as Non-Executive Directors of the Company are governed by the terms of letters of appointment which become unconditional on

the Company's admission to AIM on 18 August 2004. The appointment of both Non-Executive Directors took effect from 25 June 2004; and

- (ii) The appointment of Sir Robin Christopher KBE CMG is governed by a letter of appointment dated 1 September 2005.

Each of the appointments detailed in paragraphs 7(b)(i) and (ii) is terminable on not less than 1 months written notice by either party. Pursuant to the terms of the letters of appointment and subsequent increase the Non-Executive Directors are entitled to an annual fee of £15,000 each although Jimmy West's salary has since been increased to £30,000 per year. They are also entitled to reimbursement for all reasonable out of pocket expenses properly incurred by them on Company business. Under the terms of the letters of appointment, no fees were payable to the Non-Executive Directors before the completion of the Company's first acquisition or investment which took place on 8 October 2004.

Save as disclosed in this paragraph 7, there are no existing or proposed service agreements between any Director and the Company.

Save as referred to in this paragraph 7, no service or consultancy agreements between any existing director, and the Company have been entered into or amended within 6 months prior to the publication of this document.

8 MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been either entered into by members of the Enlarged Group during the two years immediately preceding the date of this document and are, or may be, material or are contracts entered into at any time which contain provisions under which a relevant member of the Enlarged Group has an obligation or entitlement which is material to the Company as at the date of this document.

The Company and its subsidiaries

- (a) *Acquisition Agreement*

A summary of the Acquisition Agreement is set out in Part VII of this document.

- (b) *Loan Note*

A summary of the Loan Note is set out in Part VII of this document.

- (c) *Basic Acquisition Agreement*

On 6 July 2005 the Company entered into a share purchase agreement with Basic Energy Limited ("Basic") for the sale and purchase to the Company of 50 per cent. of the entire issued share capital of Patagonia Energy. The acquisition was completed on 29 July 2005.

The maximum consideration payable for the Shares was US\$6,000,000, which was paid in cash and is comprised (a) US\$4,500,000 (the "Initial Consideration") paid upon Completion and (b) further consideration (the "Further Consideration") which shall not exceed US\$1,500,000.

The Further Consideration is payable by reference to the management accounts of EDS in respect of the calendar year ending 31 December 2005 (the "December 2005 Management Accounts") and the subsequent quarterly management accounts of EDS in respect of the quarterly period ending 31 March 2006, and each subsequent quarterly period until all the Further Consideration is paid in full (the "Quarterly Management Accounts"). The first installment of the Further Consideration is payable as soon as is practicable after 31 December 2005 and is equal to the lesser of (a) US\$1,500,000 and (b) the amount of the net profit after tax of EDS as shown in the December 2005 Management Accounts taking into account certain adjustments. Each further installment of the Further Consideration is calculated by reference to the next Quarterly Management Accounts and is equal to the lesser of (a) any unpaid remainder of the maximum US\$1,500,000 payable in respect of the

Further Consideration and (b) the net profit after tax of EDS as shown in the relevant Quarterly Management Accounts taking into account certain adjustments.

The warranties (which are given on an indemnity basis) are extremely limited in scope. In particular there are no warranties in relation to the financial position, assets and liabilities of the operating subsidiary, EDS nor in relation to Electrica. The warranties are capped at half of the amount of the consideration insofar as it is paid (up to US\$6,000,000). There is a de minimis of US\$50,000 and the time limit on warranty claims is the second anniversary of Admission. The agreement is governed by New York law.

(d) *Patagonia Shareholders' Agreement*

Under the Patagonia Shareholders' Agreement, the Company and Basic have 50 per cent. each of the share capital in Patagonia Energy.

Each 20 per cent. shareholding in Patagonia Energy held by a shareholder gives the power to appoint one director to the board of Patagonia Energy. Therefore, with 50 per cent. of the shares in Patagonia Energy, Rurelec and Basic each have the power to appoint two directors. Any vote passed by ordinary resolution would, on the basis of Basic's and Rurelec's shareholdings of 50 per cent. each on completion, require the consent of both of them.

However, certain matters cannot be effected without the vote of directors appointed by shareholders with an aggregate ownership percentage of 75 per cent. of the shares in Patagonia Energy and certain matters require the unanimous approval of the directors of Patagonia Energy. The matters which are reserved in this way are usual for an agreement of this type.

The board of directors of Patagonia Energy shall meet at least quarterly. A quorum shall consist of a majority of the board. For so long as Basic owns shares in Patagonia Energy, the chairman of the company shall be a director designated by Basic. The chairman shall initially be Estaban Reynal. The chairman shall have authority to represent Patagonia Energy in its relations with governmental authorities and its public relations in Argentina and other jurisdictions in which business is carried out. For so long as Rurelec owns shares in Patagonia Energy the non-executive deputy chairman shall be Peter Earl who shall have non-exclusive responsibility for pursuing and identifying new projects. For so long as Basic owns shares in Patagonia Energy, the chief executive officer (who shall not necessarily be a director) shall be designated by Basic. The chief executive officer shall initially be Michael Bax. The chief executive officer shall have general responsibility for the management of the company and such other matters as may be delegated to him from time to time by the directors of Patagonia Energy. The finance director shall be a director designated by Rurelec. Initially this shall be Elizabeth Shaw.

Pre-emption rights apply to transfers of shares such that any shares offered to a third party (save for certain permitted transfers) must first be offered to Patagonia Energy on the same terms. Any shares not taken up by Patagonia Energy are then offered to other shareholders in Patagonia Energy on a *pro rata* basis.

In the event that the pre-emption provisions are exhausted and a shareholder proposes to transfer its shares to a third party, the other shareholders shall have the option to participate in the sale of the shares to the third party. The amount of shares which may be sold by a shareholder wishing to "tag along" shall be the product of (x) the number of shares proposed to be sold by such shareholder and (y) a fraction, the numerator of which shall be the number of shares willing to be purchased by the proposed transferee and the denominator of which shall be the total number of shares proposed to be sold by all shareholders who have "tag along" rights.

The agreement contains pre-emptive rights on new issues of shares by Patagonia Energy which allow existing shareholders to participate in new issues of shares on a *pro rata* basis.

The agreement is governed by British Virgin Islands law. The parties shall attempt to resolve any dispute in relation to the agreement in an amicable way by calling a meeting among the shareholders of Patagonia Energy. However, ultimately, disputes shall be referred to arbitration under the London

Court of International Arbitration Rules in London. Note that, for these purposes, the meaning of “dispute” is sufficiently broad to cover disputes arising in relation to the running of the business of Patagonia or its subsidiaries, including where a deadlock arises at either board or shareholder level.

(e) *Share purchase agreement relating to ESA*

On 8 October 2004 the Company entered into a share purchase agreement with Guaracachi and on 28 February 2005 entered into a deed of amendment to the original share purchase agreement for the purchase of the entire issued share capital of ESA. The consideration payable on completion for the acquisition of ESA was US\$550,000. The consideration was paid in full on 28 February 2005. The Company took the benefit of some basic warranties as to title, liabilities, employees and litigation. Under the terms of the share purchase agreement the Company purchased ESA which owns two 3MW Worthington dual fuel motors.

(f) *Agreements relating to the Jenbachers*

(i) On 24 January 2005 the Company acquired from Medina Finance Limited (In Administrative Receivership) 9 Jenbacher Engines Model 616 and generators and various ancillary machinery in connection with the engines. The Company purchased the assets for a total consideration of £1,000,000 of which £800,000 was payable on completion of the acquisition and a further £200,000 plus any VAT on the total consideration was payable by no later than 15 February 2005. The administrative receivers confirmed receipt of the full £1,000,000 on 25 February 2005. As the Company acquired the assets from administrative receivers there were no warranties provided to the Company and the assets were sold in their current state and condition. The Company provided an indemnity to the seller and the administrative receivers in relation to any claims or losses resulting from the assets.

(ii) On 24 January 2005 the Company entered into the agreement dated 24 January 2005 between the Company and Independent Power Generation Limited (“IPG”) for the sale by the Company and the acquisition by IPG of 6 of the Jenbacher machines and their associated equipment. IPG purchased the Jenbachers for the sum of £1,000,000 which was paid to the Company on completion. The Company gave no warranties in relation to the Jenbachers. The Company was provided with an indemnity from IPG in relation to any claims or losses resulting from the Jenbachers.

(g) *Placing Agreement*

On 13 December 2005, the Company entered into the Placing Agreement pursuant to which the Broker has agreed to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. The Placing Agreement is conditional on the entire issued and to be issued share capital (save for certain shares to be subscribed under the Placing by Peter Earl and Technology Finance Limited) of the Company being admitted to AIM on the Admission Date (or such other date as may be agreed between the parties being no later than 13 January 2006).

The Placing Agreement contains warranties given by the Company and the Directors as to the accuracy of the information contained in this document and other matters relating to the Company and its business. In addition, the Company has given an indemnity to the Broker and Daniel Stewart in respect of certain matters. Either the Broker or Daniel Stewart is entitled to terminate the Placing Agreement prior to Admission, principally in the event of a breach by the Directors of the Placing Agreement or if any of the warranties contained in it are found to be untrue, inaccurate or misleading in any material respect or in the event of force majeure. In consideration of its services in connection with the Placing, save in respect of the Placing Shares to be subscribed by Peter Earl and Technology Finance Limited and Black River Asset Management (UK) Limited the Company will pay the Broker a commission of 5 per cent. of the Placing Price for each of the Placing Shares for which the Broker has procured subscribers. A reduced commission of 2½ per cent. of the Placing Price attributable to the Placing Shares placed with Black River Asset Management (UK) Limited shall be payable to the Broker by the Company and no commission shall be payable in respect of those Placing Shares subscribed for by Peter Earl and Technology Finance Limited. In consideration of its services in

connection with the Placing, the Company will pay Daniel Stewart the fee specified in the Nomad Agreement described in paragraph 6(i) below.

(h) *July Placing Agreement*

On 6 July 2005, the Company entered into the Placing Agreement pursuant to which the Broker agreed to use its reasonable endeavours to procure subscribers for certain placing shares at the placing price referred to therein being 40 per share.

The July Placing Agreement contained warranties given by the Company and the Directors as to the accuracy of the information contained in the July admission document and other matters relating to the Company and its business. In addition, the Company gave an indemnity to the Broker and Daniel Stewart in respect of certain matters. In consideration of its services in connection with the July placing, the Company paid to the Broker a commission of 5 per cent. of the placing price for each of the placing shares for which the Broker procured subscribers. In consideration of its services in connection with the July placing, the Company paid Daniel Stewart the fee specified in the Nomad Agreement described in paragraph 6(i) below.

(i) *Placing and broker agreement entered into on 10 August 2004*

Under the terms of this agreement, Hichens, Harrison agreed to act as broker to the Company in respect of the placing which occurred on admission of the Company to AIM on 18 August 2004 and to use its reasonable endeavours to procure persons to subscribe for Ordinary Shares. The Company agreed to pay to Hichens, Harrison a commission of 5 per cent. of the gross proceeds raised by Hichens, Harrison in respect of the issue of such Ordinary Shares. In addition, on admission, the Company paid a fee of £20,000 plus VAT to Hichens, Harrison and issued the Broker Warrants to Hichens, Harrison. The Company also paid to Hichens, Harrison an annual fee of £15,000 plus VAT for acting as the Company's broker, to be payable quarterly in arrears for a minimum period of 12 months, the first payment of which was invoiced on admission to AIM on 18 August 2004.

(j) *Nomad agreement*

Under the terms of this agreement the Company appointed Daniel Stewart to act as nominated adviser for the purposes of the AIM Rules. The appointment commenced on 30 March 2005. The agreement contained certain warranties, undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with applicable laws and regulations. The agreement provided, initially, for a payment of an annual retainer of £25,000 plus VAT, that sum will subsequently increase to £30,000 plus VAT in addition to the payment of certain other fees and expenses of the Company. On 6 May 2005 the Company executed an engagement letter with Daniel Stewart. Under the terms of the arrangement, Daniel Stewart agreed to provide services in connection with the acquisition of 50 per cent. of the issued share capital of Patagonia Energy and the re-admission of the Ordinary Shares to AIM following completion thereof. Daniel Stewart's fee for the provision of the services (in addition to the annual retainer fee for services as the Nomad) in relation to the Acquisition and the re-admission of the Ordinary Shares to AIM following completion of the Acquisition is £110,000 plus VAT of which £10,000 was payable on execution of the engagement letter and £100,000 is payable on the re-admission of the Ordinary Shares to AIM.

(k) *Nomad Agreement entered into on 12 August 2004*

Under this agreement, the Company appointed Arbuthnot Securities to act as nominated adviser to the Company in relation to the Company's admission to AIM on 18 August 2004. The appointment commenced on 12 August 2004 and was terminated by Arbuthnot Securities serving one month's notice on the Company by letter dated 25 January 2005. The agreement contained certain warranties, undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with applicable laws and regulations and an agreement to provide Arbuthnot Securities with certain information whilst it remained nominated adviser. The agreement provided, initially, for a payment of an annual retainer of £10,000 plus VAT which, on 8 October 2004, increased to £25,000 plus VAT. The agreement, together with the engagement letter between Arbuthnot Securities and the Company

dated 30 June 2004 also provided for the payment to Arbuthnot Securities of a corporate finance fee of £100,000 plus VAT, which was payable on 18 August 2004, in addition to the payment of certain other fees and expenses by the Company.

(l) *Lock-in agreements*

- (i) Lock-in and orderly marketing agreement in connection with the Admission. On 13 December 2005 each of the Directors and Susan Laker undertook (in connection with the Company's proposed Admission) to the Company and Hichens, Harrison that, except in limited circumstances, they would not sell or dispose of any of their Ordinary Shares for a period of 12 months from the date of Admission and that, for a further period of 12 months thereafter, they would only sell or dispose of their Ordinary Shares through the Company's broker from time to time. these arrangements supersede the lock-in agreements described in paragraph 7(l)(ii) and (iii) below.
- (ii) Lock-in and orderly marketing agreements in connection with the Company's admission to AIM on 30 July 2005. On 6 July 2005, each of the Directors and Susan Laker undertook (in connection with the Company's proposed admission) to the Company and Hichens, Harrison that, except in limited circumstances, they would not sell or dispose of any of their Ordinary Shares for a period of 12 months from 1 August 2005 and that, for a further period of 12 months thereafter, they would only sell or dispose of their Ordinary Shares through the Company's broker from time to time. These agreements supersede the lock-in agreements described in paragraph 7(l)(iii) below.
- (iii) Lock-ins and orderly marketing arrangements in connection with the Company's admission to AIM on 18 August 2004. On 12 August 2004, the Directors, European Power Systems A.G. and Secteur Holdings Limited which are substantial Shareholders as set out in paragraph 6(a)(ii) of this Part VIII, undertook (in connection with the Company's admission to AIM on 18 August 2004) to the Company and Hichens, Harrison that, except in limited circumstances, they would not sell or dispose of any of their Ordinary Shares for a period of 12 months from 18 August 2004 and that, for a further period of twelve months thereafter, they will only sell or dispose of their Ordinary Shares through the Company's broker from time to time. These agreements have all been superseded by the lock-in agreements described in paragraph 7(l)(i) above.

(m) *Orderly Market Agreement*

Orderly market agreement in connection with the Admission. On 13 December 2005 Technology Finance Limited undertook to the Company and Hichens, Harrison that for a period of 12 months from the date of Admission it would only sell or dispose of its Ordinary Shares through the Company's broker from time to time.

(n) *Option Agreement*

The Option Agreement with EGSA was entered into on 9 July 2004 and provided the Company with an option to acquire ESA on the terms of the draft share purchase agreement attached to the Option Agreement (details of the share purchase agreement are set out in paragraph 7(e) above). This option was exercised on 8 October 2004.

(o) *Broker Warrants*

The Broker Warrants are governed by an instrument entered into as a deed poll by the Company on 18 August 2004 under which the Company agreed to create and issue warrants conferring on the warrant holders the right to subscribe in cash at the 40 pence per share for up to 75,000 Ordinary Shares. The period during which the Broker Warrants can be exercised commenced on 18 August 2004 and expires on 18 August 2006. The Broker Warrants are transferable by the holder of them for the time being but will not be admitted to trading on AIM. The Company have issued to Hitchens, Harrison on 18 August 2004 75,000 Broker Warrants.

(p) *Warrant Instrument*

On 18 August 2004 the Company issued 1,000,000 Investor Warrants. One Investor Warrant was issued to each placee in the placing which occurred on 18 August 2004 for every 2 Ordinary Shares subscribed under such placing (ignoring fractions). The principal terms of the warrant instrument are as follows:

- (i) each Investor Warrant will entitle the holder to subscribe for one new Ordinary Share at the subscription price of 60 pence per Ordinary Share if exercised up to the first anniversary of the warrant instrument and 80 pence per Ordinary Share if exercised at any time thereafter up to and including 18 August 2006;
- (ii) Ordinary Shares issued on the exercise of the Investor Warrants will rank for any dividend or other distribution declared, made or paid on any date after the date on which the relevant Investor Warrant is exercised and otherwise shall rank *pari passu* with the Ordinary Shares then in issue;
- (iii) the warrant instrument contains provisions for adjustment to the number of shares upon capitalisation of profits or reserves and for appropriate adjustments to the subscription price on a rights issue or on a subdivision or consolidation of share capital. Any offer made to the holders of the ordinary share capital of the Company to acquire shares that would give the offeror the right to cast a majority of the votes which may be cast on a poll at a general meeting, shall be notified to the holders of Investor Warrants who shall be given a period to exercise their Investor Warrants, failing which the Investor Warrants shall lapse;
- (iv) so long as any of the subscription rights under the Investor Warrants remain exercisable, the Company will not without the prior consent of the holders of Investor Warrants:
 - (A) modify the rights attached to the shares in its capital (whether issued or unissued) in any way which has, or might reasonably be expected to have, a material adverse effect on the rights of the holders of Investor Warrants;
 - (B) make any distribution of capital reserves (except by means of a capitalisation issue in the form of fully paid Ordinary Shares) or issue securities by way of capitalisation of profits or reserves except fully paid Ordinary Shares; or
 - (C) reduce by repayment to the holders of shares in its capital, its share capital, share premium account or capital redemption reserve;
 - (D) Investor Warrants, which will be registered, will be transferable by instrument of transfer in any usual or common form or in any form approved by the Directors including in uncertificated form; and
 - (E) the rights of the holders of the Investor Warrants may be altered or abrogated with the prior written consent of the holders of 75 per cent. of the Investor Warrants.

(q) *Services Agreement*

On 23 July 2004 the Company and IPC entered into a Services Agreement. Under the Services Agreement, IPC agreed to provide certain office and facilities services, including a licence to occupy premises at IPC's offices, receptionist and secretarial services, Spanish/English translation services, general administration and IT support services for an aggregate annual fee of £120,000 with other services available on request at a separate charge. The monthly fee for the standard services is £10,000 plus VAT, payable monthly in arrears. The Services Agreement is for a period of 5 years, and commenced on 23 July 2004, and is terminable by either party on 1 month's notice.

(r) *Bank facility*

On 4 July 2005 Allied Irish Offshore (CI) Limited agreed to provide the Company with a £500,000 overdraft facility. The facility is repayable on demand although if no demand is made the period of borrowing will be one year from the date of first drawdown provided always that the capital is repaid

in full by 31 July 2006. Interest accrues at a rate of 1 per cent. above the bank's base lending rate (currently 4.75 per cent.). In addition to the arrangement fee of £5,000 the Company indemnifies the bank for all fees, charges and expenses incurred by the bank in connection with the facility. All amounts drawn-down under the facility (including interest) are to be secured by a security agreement and guarantee from Secteur Holdings Limited.

EGSA and its subsidiaries

(s) *Management Agreement*

On 13 December 2003 EGSA entered into an management agreement with IPOL for a period of 5 years which will terminate on 12 December 2008. Under the terms of the agreement IPOL will supervise the technical implementation and management of any new business plan of EGSA in accordance with the annual budget and also provide technical and management services which shall include the following but which is not limited to:

- 1.1 Selection of technology and technology provider for any such implementation and assistance to EGSA
- 1.2 Monitoring, maintaining and upgrading at EGSA's expense its technology and infrastructure
- 1.3 taking advantage of independent contractors and taking advantage of local resources
- 1.4 providing administrative, accounting, billing, credit etc and other general services
- 1.5 Operation, engineering, maintenance, construction, repair and other technical services as reasonably necessary for the operations of EGSA
- 1.6 Marketing sales and advertising and other promotional services
- 1.7 Assisting in hiring of personnel to manage and operate EGSA and market its services
- 1.8 Entering into agreements as agent for EGSA where necessary
- 1.9 Development and implementation of mechanisms for billing etc and plans for EGSA
- 1.10 Preparation of proposals for expansion or for capital improvement as necessary to comply with legal requirements or to meet market demand

IPOL are required to provide as much time and resource to EGSA as necessary to enable it to provide proper and efficient management and in return EGSA will provide to IPOL the management fee.

The management fee for providing the services shall be US\$300,000 per annum for day to day services but excluding any services related to any special projects or restructuring outside the scope of the day to day operations and management. The management fee shall be net of 12.5 per cent. remittance tax applicable in Bolivia. The management fee includes all taxes and charges (except for the 12.5 per cent. remittance tax which EGSA shall bear) i.e. IPOL shall bear the other taxes. Payment of the management fee shall be monthly in arrears. IPOL shall use reasonable efforts to provide resources, whether through independent contractors or otherwise at reasonable prices.

EGSA shall remain responsible for payment of all costs and expenses and shall reimburse IPOL for any expenses incurred with management and supervision of EGSA.

There are limitations on IPOL's authority and there are certain matters in respect of which IPOL cannot act without the prior authority of EGSA such as the granting of a security interest over any of its assets.

EGSA or IPOL may terminate the agreement on 30 days written notice where there has been a material breach not cured within 30 days of receipt of notice of the breach or if the other party is bankrupt.

Prior to termination IPOL is required to continue to provide the services under the agreement and shall be entitled to payment of its management fee up to an including the effective date of termination. IPOL shall also be entitled to a termination fee equal to the total management fee due and owing to IPOL for the most recent 3 complete calendar months prior to termination.

The parties have given the usual warranties in relation to execution and capacity to enter into the management agreement and circumstances which would materially adversely affect the parties' ability to perform its obligations under the agreement.

IPOL excludes all liability in relation to warranties for merchantability or fitness for purpose with respect to its provision of services except as expressly provided for in the agreement. All other remedies except those expressly provided for in the agreement shall be excluded. IPOL shall not be liable for any special, incidental, consequential or punitive damages in rendering the services and EGSA shall indemnify IPOL for any claims made under any warranty or representation given by EGSA.

IPOL warrants to EGSA that it will exercise all reasonable care in performing the services and it will pass and assign to EGSA all manufacturer or distributors' warranties.

The agreement is governed by Bolivian Law.

9 LITIGATION

There are no legal or arbitration proceedings active, pending or threatened (so far as the Directors are aware) against or being brought by any member of the Enlarged Group, which have, or may have had since its incorporation, a significant effect on the financial position of any member of the Enlarged Group.

10 WORKING CAPITAL

The Directors are of the opinion, having made due and careful enquiry, that, taking into account the net proceeds of the Placing and the available bank facilities, the working capital available to the Enlarged Group will be sufficient for its present requirements, that is for at least the next 12 months from the date of Admission.

11 TAXATION

The following information is based upon the law and practice currently in force in the United Kingdom. Except when expressly stated, it applies to persons resident in the United Kingdom for tax purposes holding shares as an investment. The information is of a general nature only, and is not a full description of all relevant tax considerations. In particular, it does not apply to persons who do not hold their Placing Shares as investments. **Any person who is in any doubt as to his tax position should consult a professional adviser concerning his tax position in respect of the acquisition, holding or disposal of Placing Shares.**

(a) *Dividends - UK resident shareholders*

Under current United Kingdom taxation legislation no withholding tax applies on dividends paid by the Company.

Where the Company pays a dividend, a holder of Placing Shares who is an individual and who receives that dividend is generally entitled to a tax credit in respect of the dividend received. The tax credit currently equals 10 per cent. of the combined amount of the dividend and tax credit. Such individuals will be liable to income tax on the aggregate of the dividend and tax credit (the "gross dividend"), which together will be regarded as the top slice of the individual recipients' income for tax purposes and will be subject to UK income tax at the rates of tax described below.

Individual shareholders who are liable to income tax at lower or basic rate will be liable to tax on the gross dividend received at the rate of 10 per cent. This means that the tax credit will fully satisfy the individual's liability to pay income tax at the lower or basic rate.

The rate of income tax applied to dividends received by individual shareholders liable to income tax at the higher rate will be the Schedule F upper rate (currently 32.5 per cent. of the gross dividend). After taking into account the 10 per cent. tax credit a higher rate tax payer will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend.

A corporate shareholder who holds shares as an investment should not be liable to UK corporation tax on any dividend received from the Company.

Shareholders who are not liable to income tax on the dividend income cannot reclaim payment of the tax credit from the Inland Revenue.

(b) *Dividends – non UK resident shareholders*

Shareholders not resident in the UK are generally not taxed in the UK on dividends received by them. By virtue of double taxation agreements between the UK and other countries, some overseas shareholders may be able to claim payment of all or part of the tax credits carried by the dividends they receive from UK companies. Persons who are not resident in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax credit in the jurisdiction in which they are resident.

(c) *Taxation of chargeable gains*

Any disposal of Placing Shares by a shareholder resident or ordinarily resident for tax purposes in the UK or a non-UK resident shareholder who carries on a trade, profession or vocation in the UK through a branch or agency and has used, held or acquired the Placing Shares for the purposes of such trade, profession or vocation or such branch or agency may, depending on the shareholder's circumstances, and subject to any available exemptions, allowances or reliefs, give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (or for companies, corporation tax on chargeable gains unless the gain is exempted by the Substantial Shareholding Exemption legislation). Special rules apply to disposals by individuals at a time when they are temporarily not resident or ordinarily resident in the UK.

The amount of any chargeable gain may be reduced by indexation (in the case of Shareholders who are UK Resident Companies) or taper relief (in the case of individual and certain trustees).

(d) *Stamp duty and stamp duty reserve tax*

No liability to stamp duty or stamp duty reserve tax ("SDRT") will arise on the allotment of new Placing Shares by the Company pursuant to the Placing.

The conveyance or transfer on sale of Placing Shares, which are held in certificated form following registration will be subject to stamp duty on the instrument of transfer, at the rate of 0.5 per cent. (rounded up to the nearest multiple of £5) of the amount of the value of the consideration. The agreement to transfer such shares or warrants will also give rise to a SDRT liability, again at the rate of 0.5 per cent. of the amount of the value of the consideration. This liability is cancelled (and any SDRT paid, refunded) if the agreement is completed by a duly stamped transfer within six years of the agreement becoming unconditional. Where Placing Shares are held in uncertificated form within CREST a liability to SDRT will arise where a change in the legal and/or beneficial ownership of those ordinary shares occurs.

The above is a summary of certain aspects of current law and practice in the UK. Any person who is in any doubt as to his tax position or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

12 CONSENTS

- (a) Daniel Stewart has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they are included.
- (b) Grant Thornton has given and has not withdrawn its written consent to the issue of this document with the inclusion of its reports and the references to its name in the form and context in which they are included.

- (c) Hichens Harrison has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they are included.

13 CONTRACTS OF FUNDAMENTAL IMPORTANCE

- (a) Save as set out in this document, there are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes on which the Business of the Enlarged Group is dependent.

14 GENERAL

- (a) Other than as described in this document, there has been no significant change in the trading or financial position of the Group since 30 June 2005, the date to which the latest historical financial information of the Group in Part III A of this document is made up. Other than described in this document, there has been no significant change in the financial or trading position of Bolivia Integrated or Guaracachi America, Inc. or EGSA since 30 June 2005, the date to which the latest historical financial information in Parts IV A and V A of this document is made up in respect of those companies.
- (b) It is estimated that the total expenses payable by the Company in connection with the Placing and Admission will amount to approximately £1,185,000 (excluding value added tax).
- (c) The amount payable on application and allotment of each Placing Share is 42 pence of which 40 pence is payable by way of premium to the nominal value of the Ordinary Shares.
- (d) The Company is not required to make an application to CRESTCo for the Placing Shares to be settled through CREST and to be admitted as a participating security as the CREST enablement letter issued in connection with the previous placing by the Company on 18 August 2004 is still effective. It is expected that the admission of the Placing Shares in CREST as a participating security will be effective from Admission. Holders of the Placing Shares who are direct or sponsored members of CRESTCo will be able to dematerialise their Placing Shares in accordance with CREST Regulations.
- (e) Save as disclosed in this document:
 - (i) there are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Enlarged Group's business;
 - (ii) the Directors are not aware of any exceptional factors which have influenced the Enlarged Group's activities; and
 - (iii) the Enlarged Group has no significant investments in progress.
- (f) In the opinion of the Directors, the minimum amount which must be raised by the allotment of Ordinary Shares pursuant to the Placing is as follows:
 - (i) Purchase of Property £Nil
 - (ii) Preliminary Expenses and commissions (excluding VAT) £1,185,000
 - (iii) Repayment of money borrowed in respect of (i) and (ii) above £Nil
 - (iv) Working capital £Nil
 - (v) Initial consideration for the Acquisition US\$30,000,000. There are no amounts to be provided in respect of the matters aforesaid otherwise than out of the proceeds of the Placing.
- (g) Except as detailed in this document, no person (other than professional advisers as referred to in this document and trade suppliers) has received, directly or indirectly, from the Company within the twelve months preceding the date of this document, and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:
 - (i) fees totalling £10,000 or more;

- (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
 - (iii) any other benefit with a value of £10,000 or more at the date of Admission, which includes all the existing shareholders of the Company.
- (h) The Directors confirm that the information in this document which has been identified as being sourced from named third parties has been accurately reproduced and that, as far as the Company is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- (i) The Ordinary Shares are in registered form and may be held in certificated form or under the CREST system, which is a paperless settlement procedure enabling securities to be evidenced and transferred otherwise than by a written instrument in accordance with the Uncertificated Securities Regulations 2001. The Company's Registrars are responsible for keeping and maintaining the Company's register of members. The International Security Identification Number of the Ordinary Shares is GB00B01XPW41.
- (j) As at 30 June 2004 and 30 June 2005, other than the Directors, the Company had no employees.
- (k) As at 31 December 2003, 30 June 2004, 31 December 2004 and 30 June 2005 Bolivia Integrated had no employees.
- (l) The table below summarises the number of employees at the end of each period reported in Part VB of this document for EGSA, in the following areas of expertise:

	<i>31 December 2002</i>	<i>31 December 2003</i>	<i>31 December 2004</i>	<i>30 June 2005</i>
Executive	5	5	5	6
Professional	9	7	9	10
Administrative	11	10	10	12
Skilled	31	30	30	30
Total	<u>56</u>	<u>52</u>	<u>54</u>	<u>58</u>

15 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Hammonds, 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH during normal business hours on any weekday (public holidays excepted) from the date of this document until a date one month following Admission:

- (a) the memorandum and articles of association of the Company;
- (b) the reports produced by Grant Thornton set out in Parts III, IV and V of this document;
- (c) the audited financial statements of the Company for the financial periods ended 30 June 2004 and 30 June 2005;
- (d) the material contracts referred to in paragraph 8 above;
- (e) the Directors' service agreements and letters of appointment referred to in paragraph 7 above;
- (f) the consent letters referred to in paragraph 12 above; and
- (g) this document.

16 AVAILABILITY OF THIS DOCUMENT

Copies of this document will be available free of charge at the registered office and the offices of Hammonds, 7 Devonshire Square, Cutlers Gardens, London, EC2M 4YH during normal business hours on any weekday (public holidays excepted) from the date of this document until a date one month following Admission.

Dated: 13 December 2005

RURELEC PLC

(incorporated and registered in England and Wales with company number 4812855)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Rurelec PLC (the “**Company**”) will be held at the offices of 5th Floor, Prince Consort House, 27-29 Albert Embankment, London SE1 7TJ at 10.00 a.m. on 5 January 2006 for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed in the case of resolutions 1, 2 and 3 as ordinary resolutions and in the case of resolution 4 as a special resolution. Definitions used in resolution 1 shall have the same meanings when used in subsequent resolutions where the context requires.

ORDINARY RESOLUTIONS

1. That the acquisition (the “Acquisition”) by Birdsong Overseas Limited, a subsidiary of the Company, of the entire issued share capital of Bolivia Integrated Energy Limited upon the terms and subject to the conditions contained in the acquisition agreement dated 12 December 2005 (the “Acquisition Agreement”), the material terms of which are summarised in Part VII of the admission document dated 13 December 2005 of which this notice forms part (the “Admission Document”), which constitutes a “reverse takeover” for the purposes of the AIM Rules (as defined in the Admission Document) be and is hereby approved pursuant to Rule 14 of the AIM Rules and the directors of the Company (the “Directors”) be and are hereby authorised to take all such steps as they consider to be necessary and desirable to effect the Acquisition in accordance with the terms of the Acquisition Agreement subject to such modifications as the Directors may consider expedient or appropriate.
2. That the authorised share capital of the Company be increased from £850,000 to £2,400,000 by the creation of a further 77,500,000 ordinary shares of 2 pence each.
3. That in substitution for all previous authorities the Directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the “Act”) to exercise all or any powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) in the capital of the Company up to:
 - (a) a maximum nominal amount of £938,775.50 in connection with the Placing (as such term is defined in the Admission Document);
 - (b) a maximum nominal amount of £21,500 in connection with the Warrants (as such term is defined in the Admission Document); and
 - (c) a maximum nominal amount of £409,732.65 (representing approximately 30 per cent. of the issued share capital of the Company following the Placing (as such term is defined in the Admission Document));

provided that this authority shall, unless it is (prior to its expiry) duly revoked or varied or renewed by the Company in general meeting, expire on the day falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2006 save that the Company may make an offer or agreement before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTION

4. That, subject to and conditional upon the passing of resolution 3 and in substitution for all previous authorities, the Directors be and are hereby empowered pursuant to the provisions of section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority

given to them by resolution 3 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

- (a) the allotment of equity securities up to an aggregate nominal amount of £938,775.50 in connection with the Placing (as defined in the Admission Document);
- (b) the allotment of equity securities up to an aggregate nominal amount of £21,500 in connection with exercise of the Warrants (as defined in the Admission Document);
- (c) the allotment of equity securities otherwise than pursuant to sub-paragraph (a) above in connection with any issue by way of rights or other offer where the number of equity securities to be allotted to holders of ordinary shares of the Company on a fixed record date is proportionate (as nearly as may be) to the number of ordinary shares then held by such shareholders, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of, any regulatory or stock exchange authority in any jurisdiction or in relation to fractional entitlements; and
- (d) otherwise than pursuant to sub-paragraphs (a), (b) and (c) above, the allotment of equity securities up to an aggregate nominal amount of £68,288.78 (representing approximately 5 per cent. of the issued share capital of the Company following the Placing (as such term is defined in the Admission Document),

provided that this power shall, unless it is (prior to its expiry) duly revoked or varied or renewed by the Company in general meeting, expire on the day falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company to be held in 2006 save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement as if the power conferred hereby had not expired.

13 December 2005

Registered Office:

5th Floor
Prince Consort House
27-29 Albert Embankment
London SE1 7TJ

By order of the Board
Susan Laker
Company Secretary

Notes:

- 1 Any person entered on the register of members of the Company at 10.00 a.m. on 3 January 2006 (hereafter referred to as a "member") is entitled to attend and vote at the extraordinary general meeting pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the register of members after the above time and date shall be disregarded in determining the rights of any person to attend and/or vote at the extraordinary general meeting.
- 2 Any member who is entitled to vote at the meeting is entitled to appoint one or more proxies to attend and to vote instead of him. A proxy need not be a member of the Company.
- 3 The completion and return of a form of proxy does not preclude a member from attending and voting in person at the meeting convened by this notice or any adjournment of it.
- 4 To be valid, such form of proxy and any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited with the registrars of the Company, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU in accordance with the instructions printed thereon, so as to be received no later than 48 hours before the time appointed for holding the meeting.