**Rurelec PLC**

**("Rurelec" or "the Company")**

**Audited results for the year ended**

**31st December 2018**

Rurelec PLC (AIM: RUR), the electricity utility focused on ownership and operation of power generation plants in Latin America, announces its audited results for the year ended 31 December 2018. The annual report will be available from the Company's website www.rurelec.com from 05 June 2019.

**Highlights**

- Operating loss reduced by 22% to £2.9 million from £ 3.7 million.
- Major improvement in loss before tax, reducing to £0.6 million (2017: £5.8 million).
- The main drivers for the major reductions in losses have been the combined effect of a reduction in Administrative Expenses to £1.5 million (2017: £2.1 million), a book gain £1.3 million (2017: £nil) on the disposal of our Peruvian operations, favourable exchange rate gains of £1.7 million, mainly associated with loans to Argentine operations (2017: losses £2.5 million) and a reduction in interest payable to £177k (2017: £420k).
- Further write downs of assets by £2.7 million (2017: £1.7 million) to values the directors believe can be supported in current market conditions accounting for much of the operating loss.
- Major investment in the refurbishment of the Argentinian plant's steam and gas turbines. Of a total investment programme of US $8.8 million of capital and maintenance expenditure, US $6.6 million was funded by local debt from CAMMESA in Argentina and the remaining US $2.2 million was funded by internal resources and insurance payments.
- Disposal of Peruvian operations for consideration of US $250k, generating a one-off book gain of £1.3 million (2017: £nil). US $175k of this consideration was received in the year.
- Total loss per share 0.11p (2017: 1.04p).
- Net Asset Value per share 4.4p (2017: 4.5p).

The annual general meeting (the "AGM") of Rurelec PLC will be held at the offices of W.H. Ireland Group PLC at 24 Martin Lane, London, EC4R 0DR at 11.00 a.m. on 27 June 2019.

**Commenting on the results, Simon Morris and Andy Coveney, Rurelec's Executive Directors, said**:

The Group continued to repay secured and unsecured debt despite the problems associated with the reduced output and constricted cash generation of the Group's Argentinian plant, a problem which persisted from September 2017 until end January 2019.

The overall loss before tax for the year of £0.6 million (2017: £5.8 million) reflects further write downs on a number of the Group's assets, principally £2.4 million (2017: £1.3 million) for loans to the Joint Venture and £0.2 million (2017: £0.3 million) for the turbine acquired for the cancelled Arica Project, to values that the directors believe can be supported in current market conditions and given the overall financial position of the Group. Losses are after £1.7 million of foreign exchange gains (2017: £2.5 million losses).

Group current liabilities are £2.0 million at 31 December 2018, this compares to £2.4 million at 31 December 2017. This excludes liabilities held for sale of £3.5 million at 31 December 2017, the vast majority of which represented borrowings that had been overdue for over 3 years.

As in the two previous years, Group cash generation was again hit by intermittent cash remittances from Argentina. However, the Group has been able to weather this storm due to reductions in Group operating costs and the disposal of the Group's cash-absorbing Peruvian operations.

Although there have been improvements in the Group's finances, liquidity still remains a significant issue for the Group and the auditors have assessed that there remains a material uncertainty around the Group's cashflow.

**For further information please contact:**

| **Rurelec PLC** | **W.H.Ireland** |
|---|---|
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Rurelec PLC is an owner, developer and operator of power generation capacity internationally.

Rurelec's main business consists of the ownership, operation and development of power generation facilities on national and regional grids, selling wholesale electricity as a generator on commercial terms, through capacity payments and/or power purchase agreements ("PPAs").

Rurelec's current business is centred on Rurelec's share of an operational plant in Argentina whilst also seeking to complete the development of its project in Chile or sell its interests in that project.

## Non-Executive Director's Statement

## Brian Rowbotham

Dear Shareholder

It is my duty to present the results of Rurelec PLC ("Rurelec") for the financial year ended 31 December 2018, a year which has seen some stabilisation in the Company's financial situation. During the course of the year, the Company was offered an extension of its original bridging facility from Bridge Properties (Arena Central) Limited ("BPAC"). Since the year end these facilities have been further extended to the end of June 2020. The Group has repaid £0.4 million of interest (2017: £0.3 million principal and £0.1 million of interest) of the total bridging facility of £1.2 million at the end of the year (2017: £1.6 million).

### Outlook

Argentina

As you have been made aware, our joint venture Argentinian asset continued to operate at reduced output during 2018. The planned maintenance of the EdS plant was delayed due to CAMMESA not being able to provide agreed loan finance on time for the major maintenance of the steam and gas turbines and generators due to its own shortage of liquidity. Of a total investment programme by EdS, to which Rurelec has not contributed, of US $8.8 million of capital and maintenance expenditure US $6.6 million was funded by local debt in Argentina and the remaining US $2.2 million was funded by internal resources and insurance payments.

The Directors believe the longevity and cash-generating ability of Rurelec's interest in these assets has been enhanced by the overhaul of the EdS plant's steam turbine from October 2018 to January 2019. This included the complete replacement and upgrading of the rows of turbine blades removed following the 2017 September blade failure incident. During this period EdS also installed a brand-new rotor in one of the two gas turbines and plans to refurbish the rotor and generator of the other gas turbine in Quarter 4 2019. Further updates on this will be provided in due course, as appropriate. The plant has also invested in the installation of exhaust stacks on both gas turbines which will allow the plant to run in Open Cycle mode (i.e. the gas turbines will be able to operate independently of the steam turbine should full capacity not be required or there are future technical problems with running in Combined Cycle). When complete, this investment programme spend will total capex of US $6.6 million, additionally a further US $ 2.2 million of works will be expensed. This will be paid for by EdS, and Rurelec will not need to contribute to this investment programme.

The Directors believe that the carrying out of the refurbishment works should reduce the operating risk of running the Argentinian plant and should extend the plant's life. The reinvestment programme has been largely funded by external debt from CAMMESA (the organisation administering and regulating the Argentinian wholesale electricity market). This has occurred against a background in 2018 of significant problems in the Argentinian economy and the market for wholesale electricity.

The restoration of the Argentinian plant to full capacity in early 2019 is key in enabling regular repayments of the outstanding loans from the Group to the Argentinian plant to resume. The Directors believe that the considerable investment in the refurbishment programme of the steam and gas turbines in 2018 and 2019 should stabilise and lengthen the operational life of that power station.

The Directors believe that, against a background of economic growth and increasing wholesale market demand for Argentinian electricity and economic reform in Argentina under the Macri administration fostered an environment where foreign investment in utilities had become attractive. However, the Argentinian economy suffered a major economic crisis and significant economic decline in 2018 culminating in a US $50 billion IMF bail-out being announced in June 2018 supplemented by a further increase in the bailout package to US $57 billion in September 2018. This was the largest ever IMF bailout[1]. This followed major devaluations in the

[1] https://www.thebanker.com/Banking-Regulation-Risk/Rescuing-Argentina-will-the-rope-snap-after-IMF-bailout

Argentinian Peso, particularly in April and August 2018. Inflation has risen to annual rates exceeding 47%[2]. This year, EdS has had to produce inflation accounts in Argentina as a result. The benchmark interest rate hit 60%. At the end of 2014, there had been 8.5 Argentinian Pesos to the US dollar, by the end of 2018 that has declined to 37.7[3] Pesos to the US Dollar. It is relevant to note that EdS benefits from receiving revenue in Pesos at a rate pegged to the US dollar, which protects revenue but most of its costs are denominated in Pesos. As a result, hyperinflation measures under Argentine GAAP have been implemented by EdS and were used in the preparation of the notes to the accounts relating to EdS included in these statements. As the results for EdS are treated on an equity accounted joint venture basis, the directors believe that they have not had a material impact on Group Results.

Against this background of economic uncertainty and decline, the Argentinian Secretariat of Energy who regulate the wholesale electricity market through CAMMESA have imposed austerity measures that are affecting the wholesale market for electricity. This includes downward pressure on spot market prices for wholesale electricity. CAMMESA has experienced its own liquidity shortage and this resulted in delays in providing the debt for EdS to fund its major maintenance programme, and has also resulted in extensions to the credit period taken by CAMMESA to pay generators for the electricity they have generated.

During 2018, the Rurelec Board have helped guide the direction of operations in Argentina, guiding and assisting EdS management through a period of reinvestment at a time when finances have been stretched by the plant operating at significantly reduced output.

Chile and the Group's two 701DU Siemens turbines

It is the Director's belief that, given the prioritisation of sustainable power generation projects in Chile, the opportunities for new gas thermal generating plants in Chile has become very limited. The Group's Central Illapa project is understood to be one of the few consented gas thermal projects still available, albeit modifications to those consents may be necessary to develop the project. The Group continues to examine a range of options for the Central Illapa project in Mejillones and the 701 turbines consented for that site. This includes the active consideration of realising the value of the Group's two 701DU 128 MW turbines (currently stored in Italy) within the Illapa project or by separate sale. The Group's liquidity position continues to be a major factor in deciding which path will eventually be pursued.

Peru

After an extensive marketing exercise, the Group sold the remaining hydro portfolio in Peru, completion taking place on 30 January 2018. Given the continuing liquidity issues faced by the Group and uncertainties inherent in those projects, the capacity to finance this portfolio had been severely constrained. The sale has enabled the Group to reduce cash outflows needed to support this operation and Group cashflow has benefitted as a result. It also enabled £2.6 million of overdue borrowings to be passsed to the Purchaser as part of the sale agreement.

## Summary

Given the difficulties faced by the Argentinian operation in the period, the Rurelec Board note that the Group's financial position has strengthened as remittances from EdS have been received and the relationship with our JV partner, Basic Energy Limited has improved. It is also encouraging to note the major investments in refurbishing the steam and gas turbines and generators at the Argentinian plant which the Directors believe should maximise the opportunities for future income generation in Argentina and remittances to the Group now that plant has resumed normal operating output.

Overall, although the Group liquidity position remains tight, it has nevertheless improved but the ongoing working capital position of the Company depends on EdS continuing to make its loan repayments on time, and according to its schedule which can not always be guaranteed.

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Brian Rowbotham
Non-executive Director
5 June 2019

[2] https://www.reuters.com/article/argentina-inflation/update-1-argentine-annual-inflation-hit-27-year-high-in-2018-idUSL1N1ZF1QU

[3] https://www.xe.com/currencycharts/?from=USD&to=ARS&view=1Y

## Strategic Report

### Strategy

The overall strategy for the Group remains in line with that adopted in 2016. The Board has continued to stabilise the financial position of the Group, which will enable as much value to be realised from the asset portfolio. That value will then be returned to shareholders.

### Liquidity

The above strategy has been determined by the on-going financial position of the Group. From a position in late 2015, when the Group was close to insolvency, the financial position has gradually improved. The main borrowing of the Group remains the secured BPAC loan, which, after the year end, has been rescheduled for repayment on 30 June 2020. During 2018 £0.4 million interest was repaid on the BPAC loan, in line with the board's strategy to prioritise the repayment of the most expensive debt. The Group also made inroads in paying other creditor arrears with trade and other creditors falling by £132k in the year. The Board is working to a projection that, so long as funds continue to be received from the Argentinian operations in line with the level that EdS has forecast, will result in the Group becoming free of secured debt in 2019.

In September 2017 there was a shut-down of the EdS plant resulting from a steam turbine blade failure and temporary modification took place to that turbine in October 2017. From October 2017 to the end of January 2019, with the consent of CAMMESA, the output and resulting capacity payment revenue of the steam turbine was restricted to 20 MW, without the usually associated penalties, compared to its normal contracted capacity of 43.7 MW. This had the effect of reducing monthly income received by EdS by at least US $650k per month.

The operation of the EdS plant at reduced output remained in place until the major maintenance of the steam turbine could be carried out from October 2018 to January 2019. During that maintenance the Steam turbine was completely overhauled, and the rotor and missing turbine blades were replaced. At the same time the steam turbine generator was overhauled and one of the gas turbines also underwent a rotor replacement and overhaul. Whilst this had been planned for Quarter 2 2018, it was delayed until Q4 2018 due to delays in the advancing of funds by CAMMESA as a result of the financial problems being experienced by the Argentinian economy. The material loss of revenue of EdS resulting from extended period of reduced power output resulted in significant cash pressure being placed on the Argentinian operation and debt repayments to the Group became intermittent as a result.

Despite the loss in revenue, EdS was able to remit debt repayments totalling £2.0 million to the Group in 2018. This compares to £3.3 million in 2017 (which had been affected by two outage events). EdS's ability to do this was assisted by an insurance settlement agreement relating to the claim concerning the September 2017 turbine blade failure. EdS received insurance proceeds of US $2.3 million in May 2018. In 2017 US $1.6 million was received from EdS's insurers in September relating to a separate previously reported incident.

EdS's existing Power Purchase Agreement (PPA) "Resolution 220", which has governed the remuneration of capacity and generation payments on the steam turbine since October 2010 is due to expire in October 2020. The level of the replacement tariff will have a significant effect on EdS's revenue generation from October 2020 onwards. Although it has no clear indication of what will happen, it is the Board's belief (based on informal information gathered by the local management team in Argentina) that the revised pricing structure will be lower than current contract levels.

### Financial results

The operating loss for the year of £2.9 million is an improvement on that incurred last year (2017: £3.7 million). Continuing strict control over administration expenses resulted in costs of £1.5 million, compared to 2017: £2.1 million. Write-downs in the carrying value of certain Group assets totalled £2.7 million (2017: £1.7 million) which has led to a marked impact on the results when compared to last year. These write downs reflect the Board's view of the carrying value for the Group's assets in current market conditions. The overall loss before tax for the year was £0.6 million (2016: £5.8 million). This included foreign exchange gains of £1.7 million (2017: £2.5 million loss).

The Group concluded the sale of our Peruvian assets. The sale completed on 30 January 2018, the carrying value in these accounts is a debtor of US $75k, this reflects the amount outstanding at the year end from the sale and purchase agreement. The cash consideration for the sale was US $250k. The Group made a one-off £1.3 million gain in the year on the disposal.

Unless there is a significant disposal of assets, the Group is dependent upon debt repayments from Argentina in order to comply with payment arrangements made with its creditors. There still exists some uncertainty as to the timing and the quantum of those receipts. The Directors believe this uncertainty is now partly driven by the effects on EdS of austerity measures imposed by the Argentinian Secretariat of Energy and CAMMESA.

In previous year's accounts, the Director's have reported that because of uncertainty over the timing of receipts, they have had to pursue alternative sources of working capital. However, as at 31 December 2018, having considered the cash forecasts from the Argentinian operation the Directors believe that so long as the Argentinian operation adheres to their forecasts, and makes all payments, bearing in mind the reduced outgoings of the Group, there is currently sufficient headroom in existing working capital facilities to avoid the need to seek further sources of working capital.

## Key performance indicators

The Directors use a range of performance indicators to monitor progress in the delivery of the Group's strategic objectives, to assess actual performance against targets and to aid management of the businesses.

Rurelec's key performance indicators ("KPIs") include both financial and non-financial targets which are set annually.

### *Financial KPIs*

Financial KPIs address operating profitability, net asset value and earnings per share.

i) Operating profitability

Operating loss excludes all non-operating costs, such as financing and tax expenses as well as one-off items and non-trading items such as negative goodwill. The exclusion of these non-operating items provides an indication of the performance of the underlying businesses. The Group made an operating loss of £2.9 million in the year (2017 £3.7 million loss).

ii) Net asset value

Net asset value is calculated by dividing funds attributable to Rurelec's shareholders by the number of shares in issue. The net assets of the Group reduced in the year to 4.4 pence per share (2017 4.5 pence per share).

iii) Earnings per share

Earnings per share provide a measure of the overall profitability of the Group. It is defined as the profit or loss attributable to each Ordinary Share based on the consolidated profit or loss for the year after deducting tax. Growth in earnings per share is indicative of the Group's ability to identify and add value. The Group made a loss of 0.11 pence per share in the year (2017: loss of 1.04 pence per share) and hence there were no positive earnings per share.

### *Non-Financial KPIs*

Non-financial KPIs address other important technical aspects of the business, such as gross capacity, operating efficiency and availability.

i) Gross capacity

Gross capacity is the total generation capacity owned by Group companies and is affected by acquisitions, expansion programmes and disposals. EdS in which the Group has a 50% interest has an installed nominal capacity output of 138 MW. No additional capacity was added in the period. The group continues to own three turbines ready for deployment in projects or onward sales. Two of these have a nominal capacity of 125MW, the other 38MW.

ii) Operating efficiency

Operating efficiency is the average operating efficiency of the generating plant owned by Group companies. It can be improved through the installation of more thermally efficient turbines, refurbishment activities or through conversion to combined cycle operation. Due to the period, from October 2017 until the return to full production in January 2019, where a single turbine was running in open cycle the annual heat rate rose to 9.78 BTU/kWh (2017: 8.76 BTU/kWh).

iii) Technical availability

Technical availability measures when a plant is available for dispatch. The measurement method excludes time allowed for planned maintenance activities which occur at regular intervals during the life of the unit plus an allowance for unplanned outages. Unplanned and forced outages in excess of the annual allowance will cause a reduction in the technical availability factor. Average availability through the year for our plant in Argentina reduced to 64.4 per cent. due to the continued effect of operating at reduced output following the September 2017 steam turbine blade failure (2017: 68.9 per cent.).

## Review of Financial Performance

### Group Results

The Group loss after tax for the financial year under review is £0.6 million (2017: £5.8 million loss). This included foreign exchange gains of £1.7 million (2017: £2.5 million loss). The impairment losses, totalling £2.7 million (2017: £1.7 million), were £2.4 million (2017: £1.3 million) for Argentinian operations and £0.2 million (2017: £0.3 million) for Chilean operations. This excludes the foreign exchange gain on the 701 turbines of £0.6 million (2017: foreign exchange loss £0.9 million).

Group revenue was nil (2017: nil), Operating and Administrative expenses amounted to £1.5 million (2017: £2.1 million). Operating loss was £2.9 million (2017 £3.7 million loss). The loss before tax is £0.6 million (2017: £5.8 million loss). The basic loss per share is 0.11p (2017: 1.04p loss). Total assets are £26.8 million (2017: £31.1 million this included assets of £2.3 million which were held for sale in 2017). Total equity stands at £24.8 million (2017: £25.2 million), or a Net Asset Value of 4.4 pence per share (2017: 4.5 pence per share).

The results for the operations in Argentina, Peru, and Chile are shown below.

### Energia del Sur S.A. Results

After the application of Argentine GAAP accounting treatments to recognise the effects of hyperinflation, at the operating level the plant in Comodoro Rivadavia and therefore based on 100% of EdS's activities the net operating profit for the year was AR$ 158.3 million (2017: AR$ 89.7 million) on revenues of AR$ 672.3 million (2017: AR$ 379.6 million), whilst the gross operating profit was AR$ 670.3 million (2017: AR$ 369.9 million). The net pre-tax loss for the year at EdS was AR$ 20.4 million (2017: profit AR$ 47.2 million) which included foreign exchange losses of AR$ 172.7 million (2017: AR$ 30.8 million).

As set out in note 22 the Directors have determined that the relationship with EdS is a joint venture and is therefore equity accounted.

### Rurelec Chile

The development operations in Chile have expensed limited direct costs in the year of £167k (2017: £211k). Capitalised development costs are £ 0.2 million (2017: £0.2 million) on the Central Illapa project. In 2018 the Arica project/turbine was impaired by £0.2 million (2017: £0.3 million). The development costs associated with the Central Illapa project were not impaired in 2018 or 2017.

### Cascade Hydro Power (Peru)

As previously mentioned, the Peruvian subsidiaries and UK holding company, Cascade Hydro Limited, have been disposed of, the sale completed on 30 January 2018. The Group has no further funding commitments to these entities. In the prior year accounts the assets and liabilities are recorded as held for sale. The sale proceeds are US $250k, of which US $175k had been received by the date of this report.

## Review of Operations

### Argentina

Operations at the power plant were affected by the breakdowns September/October 2017. Gross energy output was 15.0 per cent. lower at approximately 602 GWh (2017: 708 GWh), this was due to unplanned and forced outages. The average heat rate of the plant was 9.78 MMBTU/kWh (2017: 8.76). The average heat rate for the plant includes fuel consumption on both the gas turbines and auxiliary firing of the steam turbine.

The following table sets out the Group's 50 per cent. share of its interest in Patagonia Energy Limited ("PEL") the BVI registered joint venture holding company of EdS, it's 100 per cent. owned Argentinian operating subsidiary:

| | Year ended 31.12.18 £'000 | Restated Year ended 31.12.17 note 1 £'000 |
|---|---|---|
| Revenue attributable to the Group | 8,715 | 8,710 |
| Expenses | (8,837) | (8,803) |
| Foreign Currency Exchange | (2,225) | (728) |
| Net Loss | (2,347) | (821) |
| Non-current Assets | 14,327 | 24,046 |
| Current Assets | 2,523 | 4,853 |
| Non-current Liabilities | (26,548) | (26,635) |
| Current Liabilities | (3,714) | (5,260) |

note 1 restatement to take into account the effects of hyperinflation, see note 22

## Chile

Arica

Following the reassessment of the project the Board is considering deploying the Frame 6B turbine acquired for the project elsewhere. An application has therefore been made to the state asset bureau for a refund of the purchase price for the land and a buyer is to be sought for the turbine. Given the uncertainty of the future sale of the turbine and the recoverability of the land cost an impairment charge of £0.2 million (2017: £0.3 million) has been recorded in the year.

Central Illapa

The project, has continued to make some progress in development (which has involved the obtaining of a renewal of the necessary environmental consents granted for the project and an application has been made for a new construction period for the project from Ministerio de Bienes Nacionales, the Chilean Ministry of National Assets), which had expired,whilst the company pursues various options. The company expects the application for the new construction period to be successful as there are a limited and diminishing number of unbuilt gas thermal plants which have a consented site (and the Directors believe these are needed to provide electricity in the periods where sustainable sources cannot operate effectively).

The Group's carrying value for projects is assessed for possible impairments. In light of current local market conditions, in order for the project to be attractive to joint venture partners, the capital value of the 701 Siemens turbines going into the project has been assessed at US $12.0 million. The Directors also obtained an independent valuation produced by a competent person. The report stated that the price in the turbine market is unchanged from the prior report in that the fair value of the turbines as being US $12.0 million. Therefore, no impairment has been charged in the year (2017: nil) and, after exchange rate differences an increase in the asset value of £0.6 million has been recorded in 2018 (2017: exchange loss £0.9 million).

Future developments have been considered in the non-executive's Director's statement.

## Principal risks and uncertainties

The principal risks and uncertainties facing the Group, are possible changes in demand and pricing for electricity in the markets in South America in which the Group operates, political risk, and uncertainties in the financial markets, and unexpected operational events.

a) Political risk – there exists significant political risks in areas where the Group operates. These include potential for unfriendly actions towards foreign investments and the possibility that domestic economic instability could lead to political unrest or vice versa. These are significant risks to Rurelec.

b) Financial markets – Whilst project finance may be available in the markets in which the Group operates, the Group's plans remain dependent on raising project finance from a combination of local partners and lending institutions. The Group is seeking to broaden its base of potential partners and lending institutions.

c) Exposure to foreign currency – The Group's activities are in South America and therefore the Group's results will be affected by exchange rate movements and local inflation rates. Furthermore, past experience has shown that exchange controls restrictions can sometimes be applied, and these may have an impact on the Group's ability to repatriate funds to the parent company. The Group seeks to limit these risks by raising funds in the currency of the operating units.

d) Efficient operation – The Group has an effective maintenance programme and has entered into long term service agreements to reduce these risks as appropriate.

e) Liquidity – The Group needs to be in a position to meet its short-term cash requirements. Please see Going Concern in the Directors Report and note 1b for further details.

The Strategic Report was approved by the Board of Directors on 05 June 2019 and was signed on its behalf by:

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Simon Morris (Executive Director)

## BOARD OF DIRECTORS

**BRIAN ROWBOTHAM**
Non-Executive Director
Brian is the Senior Independent Non-Executive Director and Chairman of the Audit Committee. He worked as a Chartered Accountant with Deloitte and Touche. He has extensive experience working in the City of London, joined Teather and Greenwood in 1997 and was involved as partner and then Finance Director in the company's flotation on AIM and subsequent move to the Official List. He ran his own consultancy specialising in turnarounds and start-ups until joining Hitchens, Harrison & Co plc in January 2005. He left Hichens, Harrison & Co plc after its acquisition by Religare in 2008. Brian is a Fellow of the Institute of Chartered Accountants in England and Wales.

**SIMON MORRIS**
Executive Director
Fellow of the Institute of Chartered Accountants in England and Wales qualified as a Chartered Accountant in 1980. After obtaining a degree in Business Studies, spent his career with Grant Thornton and became a partner in 1988. He specialised in corporate finance and corporate recovery, principally restructuring work. He was appointed Chief Operating Officer of Grant Thornton UK in 2008, retiring in late 2011. Since then he has acted as a business consultant. He is also an accredited mediator.

**ANDY COVENEY**
Finance Director
Member of the Institute of Chartered Accountants, qualified as Chartered Accountant in 1990. After obtaining a degree in Geology from the University of Durham he joined Deloitte Haskins & Sells, later moving into Corporate Finance advisory work with Coopers & Lybrand. Andy left the profession in 1993, embarking on a career as finance director/managing director of several manufacturing & distribution businesses, specialising in turnarounds, cash flow management and profit improvement, including CP Pharmaceuticals (Holdings) Ltd, Benders Holdings Ltd and Bernstein Holdings Ltd. He established his own advisory and consultancy business in 2011 to specialise in, and invest in, business turn arounds and growth companies.

## DIRECTORS' REPORT

The Directors submit their annual report together with the audited financial statements for the year ended 31 December 2018.

### Principal activities

The Company and the Group's principal activity is the acquisition, development and operation of power generation assets in markets in Latin America.

Since the Company's admission to AIM in August 2004, the Company acquired assets in Argentina and commenced development of new power generation projects in Peru and Chile since 2012. The power generation projects in Peru were sold on 30 January 2018.

### Results and dividends

The Group results for the year ended 31 December 2018 are set out in the Consolidated Statement of Total Comprehensive Income.

No dividend was paid during the year to 31 December 2018 (2017: nil).

### Share capital

Details of the issued share capital are set out in Note 16.

### Going concern

In previous years accounts, the Directors have reported that because of uncertainty over the timing of receipts, they have had to pursue alternative sources of working capital. However, as at 31 December 2018, having considered the cash forecasts from the Argentinian operation the Directors believe that so long as the Argentinian operation adheres to those forecasts, bearing in mind the reduced outgoings of the Group, there is sufficient headroom in existing working capital facilities to avoid the need to seek further sources of working capital.

Since the year end the Company has been in negotiations for prospective sales of Group assets. There exists uncertainty as to if and when these sales complete, in addition to the timing of the sales of assets as well as the quantum of the corresponding proceeds.

Unless there is a significant disposal of assets, the Group remains reliant on repayments of loans from its joint venture Argentine operations. This in itself has led the Auditors to conclude that a material uncertainty surrounds the future of the Group, further details are in the Audit Report as the quantum and timing of such receipts may be subject to variation and are not guaranteed as there is no formal agreement in place. Loan repayments from the joint venture are expected to be sufficient to meet the working capital requirements for the Group as full generating capacity is expected to be restored following the major maintenance of the plant in later 2019.

On the basis that the Group receives the joint venture remittances referred to above, the Directors have assessed that the Group would have sufficient working capital based on their review of cashflow forecasts for a period of at least 12 months from the signing of the financial statements.

## Directors

The following Directors served during the year and up to the date of signature of the financial statements as follows:

**Brian Rowbotham** – Non-Executive Director
**Simon C. Morris** – Executive Director
**Andy H. Coveney** – Executive Director

## Directors' interests

The Directors' beneficial interests in the shares of the Company were on the reference dates as stated below:

| | 03.06.2019 | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| Brian Rowbotham | 450,000 | 450,000 | 450,000 |
| Simon C. Morris | - | - | - |
| Andrew H. Coveney | - | - | - |

## Directors' Indemnity

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company. Appropriate directors' and officers' liability insurance cover is in place in respect of all the Directors.

## Significant shareholdings in the Company

In addition to the shareholdings shown above, the Company is aware of the following interests of 3 per cent. or more in the issued ordinary share capital of the Company notifiable at 03 June 2019, being the last practicable date for reporting this information.

| | Number of shares | % holding |
|---|---|---|
| Sterling Trust Ltd | 303,092,303 | 53.989 |
| YF Finance Ltd | 96,565,166 | 17.201 |
| Mr & Mrs Scott | 16,841,500 | 3.00 |

The percentages shown are based on 561,387,586 shares in issue.

## Risk management and objectives

The financial risk management policies and objectives are set out in Note 24.

## Statement of directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report, Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Statement as to disclosure of information to auditor

As far as the Directors are aware, they have each taken all necessary steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

As far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

## Auditor

Moore Stephens LLP were re-appointed as auditors during the year. In February 2019, Moore Stephens LLP merged with BDO LLP. As part of this process Moore Stephens LLP resigned and BDO LLP were engaged.

Pursuant to Section 489 of the Companies Act of the Companies Act 2006, BDO LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

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**Maria J. Bravo Quiterio**
Company Secretary
05 June 2019

# CORPORATE GOVERNANCE REPORT

**for the year ended 31 December 2018**

## Introduction

## Statement from the Board of Directors

Until this year, Rurelec PLC (the "Company") has modelled its corporate governance, as far as practicable, on the UK Corporate Governance Code 2016, although as a listed AIM company under AIM Rules it was not formally required to do so.

On 8 March 2018, the London Stock Exchange issued revised rules for AIM-listed companies, within which there is a requirement under the AIM rules for AIM listed companies to apply a recognised corporate governance code from September 2018.

The Company has chosen to apply the QCA Corporate Governance Code (the "QCA Code") published in April 2018 and this Corporate Governance report for the year ended 31 December 2018 is based upon the QCA Code.

The principal means of communicating our application of the QCA Code are this Annual Report (pages 11-15) and our Corporate Governance section on our website (www.rurelec.com).

This statement has been collectively prepared by the board of directors of the Company (the "Board"). The Board welcomes the new QCA Corporate Governance Code as a useful guide to assist in articulating how the Company approaches and applies good corporate governance.

The members of the Board work closely together to manage the Company's activities and to chart the Company's long-term strategy.

This report sets out the Group's application of the Code, by the Board, and where appropriate, cross reference to other sections of the Annual Report.

Where our practices depart from the expectations of the Code, the Board has given an explanation as to why, at this time, it is appropriate for the Group to depart from the Code.

The QCA Code is constructed around ten broad principles and a set of disclosures which notes appropriate arrangements for growing companies and requires companies who have adopted the QCA Code to provide an explanation about how they are meeting those principles through the prescribed disclosures. In the paragraphs below, the Board explains how it has applied them.

The Board of Directors
Rurelec Plc

**Principle 1. Establish a strategy and business model which promotes long-term value for shareholders.**

The Board is committed to strengthening the Group's underlying financial position before seeking opportunities to consolidate or expand its business. The Board sets out to deliver long-term value to shareholders in the following ways:

- Stabilising the Group's position by reducing cash outflows;
- Reducing the Company's vulnerability to fluctuations in the timing of debt repayments receivable from subsidiaries and joint ventures;
- Working with joint venture partners to ensure that debts from those entities are repaid to the fullest extent possible;
- Paying off debts and creditor arrears to restore the business to financial stability;
- Using that financial stability to permit an orderly realisation of assets and investments in a timescale that allows maximisation of the proceeds of such sales;
- Where asset realisations are not possible in the short term due to market conditions, preserving the value of those assets and/or maximising the cashflow generated by those assets;
- Undertaking development of projects only where to do so involves low risk and where appropriate funding for the project has already been secured.

The execution of this strategy presents key challenges in the maximisation of returns on assets given market conditions. Those challenges are addressed by ensuring that the Company is stable enough to be able to avoid having to offload such assets when to do so would minimise value, instead choosing to seek opportunities to maximise the long term returns that will optimise value for shareholders.

The business model as to how the Company plans to make money for its investors revolves around maximising the long term collection of debts owed in connection with the joint venture formed to develop the Energia del Sur,

S.A. (“EdS”) business in Argentina, whilst repaying Rurelec’s own creditors and continually assessing the value and saleability of its assets with a view to developing and/or realising those assets in such a way as to maximise the returns to all shareholders.

**Principle 2. Seek to understand and meet shareholder needs and expectations.**

The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategy and financial position. Details of all shareholder communications are provided on the Group's website.

The Board regards the annual general meeting as a good opportunity to communicate directly with shareholders via an open question and answer session.

The Company lists contact details on its website and on all announcements released via RNS, should shareholders wish to communicate with the Board.

The resolutions put to a vote at past AGMs can be found in www.rurelec.com/investors/circulars

The Board seeks to engage with all shareholders as and when relevant information needs to be disclosed. The Board is cognisant or is aware of the fact that different shareholders may have different priorities regarding when those shareholders wish to realise their shareholdings and are mindful of the need to consider the interests of shareholders as a whole in this regard.

Shareholders can communicate with the Company through the email address in its website. The Board is responsible for reviewing all communications received from members and determining the most appropriate response.

**Principle 3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.**

The contraction of the Group and the focus on stabilisation of the financial position of the Company and Group has led to frequent communication at Board level within the Company and regular communication with suppliers/funders to maintain their confidence in the business model and strategy being pursued by the Board. The long-term success of the Group relies on maintaining open communication and good relationships with its stakeholders.

Communication also extends to the Board receiving regular updates and feedback within the small London-based workforce within the Company and there are also regular communications from the Executive Directors of the Group’s joint venture partner in the British Virgin Islands. The Group’s main trading asset is the joint venture operation in Argentina. This operation is run by a full-time local management team that maintains good relations with all key stakeholders to the business in Argentina, and which provides a close point of contact for the Board’s overseas operations.

The Executive directors travel regularly to Argentina to meet and grow its existing key stakeholders.

**Principle 4. Embed effective risk management, considering both opportunities and threats, throughout the organisation**

Given past changes in the Company’s financial position, the current Board consider risk management to be of paramount importance and this has driven its strategy of pursuing financial stability rather than risky expansion in order that shareholder value can be maximised through an orderly realisation of the Group’s assets. The risk position of the Group is considered on a very regular basis by the Board given the cash constraints that the Group has had to work within. The feedback on its strategy of pursuing a low-risk approach is received clearly in terms of reductions in cash outflow as measured by weekly reviews of cash forecasting models, and in terms of reduced exposure to fluctuations in cash inflow.

Although the Company does not undertake specific risk assessments, the Board as a whole undertakes regular views of the principal risks and uncertainties facing the Group as reported in page 6 of the Strategic Report. The Company is in the process of implementing a risk register which should be under the Audit Committee reporting to be compliant with the QCA Code.

**Principle 5. Maintain the Board as a well-functioning, balanced team led by the chair.**

Due to the size of the company, the Board believes that it can collectively and competency execute a clear leadership function without the appointment of a Chairman.

The Board takes collective responsibility for the quality of, and approach to corporate governance by the Company, governance and the systems and procedures by which the Company is directed and controlled. A prescribed set of rules does not itself determine good governance or stewardship of a company and, in fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of the shareholders, whilst having due regard to the interests of other 'stakeholders' in the Group including, in particular, customers, employees and creditors.

The Board is responsible for running the Company, including all major business and financial risks and taking strategic decisions.

The Directors communicate at least weekly on significant matters, in particular on matters affecting cashflow and on matters concerning the joint venture in Argentina.

Brian Rowbotham is considered to be independent since his appointment in October 2013. The board has evaluated the independence requirements of the QCA Code and considers that Brian Rowbotham continues to be independent.

The number of times the Board met during the year to 31 December 2018 was 20. All directors were present at all the Board meetings.

The three principal standing committees of the Board are the Audit, Nominations and Remuneration Committees.

**Audit Committee**

The Audit Committee comprises Brian Rowbotham and Simon Morris and is chaired by Brian Rowbotham. The Company's Auditors are normally in attendance. The Company is not compliant with its terms of reference or the requirements under the QCA Code, which requires that only independent Non-Executive Directors should sit on it. Instead the Audit Committee is comprised of the Boards Non-Executive Director and an Executive Director.

**Remuneration and Nominations Committees**

Currently only Brian Rowbotham is a member of these committees and therefore the Company is not compliant with its terms of reference or the requirements under the QCA Code, which requires that only independent Non-Executive Directors should sit on them.

The executive directors are part time directors of the Company although all directors are expected to commit sufficient time to the Company in addition to attending the Board meetings.

The Board minutes and papers are circulated to directors in good time and ahead of the relevant Board meeting.

The Board has established audit, remuneration and nominations committees which meet regularly. Details of the Audit, Remuneration and Nominations Committees:

| Director | Role at 31 December 2018 | Date of (re-) appointment | Board Committee | | |
|---|---|---|---|---|---|
| Brian Rowbotham | Senior Independent Non-Executive | 27.06.2018 | N | R | A |
| Simon C. Morris | Executive Director | 20.07.2017 | - | - | A |
| Andrew H. Coveney | Executive Director | 20.07.2017 | - | - | - |

N = Nomination Committee
R = Remuneration Committee
A = Audit Committee

The Audit Committee met 3 times during the year to 31 December 2018. All the committee members were present at the meetings.

Due to the size of the Company the Board does not comply with the principle that the Board should at least have two independent directors and therefore its committees' membership is also not compliant with their terms of reference. Given the current level of transactions within the Company, the Board considers that adequate resources are available at Board level.

**Principle 6. Ensure that between them, the directors have the necessary up to date experience, skills and capabilities**

The Company has three directors, Brian Rowbotham, Senior Independent Non-Executive Director, Simon Morris, Executive Director and Andrew Coveney, Executive Director. Biographical details of the Directors can be obtained in www.rurelec.com/about-us/board-of-directors-and-senior-management

As the financial position of the Group evolved, so have the skills required of its directors. The current directors have been chosen for their skills in maintaining, preserving and realising shareholder value by pursuing financial stability rather than by pursuing the aggressive expansion of the past. The two Executive Directors have a wealth of experience of dealing with the consequence of deterioration in the financial positions of businesses and in implementing the change necessary to restore such businesses back to stability. Those skills have been honed within financial and restructuring backgrounds. It is important that the directors are seen to be professional,

reliable, trustworthy and represent a safe pair of hands. All three directors are Chartered Accountants and have a variety of experience gained through long careers as directors in industry and commerce, and/or at partner level in professional firms. This experience has involved regular and frequent acquisition of enhanced skills in response to a series of challenges and situations encountered in different businesses and industries to supplement the updating of skills obtained through the membership of professional organisations.

The Board understands the challenges in regard to gender diversity and understands that more can be done to improve the gender balance as part of the composition of the Board.

The directors keep their skills up to date by attending regular professional briefings.

The directors receive briefings covering regulations that are relevant to their role as directors of an AIM-quoted Company from our Nominated Adviser ("Nomad") and lawyers. For example, the Board has consulted the Company's lawyers and Nomad on various disclosures and Market Abuse Regulation issues, amongst other corporate governance issues.

The Board is grateful for the regular, thorough and diligent input of a qualified professional Company Secretary who inputs into and is central to everything that goes on in the Company. As such the Company Secretary provides frequent advice to the Board. On legal matters, the Company Secretary is ably supported by external part-time counsel and the Company's solicitors. The Independent Non-Executive Director provides guidance and support on relevant matters on a regular basis.

**Principle 7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.**

The Board evaluates its own performance on a monthly basis and also regularly considers any feedback from external parties as and when that feedback is received.

Board performance is evaluated in the light of its own strategic objectives and tactical plans, in particular in relation to cash management and other financial forecasts. Any Board appointments are considered closely in relation to the ability of the proposed Director to make an active contribution to delivering value to shareholders though the achievement of the strategies and plans balanced against the cost of such an appointment.

The Company has not previously engaged any external evaluation for the performance of the Board members or external advisors for succession planning. Candidates to the Board have been proposed by the Board members based on their skills and experience and the requirements of the Company at the time of the appointment.

There are currently no formal evaluations of the Board.

**Principle 8. Promote a corporate culture that is based on ethical values and behaviours.**

The Group's corporate culture is based on creating an atmosphere of trust, openness, communication and professionalism. Due to the size of the Company, the Board is in very close contact with its employees and is able to engender professional development through teamwork in its day to day and strategic activities.

The Company currently has 6 employees (including the directors). The Board seeks to ensure that all of its employees are aware of its ethical values communicating on a personal basis with its employees and encourages the adoption of these values through the appraisal and recruitment process.

**Principle 9. Maintain governance structures and processes that are fit for purpose and support good decision making by the Board.**

In addition to the high level of explanation of the application of the QCA Code set out in the Chair's corporate governance statement:

- The Board of Directors (the Board) is responsible for approving Company policy and strategy. The Board meets regularly throughout the year. To enable the Board to perform its duties, each director has access to advice from the Company Secretary and independent professionals at the Company's expense.
- The Board comprises of 2 Executive Directors and 1 Non-Executive Director.
- Biographical details of the Board of Directors can be obtained in www.rurelec.com/about-us/board-of-directors-and-senior-management
- All matters are reserved for the Board although the Board has chosen to delegate some of them to the Audit, Remuneration and Nominations Committees which will issue advice to the Board on those matters. Some of the matters reserved for the Board include:
  - Reviewing, approving and guiding group strategy, annual budgets and business plans; setting performance objectives; monitoring and implementing corporate performance; and overseeing major capital expenditures and disposals;
  - Monitoring the effectiveness of the Company's governance arrangements and practices, making changes as needed to ensure the Company's governance framework complies with current best practices in accordance with the size of the Company;

- Monitoring and managing potential conflicts of interest that may arise with Board members, shareholders and external advisors;
- Overseeing the process of external disclosure and communications.

- The Board is also responsible for all other matters which are considered to be of importance to the Group as a whole because of their strategic, financial or reputational implications or consequences.
- The Board has established audit, remuneration and nominations committees which meet regularly. Details of these committees are set out in Principle 5 above.
- The Board has not used external consultants in the appointment of Directors.
- All Directors are subject to re-election by shareholders in accordance with the Company's Articles of Association.
- There are no plans to change the current governance framework.
- The Role of the Chair, includes:
  - to take the chair at general meetings and Board meetings;
  - providing leadership to the Board;
  - ensuring proper information for the Board;
  - planning and conducting Board meetings effectively;
  - getting all directors involved in the Board's work;
  - ensuring the Board focuses on its key tasks
  - supporting the chief executive;
  - determination of the order of the agenda;
  - ensuring that the Board receives accurate, timely and clear information;
  - keeping track of the contribution of individual directors and ensuring that they are all involved in discussions and decision-making;
  - to ensure effective communication with shareholders and, where appropriate, the stakeholders.
- The Role of CEO includes:
  - Advice to the Board;
  - Supporting operations and administration of the Board;
  - Leading the development of the Company's short- and long-term strategy;
  - Ensuring that the staff and the Board have sufficient up to date information;
  - Recommending the yearly budget for the Board's approval and managing the organisation's resources within those budget guidelines according to current laws and regulations;
  - Assessing risks to the Company and ensuring they are monitored and minimised;
  - Setting strategic goals and making sure they are measurable and describable;
  - Leading the Company and ensuring all employees buy into the Company's vision;
  - Setting the overall strategic direction of the Company alongside the Board;
  - Meeting with the Finance Director on a regular basis to review the Company's financial performance;
  - Managing the direction of the Company and guiding senior members of the Company;
  - Setting Company-wide KPI's to gauge the Company's performance in all areas;
  - Setting Company budgets and forecasts alongside the Finance director;
  - Reporting results to the shareholders on a half-year and annual basis.

**Principle 10. Communicate how the Company is governed and is performing by maintaining a dialogue**

Disclosure of the outcomes of all votes are in www.rurelec.com/investors/proxy-results

Historical annual reports and other governance-related material, including notices of all general meetings over the last five years can be obtained in www.rurelec.com/investors/circulars

Further disclosure required under QCA Principle 10 can be found in Principles 5 and 9 above.

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**Maria J. Bravo Quiterio**
Company Secretary
05 June 2019

**Independent auditor's report to the members of Rurelec Plc**

## Opinion

We have audited the financial statements of Rurelec Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of cash flows, the company statement of cash flows, the consolidated statement of changes in equity, the company statement of changes in equity and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union ;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material uncertainty related to going concern

We draw attention to Note 1 of the financial statements concerning the Group and the Parent Company's ability to continue as a going concern. The Group continues to make a loss, with the only operational part of the business being its investment in a joint venture which has been loss making for a number of years with the investment fully written down. The Group is heavily reliant on repayment of the loans receivable from the joint venture in order to meet the repayments of the BPAC loan and to provide working capital. Without these funds, the Group would not be able to make the repayments on the BPAC loan and would have to negotiate a further extension. After the year end, the BPAC loan facility repayment date was extended to 30 June 2020. These matters, along with the other matters explained in Note 1, indicate the existence of a material uncertainty which may cast significant doubt over the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We highlighted going concern as a key audit matter based on our assessment of the significance of the risk and the effect on our audit strategy. The procedures included:

- Reviewing budget and cash flow forecasts for at least 12 months from the date of approval of the financial statements
- Obtaining support for the management assumptions used in the forecast
- Confirming the actual cash repayments of the loan to the joint venture for the months post year end

- Obtaining the signed confirmation letter from BPAC in respect of extending the loan facility repayment date to 30 June 2020.
- Reviewing board minutes during the year and post year end to indicate any other issues that may indicate inability of the group to continue as a going concern and
- Reviewing the going concern assessment of the joint venture Energía del Sur S.A

**Key audit matters**

In addition to the matter described in the material uncertainty related to going concern section, key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| **Key Audit Matter** | **How our audit addressed the Key Audit Matters** |
|---|---|
| ***Valuation of assets (Note 12)***<br><br>**The Group holds two Siemens 701 turbines - these were purchased for $25m in June 2013 for use in the Central Illapa Project in Chile. Due to working capital constraints and market conditions, investment has been limited and the turbines have been partially impaired. As the Group continues to be loss making and with operational issues in the joint venture during the year, there is significant uncertainty in being able to realise the value through the future project, or through the sale of the turbines in the local market as the market continues to be depressed in the sector. At the year end the directors obtained independent valuations to confirm that the assets were not overstated in the financial statements and to calculate the carrying value.** | In this area our procedures included:<br>• Physically verifying existence of the assets, their storage and condition;<br>• Reviewing the valuation report prepared by an independent expert, confirming the expert's independence, assessing the conclusions reached and the competency and qualifications of the expert;<br>• Reviewing evidence that the value of the assets is recoverable through sale; and<br>• Reviewing insurance documentation and storage/maintenance documentation to assess the risk of further impairment. |
| ***Valuation of investment and recoverability of intercompany loans, including loans to joint venture (Note 13 and 22)***<br><br>**The repayment of these loans is dependent on the economic feasibility of the underlying projects within the Group. The recoverability of these loans is judgemental and hence there is a risk that the loans are overstated. The loans to the joint venture and the intercompany loans due to the Parent Company were reviewed by the directors and it was deemed that impairment was required based on the cash flow models in respect of the joint venture.** | In this area our procedures included:<br>• Obtaining loan confirmations of the balance and any interest accrued;<br>• Reviewing the going concern assessment of Energía del Sur S.A.; and<br>• Assessing recoverability of the loans through reviewing financial projections models and net asset positions of subsidiaries and the joint venture. |

**Our application of materiality**

We set certain thresholds for materiality. These help us to establish transactions and misstatements that are significant to the financial statements as a whole, to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually on balances and on the financial statements as a whole.

In establishing the audit strategy, it was determined that the level of uncorrected misstatements judged to be material for the financial statements and our audit overall materiality would be £744,000 (2017: £142,000), which is 3% of net assets. This is the threshold above which missing or incorrect information in financial statements is considered to have an impact on the decision making of users. Performance materiality for the group was calculated at 70% of overall materiality, being £521,000 (2017: £225,000), this is considered reasonable keeping in view the low history of adjustable misstatements and strong control environment maintained by management. For the Parent Company financial statements, materiality was calculated to be £520,000 (2017: £140,000) using a net asset basis.

For the component entities, the materiality for Cochrane Power Limited was £278,000 (2017: £66,000) and was calculated on a net assets basis. The materiality for Rurelec Project Finance Limited was £6,000 (2017: £59,000) and calculated on a gross assets basis. The materiality for Energia Del Sur S.A. was £71,000 (2017: £120,000) and was calculated on a loss before tax basis.

We report to the Audit Committee all potential adjustments in excess of £39,750 being 5% of the materiality for the financial statements as a whole.

**An overview of the scope of our audit**

The Group operates through two trading subsidiary undertakings registered in the UK and one joint venture undertaking registered in the British Virgin Islands which were considered to be significant components for the purposes of the audit. The financial statements consolidate these entities together with a number of non-trading subsidiary undertakings. In establishing our overall approach to the group audit, we determined the type of work that needed to be performed in respect of each component. This consisted of us carrying out a full audit of all significant components of the group and specified procedures on the remaining components. For the audit work required on Energia Del Sur S.A. we worked with non BDO component auditors. We provided them with group instructions and directed the component materiality and procedures that needed to be undertaken. 100% of group net assets were covered by full scope audits.

We then directed our work toward areas of the financial statements which we assessed as having the highest risk of containing material misstatements

We tested and examined information using both analytical procedures and tests of detail, to the extent necessary to provide us with a reasonable basis to draw conclusions. These procedures, together with our detailed review of procedures performed by component auditors, gave us the evidence that we need for our opinion on the financial statements as a whole and, in particular, helped mitigate the risks of material misstatement.

**Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Laura Pingree (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

150 Aldersgate Street
London
EC1A 4AB

**05 June 2019**

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

| | Notes | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|---|
| Revenue | **4** | - | - |
| **Gross Profit** | | **-** | **-** |
| Administrative Expenses | **6** | (1,510) | (2,070) |
| Other Income | **8b** | 1,250 | - |
| Other Expense | **8b** | (2,665) | (1,651) |
| **Operating Loss** | | **(2,925)** | **(3,721)** |
| Share of Joint Venture Profit/(Loss) | **22** | - | - |
| Foreign Exchange Gains/(Losses) | **8a** | 1,724 | (2,547) |
| Finance Income | **9** | 756 | 862 |
| Finance Expense | **9** | (177) | (419) |
| **Loss before Tax** | | **(622)** | **(5,825)** |
| Tax Expense | **10** | - | - |
| **Loss for the year attributable to owners of the Company** | | **(622)** | **(5,825)** |
| Earnings per Share – in pence | **11** | | |
| Basic Loss per Share | | (0.11) | (1.04) |
| Diluted Loss per Share | | (0.11) | (1.04) |

The notes on pages 29 to 53 form an integral part of these Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
for the year ended 31 December 2018

| | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| **Loss for the year** | **(622)** | **(5,825)** |
| Other Comprehensive (Loss)/Income for the year: | | |
| Items that will be subsequently Reclassified to Profit & Loss: | | |
| Exchange Differences on translation of Foreign Operations | 215 | (386) |
| Total Other Comprehensive (Loss)/Income | **215** | **(386)** |
| **Total Comprehensive Loss for year attributable to owners of the Company** | **(407)** | **(6,211)** |

The notes on pages 29 to 53 form an integral part of these Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
at 31 December 2018

| | Notes | 31.12.18 £'000 | 31.12.17 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current Assets** | | | |
| Property, Plant and Equipment | **12** | 10,038 | 9,699 |
| Investment in Joint Venture | **22** | - | - |
| | | **10,038** | **9,699** |
| **Current Assets** | | | |
| Trade and Other Receivables | **13a** | 16,394 | 18,951 |
| Cash and Cash Equivalents | **15** | 351 | 163 |
| Assets classified as held for sale | **27** | - | 2,265 |
| | | **16,745** | **21,379** |
| **Total Assets** | | **26,783** | **31,078** |
| **Equity and Liabilities** | | | |
| **Shareholders' Equity** | | | |
| Share Capital | **16** | 11,228 | 11,228 |
| Share Premium Account | **17** | 22,754 | 22,754 |
| Foreign Currency Reserve | | 787 | 572 |
| Special Non-distributable Reserve | **17** | 45,000 | 45,000 |
| Accumulated Losses | | (54,967) | (54,345) |
| **Total Equity attributable to owners of the Company** | | **24,802** | **25,209** |
| **Current Liabilities** | | | |
| Trade and Other Payables | **18a** | 774 | 899 |
| Current Tax Liabilities | **19** | 7 | 7 |
| Borrowings | **20** | 1,200 | 1,448 |
| Liabilities classified as held for Sale | **27** | - | 3,515 |
| | | **1,981** | **5,869** |
| **Total Liabilities** | | **1,981** | **5,869** |
| **Total Equity and Liabilities** | | **26,783** | **31,078** |

The financial statements were approved by the Board of Directors on 05 June 2019 and were signed on its behalf by Andrew Coveney (Executive Director) and Brian Rowbotham (Non-executive Director).

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Andrew Coveney Brian Rowbotham

The notes on pages 29 to 53 form an integral part of these Consolidated Financial Statements.

**COMPANY STATEMENT OF FINANCIAL POSITION** **COMPANY NUMBER: 4812855**
At 31 December 2018

| | Notes | 31.12.18 £'000 | 31.12.17 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current Assets** | | | |
| Investments | **21** | - | 100 |
| | | **-** | **100** |
| **Current Assets** | | | |
| Inventories | **14** | 9,456 | 8,895 |
| Trade and Other Receivables | **13b** | 16,613 | 20,892 |
| Cash and Cash Equivalents | **15** | 350 | 162 |
| | | **26,419** | **29,949** |
| **Total assets** | | **26,419** | **30,049** |
| **Equity and liabilities** | | | |
| **Shareholders' equity** | | | |
| Share Capital | **16** | 11,228 | 11,228 |
| Share Premium Account | **17** | 22,754 | 22,754 |
| Special Non-distributable Reserve | **17** | 45,000 | 45,000 |
| Accumulated Losses | | (54,239) | (50,989) |
| **Total Equity** | | **24,743** | **27,993** |
| **Current Liabilities** | | | |
| Trade and Other Payables | **18b** | 469 | 601 |
| Current tax liabilities | **19** | 7 | 7 |
| Borrowings | **20** | 1,200 | 1,448 |
| | | **1,676** | **2,056** |
| **Total Equity and Liabilities** | | **26,419** | **30,049** |

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's loss for the year was £3.2 million (2017: loss £7.1 million).

The financial statements were approved by the Board of Directors on 05 June 2019 and were signed on its behalf by Andrew Coveney (Executive Director) and Brian Rowbotham (Non-executive Director).

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Andrew Coveney Brian Rowbotham

The notes on pages 29 to 53 form an integral part of these Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**
for the year ended 31 December 2018

| | Notes | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Cash used in Operations | **23** | (1,341) | (2,471) |
| **Net Cash used in Operating Activities** | | **(1,341)** | **(2,471)** |
| | | | |
| **Cash Flows from Investing Activities** | | | |
| Proceeds from sale of subsidiary | | 132 | - |
| Loan Repayments from Joint Venture company | | 2,029 | 3,331 |
| Settlement of Deferred Consideration | | (232) | (1,257) |
| **Net Cash generated from Investing Activities** | | **1,929** | **2,074** |
| | | | |
| **Net Cash Inflow/(Outflow) before Financing Activities** | | **588** | **(397)** |
| | | | |
| **Cash Flows from Financing Activities** | | | |
| Loan Principal Repayments | **20** | - | (320) |
| Loan Interest Repayments | **20** | (400) | (80) |
| **Net Cash Used in Financing Activities** | | **(400)** | **(400)** |
| | | | |
| **(Decrease)/Increase in Cash and Cash Equivalents** | | **188** | **(797)** |
| Cash and Cash Equivalents at Start of Year | | 163 | 960 |
| **Cash and Cash Equivalents at End of Year** | | **351** | **163** |

The notes on pages 29 to 53 form an integral part of these Consolidated Financial Statements.

**COMPANY STATEMENT OF CASH FLOWS**
for the year ended 31 December 2018

| | Notes | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Cash Used in Operations | **23** | (1,230) | (3,164) |
| **Net Cash Used in Operations** | | **(1,230)** | **(3,164)** |
| | | | |
| **Cash Flows from Investing Activities** | | | |
| Proceeds from Sale of Subsidiary | | 132 | - |
| Investment in and Loans to subsidiaries | | (112) | (573) |
| Loan Repayment from subsidiary | | 2,030 | 3,344 |
| Settlement of Deferred Consideration | | (232) | **-** |
| **Net Cash Generated from Investing Activities** | | **1,818** | **2,771** |
| | | | |
| **Net Cash Inflow/(Outflow) before Financing Activities** | | **588** | **(393)** |
| | | | |
| **Cash Flows from Financing Activities** | | | |
| Loan Principal Repayments | **20** | - | (320) |
| Loan Interest Repayments | **20** | (400) | (80) |
| **Net Cash (Used in)/Generated from Financing Activities** | | **(400)** | **(400)** |
| | | | |
| **(Decrease)/Increase in Cash and Cash Equivalents** | | **188** | **(793)** |
| Cash and Cash Equivalents at Start of Year | | 162 | 955 |
| **Cash and Cash Equivalents at End of Year** | | **350** | **162** |

The notes on pages 29 to 53 form an integral part of these Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
for the year ended 31 December 2018

| | Share Capital £'000 | Share Premium £'000 | Foreign Currency Reserve £'000 | Accumulated Losses £'000 | Special Non-distributable Reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Balance at 01.01.17** | **11,228** | **22,754** | **958** | **(48,520)** | **45,000** | **31,420** |
| Loss for year attributable to owners of the parent | - | - | **-** | (5,825) | - | (5,825) |
| Exchange Differences | - | - | (386) | - | **-** | (386) |
| **Total Comprehensive Loss** | **-** | **-** | **(386)** | **(5,825)** | **-** | **(6,211)** |
| **Balance at 31.12.17** | **11,228** | **22,754** | **572** | **(54,345)** | **45,000** | **25,209** |
| Loss for year attributable to owners of the parent | - | - | **-** | (622) | - | (622) |
| Exchange Differences | - | - | 215 | - | **-** | 215 |
| **Total Comprehensive Loss** | **-** | **-** | **215** | **(622)** | **-** | **(407)** |
| **Balance at 31.12.18** | **11,228** | **22,754** | **787** | **(54,967)** | **45,000** | **24,802** |
| **Notes:** | **16** | **17** | | | **17** | |

The notes on pages 29 to 53 form an integral part of these Consolidated Financial Statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

| | Share Capital £'000 | Share Premium £'000 | Accumulated Losses £'000 | Special Non-distributable Reserve £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Balance at 1.1.17** | **11,228** | **22,754** | **(43,921)** | **45,000** | **35,061** |
| Loss for the year | - | - | (7,068) | **-** | **(7,068)** |
| **Total Comprehensive Loss** | **-** | **-** | **(7,068)** | **-** | **(7,068)** |
| **Balance at 31.12.17** | **11,228** | **22,754** | **(50,989)** | **45,000** | **27,993** |
| Loss for the year | - | - | (3,250) | **-** | **(3,250)** |
| **Total Comprehensive Loss** | **-** | **-** | **(3,250)** | **-** | **(3,250)** |
| **Balance at 31.12.18** | **11,228** | **22,754** | **(54,239)** | **45,000** | **24,743** |
| **Notes:** | **16** | **17** | | **17** | |

The notes on pages 29 to 53 form an integral part of these Consolidated Financial Statements.

## 1. GENERAL INFORMATION, BASIS OF PREPARATION AND NEW ACCOUNTING STANDARDS

### 1a General information

Rurelec PLC is the Group's ultimate parent company. It is incorporated and domiciled in England and Wales. The address of Rurelec's registered office is given on the information page. Rurelec's shares are traded on the AIM market of the London Stock Exchange PLC.

The nature of the Group's operations and its principal activities are the generation of electricity in South America.

### 1b Basis of preparation

The Company and the consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union and company law applicable to companies reporting year ended 31 December 2018.

### Basis of measurement

The functional currencies of the Group are Pounds sterling, Chilean Peso, Peruvian Nuevo Sol, Argentinian Peso and the United States Dollar. The presentation currency is Pounds sterling.

### Going Concern

The Directors have continued to adopt the going concern basis for the preparation of these financial statements. During 2018 the Group continued to receive funds from its joint venture in Argentina, EdS, in service of the loans to the joint venture and a wholly owned subsidiary Rurelec Project Finance Ltd.

The Company has been in negotiations for the prospective sales of Group assets. There exists material uncertainty as to the timing of the sales of assets as well as the quantum of the corresponding proceeds. Unless there is a significant disposal of assets, the Group remains reliant on repayments of loans from its joint venture Argentine operations. This in itself has led the Auditors to conclude that a material uncertainty surrounds the future of the Group, further details are in the Audit Report, as the quantum and timing of such receipts may be subject to variation and are not guaranteed as there is no formal agreement in place. Loan repayments from the joint venture are expected to be sufficient to meet the working capital requirements for the Group as full generating capacity is expected to be restored following the major maintenance of the plant in later 2019.

During 2018 and since the year end the Company has continued to make payments towards agreements with and settled certain creditors resulting in an overall reduction in creditors. Until there is a significant disposal of assets, the Group is reliant on repayments of loans from its joint venture. However, the quantum and timing of such receipts are subject to variation and are not guaranteed. Anticipated loan repayments from the joint venture are expected to be sufficient to meet the working capital requirements for the Group.

Since the year end the Company has further extended the repayment date on its outstanding loan, at the year-end of £1.2 million, short term facility from Bridge (Arena) Properties Limited ("BPAC"). The repayment date has been extended to 30 June 2020.

On the basis that the Group receives these joint venture remittances, the Directors have assessed that the Group would have sufficient working capital based on their review of cashflow forecasts for a period of at least 12 months from the signing of the financial statements.

### 1c New accounting standards

**The Directors consider that no revisions to IFRS standards implemented in the year have had any significant effect on these statements.**

### a) New standards, interpretations and amendments effective from 1 January 2018

New standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15)

As the Group has no revenue IFRS 15 has no effect. Other new and amended standards and Interpretations issued by the IASB that have been applied for the first time in the next annual financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

**b) New standards, interpretations and amendments not yet effective**
There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The most significant of these is:

IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019)
IFRIC 23 Uncertainty over Income Tax Positions (effective 1 January 2019).

**The Directors consider that no revisions to IFRS standards to be implemented in the following year will have any significant effect on those statements.**

At the date of authorisation of these financial statements certain new standards, amendments and interpretations to existing standards have been published but are not yet effective. The Group has not early adopted any of these pronouncements. The new Standards, amendments and Interpretations that are expected to be relevant to the Group's financial statements are as follows:

**IFRS 16 'Leases'**
The Directors have completed their assessment of the impact of the adoption of this standard and consider that there will be no material impact to future reporting, based on current conditions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reports its interests in joint ventures using the equity method of accounting, except when the investment is classified as held for sale.

A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement (IFRS 11).

Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Group's investment in that joint venture are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill.

The goodwill, if any is included within the carrying amount of the investment and is assessed annually for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately as a profit or loss.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Unrealised gains on transactions between the Group and subsidiary entities are eliminated. Amounts reported in the financial statements of subsidiary and joint venture entities have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the acquisition method. This method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the acquired company, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the entity prior to acquisition. On initial recognition, the assets and liabilities of the acquired entity are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement

in accordance with the Group's accounting policies. Investments in subsidiaries are stated at cost less impairment in the statement of financial position of the Company.

**2.2 Goodwill**
Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is stated after separating out identifiable assets and liabilities. Goodwill is carried at cost less accumulated impairment losses. Any excess of interest in acquired assets, liabilities and contingent liabilities over fair value is recognised immediately after acquisition through the income statement.

**2.3 Foreign Currency Translation**
The financial information is presented in pounds sterling, which is also the functional currency of the parent company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions ("spot exchange rate"). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of remaining balances at year-end exchange rates are recognised in the income statement within 'Foreign Exchange (Losses)/Gains'.

In the consolidated financial statements, all separate financial statements of subsidiaries and joint ventures, originally presented in a currency different from the Group's presentation currency, have been converted into sterling. Assets and liabilities have been translated into sterling at the closing rate at the reporting date. Income and expenses have been converted into sterling at the average rates over the reporting period. It is the Director's judgement that the Argentine GAAP hyperinflation adjustments to the accounts of the Group's Joint Venture operations in Argentina give an approximate fair value of these operations. Additionally, as the Argentine operations are indirectly held by the Group the provisions of IAS 29 for hyperinflation do not apply.

Non-monetary assets are valued at historic rates.

**2.4 Expense recognition**
Operating expenses are recognised in the income statement upon utilisation of the service or at the date of their origin. All other income and expenses are reported on an accrual basis.

**2.5 Dividends**
Dividends, other than those from investments in associates and joint ventures, are recognised at the time the right to receive payment is established. No dividends were paid or received during the year (2017: nil).

**2.6 Borrowing Costs**
All borrowing costs are expensed as incurred except where the costs are directly attributable to specific construction projects, in which case the interest cost is capitalised as part of those assets.

**2.7 Property, Plant and Equipment**
Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. No depreciation is charged during the period of construction.

All operational buildings and plant and equipment in the course of construction are recorded as plant under construction until such time as they are brought into use by the Group. Plant under construction includes all direct expenditure and may include capitalised interest in accordance with the accounting policy on that subject. On completion, such assets are transferred to the appropriate asset category.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations and overhauls is included in the carrying amount of the assets where it is probable that the economic life of the asset is significantly enhanced as a consequence of the work. Major renovations and overhauls are depreciated over the expected remaining useful life of the work.

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land which is not depreciated by equal annual instalments over their estimated useful economic lives. The periods generally applicable are:

| | |
|---|---|
| Plant and equipment | 3 to 15 years |

Material residual values are updated as required, but at least annually. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

**2.8 Impairment of Tangible and Intangible Assets**
At each reporting date, the Group reviews the carrying amount of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement. The Group recognises a cash-generating unit by its ability to independently earn income. The Group carries each cash-generating unit in an individual special purpose company, so they are easily recognised.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

**2.9 Non-current Assets Held for Sale and Discontinued Operations**
In general IFRS 5 outlines how to account for non-current assets held for sale such as these assets (or disposal groups) held for sale are not depreciated, are measured at the lower of carrying amount and fair value less costs to sell, and are presented separately in the statement of financial position.

The following conditions must be met for an asset (or 'disposal group') to be classified as held for sale: IFRS 5.6-8

- management is committed to a plan to sell
- the asset is available for immediate sale
- an active program to locate a buyer is initiated
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

The carrying value of the assets need to be recovered principally through sale. When the Group is committed to a sale involving loss of control of a subsidiary that qualifies for held-for-sale classification under IFRS 5 the Group classifies all of the assets and liabilities of that subsidiary as held for sale, even if the entity will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets or disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, are presented separately on the face of the statement of financial position. The sum of the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less cost to sell or fair value adjustments on the disposal of the assets (or disposal group) is presented as a single amount on the face of the statement of comprehensive income.

**2.10 Taxation**
Current income tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement or through the statement of changes in equity.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. However, in accordance with the rules set out in IAS 12, no deferred taxes are recognised in respect of non-tax-deductible goodwill. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided for in full with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided that they are enacted or substantially enacted at the reporting date.

Deferred tax is provided on differences between the fair value of assets and liabilities acquired in an acquisition and the carrying value of the assets and liabilities of the acquired entity and on the differences relating to investments in subsidiary and joint venture companies if the difference is a temporary difference and is expected to reverse in the foreseeable future.

Changes in deferred tax assets and liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are accounted for through other comprehensive income or charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity, or other comprehensive income.

**2.11 Financial Assets**
The Group's financial assets include cash and cash equivalents, loans and receivables.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payment dates that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Receivables are measured initially at fair value and subsequently re-measured to test for impairment, the carrying value is less provision for impairment. Any impairment is recognised in the income statement.

The majority of loans are due the Joint Venture on demand and are shown as current assets, the board are expecting repayments to commence 2019. As An impairment review was conducted, the resulting impairment of £2,5 million has been charged to the Income Statement, consequently there are no expected credit losses. The board consider these stage 1 impaired under IFRS 7.

**2.12 Financial Liabilities**
Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is derecognised only when the obligation is extinguished, that is when the obligation is discharged, cancelled or expires.

Bank and other loans are raised for support of short-term funding of the Group's operations. They are recognised initially at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**2.13 Operating leases**
Leases where substantially all the risks and rewards of ownership remain with the lessor are accounted for as operating leases and are accounted for on a straight-line basis over the term of the lease and charged to the income statement.

**2.14 Inventories**
Inventories in the Company comprise turbines and associated spare parts and similar items for use in the Group's plant and equipment. Inventories are carried at the lower of cost and net realisable value.

**2.15 Shareholders' Equity**
Equity attributable to the shareholders of the parent company comprises the following:

"Share capital" represents the nominal value of equity shares.
"Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
"Foreign currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.
"Accumulated Losses" represents losses to date.
"Special Non-distributable reserves" comprises the reduction of the share premium account.

**2.16 Pensions**
Under the Pensions Act 2008, every employer in the UK must put certain staff into a workplace pension scheme and contribute towards it. This is called 'automatic enrolment'. Rurelec staging date was 1 October 2017. Rurelec choose to set up its auto enrolment pension scheme with NEST which ensures access to suitable, low-charge pension provision to meet the new duty to enrol all eligible workers into a workplace pension automatically. Rurelec also offers a Salary Sacrifice Scheme within NEST by which employees sacrifice part of their salary in exchange for the company to make an employer contribution on their behalf to the pension scheme and also to contribute their national insurance savings on the amount sacrificed by the employee.

During the year under review, the Company continued its contributions to the NEST Pension scheme.

**2.17 Segment Reporting**
In identifying its operating segments, management follows the Group's geographic locations and are reported in a manner consistent with the Chief Operating Decision Maker. The activities undertaken by segments are the generation of electricity in their country of incorporation within South America.

Each of the operating segments is managed separately as the rules and regulations vary from country to country.

The measurement policies used by the Group for segment reporting under IFRS 8 are the same as those used in the financial statements.

## 3. KEY ASSUMPTIONS AND ESTIMATES

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made and will seldom equal the estimated results. The areas which management consider are likely to be most affected by the significant judgements, estimates and assumptions on recognition and measurement of assets, liabilities, income and expenses are:

a) Impairment – management review tangible and intangible assets, including intra group and Joint Venture loans, at each balance sheet date to determine whether there is in their judgement any indication that those assets have suffered an impairment loss. This review process includes making assumptions about future events, circumstances and operating results. The actual results may vary from those expected and could therefore cause significant adjustments to the carrying value of the Group's assets. Details of the assumptions underlying management's forecasts for the Group's main Cash Generating Unit ("CGU") are set out in Note 8b.

b) Management has assessed that the Company does not control the Argentine operations and therefore, as a result of this judgement have treated the assets, liabilities and share of operating results as a Joint Venture, and consequently are using the equity accounting basis of preparation in accordance with IAS 28 (see Note 2.1 and 22). This assessment is based on the lack of sole control over the investee and due to the exposure to variable returns from its involvement with the investee.

## 4. SEGMENT ANALYSIS

Management currently identifies the Group's four geographic operating segments; Argentina, Chile, Peru and the head office in the UK, as operating segments as further described in the accounting policy note. These operating segments are monitored, and strategic decisions are made on the basis of segment operating results. The Groups joint venture operations in Argentina have been excluded, see note 22 for more detail.

The following tables provide an analysis of the operating results, total assets and liabilities, in 2018 and 2017 for each geographic segment.

| a) 12 months to 31.12.2018 | Chile | Peru | UK | Consolidation Adjustments | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Administrative Expenses | (120) | - | (1,407) | 17 | **(1,510)** |
| **Loss from Operations** | **(120)** | - | **(1,407)** | **17** | **(1,510)** |
| Other Income | - | 1,250 | - | - | **1,250** |
| Other Expense | (236) | - | - | (2,429) | **(2,665)** |
| Foreign Exchange (Losses)/Gains | (10) | - | 1,734 | - | **1,724** |
| Finance Income | - | - | 568 | 188 | **756** |
| Finance Expense | (568) | - | (177) | 568 | **(177)** |
| **(Loss)/Profit before Tax from Operations** | **(934)** | **1,250** | **(954)** | **16** | **(622)** |
| Tax Expense | - | - | - | - | **-** |
| **Total (Loss)/Profit** | **(934)** | **1,250** | **(954)** | **16** | **(622)** |
| Total Assets | 1,922 | - | 26,419 | (1,558) | **26,783** |
| Total Liabilities | 12,289 | - | 1,676 | (11,984) | **1,981** |

| a) 12 months to 31.12.2017 | Chile | Peru | UK | Consolidation Adjustments | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Administrative Expenses | (211) | (289) | (1,549) | (21) | **(2,070)** |
| **Loss from Operations** | **(211)** | **(289)** | **(1,549)** | **(21)** | **(2,070)** |
| Other Expense | (324) | - | - | (1,327) | **(1,651)** |
| Foreign Exchange (Losses)/Gains | (118) | 698 | (3,126) | (1) | **(2,547)** |
| Finance Income | - | - | 1,386 | (524) | **862** |
| Finance Expense | (524) | (233) | (188) | 526 | **(419)** |
| **(Loss)/Profit before Tax from Operations** | **(1,177)** | **176** | **(3,477)** | **(1,347)** | **(5,825)** |
| Tax Expense | - | - | - | - | **-** |
| **Total (Loss)/Profit** | **(1,177)** | **176** | **(3,477)** | **(1,347)** | **(5,825)** |
| Total Assets | 2,215 | 2,265 | 30,049 | (3,451) | **31,078** |
| Total Liabilities | 11,421 | 3,515 | 2,056 | (11,123) | **5,869** |

## 5. EXCHANGE RATE SENSITIVITY ANALYSIS

The key exchange rates applicable to the results were as follows:

| | Year Ended 31.12.18 | Year Ended 31.12.17 |
|---|---|---|
| **i) Closing rate** | | |
| US $ to £ | 1.2690 | 1.3491 |
| CLP (Chilean Peso) to £ | 879.8 | 829.0 |
| PEN (Peruvian Sol) to £ | n/a | 4.36 |
| **ii) Average rate** | | |
| US $ to £ | 1.3306 | 1.2974 |
| CLP (Chilean Peso) to £ | 853.0 | 836.4 |
| PEN (Peruvian Sol) to £ | n/a | 4.19 |

If the exchange rate of sterling at 31 December 2018 had been stronger or weaker by 10 per cent. from the above, with all other variables held constant, shareholder equity at 31 December 2018 would have been £2.5 million (2017: £2.5 million) lower or higher than reported.

If the average exchange rate of sterling during 2018 had been stronger or weaker by 10% per cent. with all other variables held constant, the effect on the loss for the year would have been £0.1 million (2017: £0.6 million) higher or lower than reported.

If the average exchange rate of sterling during 2018 had been stronger or weaker by 10% per cent. with all other variables held constant, the effect on the total other comprehensive loss for the year would have been £0.02 million (2017: £0.04 million) higher or lower than reported.

## 6. ADMINISTRATIVE EXPENSES

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Expenditure incurred in administrative expenses is as follows: | | |
| Payroll and social security | 632 | 960 |
| Services, legal and professional | 484 | 630 |
| Office costs and general overheads | 328 | 421 |
| Audit services[1] | 66 | 59 |
| | **1,510** | **2,070** |

[1] Audit services include £54k (2017: £59k) paid to the auditors for the audit of the Company and Group's financial statements. £10k for the audit of the Group's subsidiaries. Fees paid to other auditors, in respect of the audit of joint venture companies, amounted to £17.6k (2017: £24.5k). The group auditors also provided taxation services for the Group in the year, the costs were £13.0k. (2017: £12.4k).

## 7. EMPLOYEE COSTS

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| **a) Group** | | |
| Aggregate remuneration of all employees and Directors | 592 | 902 |
| Social security costs | 28 | 47 |
| Pension costs | 12 | 11 |
| **Total** | **632** | **960** |

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

| | Year ended 31.12.18 | Year ended 31.12.17 |
|---|---|---|
| Management | 3 | 3 |
| Administration and development | 4 | 8 |
| **Total** | **7** | **11** |

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| **b) Company** | | |
| Aggregate remuneration of all employees and Directors | 572 | 750 |
| Social Security | 28 | 38 |
| Pension Costs | 11 | 3 |
| **Total** | **611** | **791** |

The average number of employees in the Company, including Directors, during year was as follows:

| | Number | Number |
|---|---|---|
| Management | 3 | 3 |
| Administration and development | 4 | 5 |
| **Total** | **7** | **8** |

**c) Directors' remuneration, including social security costs**

The total remuneration paid to the Directors and former Directors was £322k (2017: £489k). The total remuneration of the highest paid Director was £201k (2017: £199k). There were no health insurance costs, bonuses, pension costs or share based payments paid during the year (2017: Nil)

| | Year ended 31.12.18 £'000 | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|---|
| | **Base Salary/Fee** | **Total** | **Total** |
| A Morris | - | **-** | **67** |
| B Rowbotham | 30 | **30** | **30** |
| S Morris | 91 | **91** | **193** |
| A Coveney | 201 | **201** | **199** |
| **Total** | **322** | **322** | **489** |

B Rowbotham provided services under a service agreement contract with Mountbeach Associates Ltd until June 2017, since then he has been on payroll.
S Morris provided services under a service agreement contract with SC Morris Ltd.
A Coveney provided services under a service agreement contract with Coveney Associates Consulting Ltd.

**8. (a) FOREIGN EXCHANGE**

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Foreign exchange Gains/(Losses) | 1,724 | (2,547) |
| **Total** | **1,724** | **(2,547)** |

**(b) OTHER INCOME/EXPENSE**

| | | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|---|
| **Realised gain on disposal** | | | |
| Sale of Cascade Hydro Ltd (see note 29) | | (1,250) | - |
| **Asset impairment** | | | |
| Turbine for Arica Project | | 236 | 296 |
| **Impairment provisions** | | | |
| Loans to Joint Venture Companies | note 22 | 2,429 | 1,327 |
| Chile write-off of goodwill re Central Illapa acquisition | | - | 28 |
| **Total** | | **1,415** | **1,651** |

During the year the directors tested all major assets for indication of impairment the results of these were:

**LOANS TO JOINT VENTURE COMPANIES:**

| | |
|---|---|
| Carrying Value b/fwd | £ 18.5m |
| Exchange adjustment | £ 1.1m |
| Interest charged | £ 0.8m |
| New loans | £ - |
| Repayments | £ (2.0m) |
| Impairment in year | £ (2.4m) |
| Recoverable amount/Carrying value c/fwd | £ 16.0m |

The carrying value of the loans is based on the value in use. This is determined by management assessments being the base for a discounted cash flow model, the discount rate used was 11.49%. The results from the model

are then compared to the carrying value of the loans, any impairment is recognised through profit and loss and included in other expense.

**TURBINES FOR CENTRAL ILLAPA (CHILE):**

| | |
|---|---|
| Carrying Value b/fwd | £ 8.9m |
| Exchange adjustment | £ 0.6m |
| Recoverable amount | £ 9.5m |
| Impairment in year | £ - |
| Carrying value c/fwd | £ 9.5m |

The carrying value of the turbines is based on the higher of fair value less costs to sell and value in use. The Directors obtained an independent valuation to determine an achievable market valuation, less costs to sell. As a result, the Directors determined a recoverable amount of £9.5 million (US $12.0 million) (2017: £8.9 million (US $12.0 million)). The realisation of the asset is dependent on a successful future sale or successful development of the Central Illapa Project, both of which are uncertain.

The Illapa turbines are included within Property, Plant and Equipment in the Group and in the Company, they are included in Inventories.

**HELD FOR SALE ASSET (PERU)**

| | |
|---|---|
| Net assets held for sale b/fwd | £ 1.3m |
| Disposal in period | £(1.3)m |

During the year the Company entered into an arrangement to dispose of Cascade Hydro Limited. The sale completed on 30 January 2018, proceeds were US $ 250k, of which US $175k were received before the year-end.

**TURBINE – ARICA (CHILE)**

| | |
|---|---|
| Carrying value of Arica turbine b/fwd | £ 0.6m |
| Foreign exchange revaluation | £ - |
| Impairment in year | £(0.2)m |
| Carrying value of Arica turbine c/fwd | £ 0.4m |

The impairment was determined by the diminution of expected net realisable proceeds from sale of the turbine. The carrying value is assessed as fair value less costs to sell, based on historic offers and an independent valuation report. The above asset is included in Property, Plant and Equipment.

## 9. FINANCE INCOME & EXPENSE

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Joint Venture interest received/receivable[1] | 756 | 862 |
| Interest expense paid/payable on bank borrowings and loans[2] | (177) | (419) |

[1] Joint Venture interest arises on loans by the Company to its 50 per cent. owned joint venture companies (PEL and EdS). Interest on loans has been charged at rates of between 0 per cent. and 5.5 per cent. (2017: 5.5 per cent.).

[2] Interest paid/payable includes interest on the BPAC loan and to Ethos in accordance with the terms of the payment plan following a settlement agreement, the last payment was made in December 2018. The details of the amounts due under the loans are shown in Note 20.

Sensitivity analysis arising from changes in borrowing costs is set out in Note 20.

## 10. TAX EXPENSE

The relationship between the expected tax expense at basic rate of 19.00 per cent. (2017: 19.25 per cent.) and the tax expense actually recognised in the income statement can be reconciled as follows:

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Result for the year before tax | (622) | (5,825) |
| Standard rate of corporation tax in UK | 19.00% | 19.25% |
| Expected tax credit | (118) | (1,121) |
| Permanent differences | 345 | 323 |
| Unrecognised loss carried forward | 204 | 798 |
| **Actual tax expense** | **-** | **-** |
| Comprising: | | |
| Current tax expense | - | - |
| Deferred tax / (net credit) | - | - |
| **Total credit (expense)** | **-** | **-** |

A deferred tax asset for the year of £0.2 million (2017: £0.9 million) is not recognised as an asset due to the uncertainty and unknown timing of its realisation against future profits. The estimated accumulated unrecognised deferred tax asset is £0.7 million (2017: £1.0 million), based on cumulative tax losses of £4.6 million (2017: £5.8 million.

## 11. EARNINGS PER SHARE

Basic loss per share is calculated by dividing the loss for the period attributable to shareholders by the weighted average number of shares in issue during the period.

| | Year ended 31.12.18 | Year ended 31.12.17 |
|---|---|---|
| Average number of shares in issue | 561,387,586 | 561,387,586 |
| Result for the year | | |
| Total Loss attributable to equity holders of the parent | £0.6m | £5.8m |
| Basic loss per share | 0.11p | 1.04p |
| Diluted loss per share | 0.11p | 1.04p |

There is no difference between the Basic and Diluted loss per share.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Plant and Equipment | Plant under Construction | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **a) Group** | | | |
| **Cost at 1.1.17** | **16,195** | **2,485** | **18,680** |
| Exchange adjustments | (860) | (328) | **(1,189)** |
| **Cost at 31.12.17** | **15,335** | **2,157** | **17,491** |
| Exchange adjustments | 55 | 55 | **110** |
| **Cost at 31.12.18** | **15,389** | **2,212** | **17,601** |
| | | | |
| **Accumulated Depreciation and Impairment at 1.1.17** | **6,535** | **969** | **7,504** |
| Exchange adjustments | - | 87 | **87** |
| Charge for the year | - | - | **-** |
| Charge for impairment for the year | - | 296 | **296** |
| Transfer of Assets Held for Sale | (95) | - | **(95)** |
| **Accumulated Impairment and Depreciation at 31.12.17** | **6,440** | **1,352** | **7,792** |
| Exchange adjustments | (507) | 42 | **(465)** |
| Charge for the year | - | - | **-** |
| Charge for impairment for the year | - | 236 | **236** |
| **Accumulated Impairment and Depreciation at 31.12.18** | **5,933** | **1,630** | **7,563** |
| | | | |
| **Net book value – 31.12.18** | **9,456** | **582** | **10,038** |
| **Net book value – 31.12.17** | **8,895** | **805** | **9,699** |

The plant and equipment of £9.5 million relates to two Siemens turbines, stored in Venice for use in the Central Illapa project purchased for US $25.0 million, at the year-end deferred consideration of £0.1 million (2017: £0.3 million) remains outstanding. The turbines are held as inventory in the Company. Please see note 8b for details of impairments charged in the year.
Plant under construction comprises of a turbine plant in Chile £0.4 million and Central Illapa development costs of £0.2 million.

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

As set out in note 20 the Company has outstanding loans from BPAC. Security on these loans include a pledge over all assets of the Group.

## 13. TRADE AND OTHER RECEIVABLES

| | Year Ended 31.12.18 | Year Ended 31.12.17 |
|---|---|---|
| | £'000 | £'000 |
| **a) Group – current** | | |
| Amounts due from joint venture companies[1] | 16,012 | 18,532 |
| Tax receivable - VAT | 13 | 37 |
| Other Receivables and Prepayments | 369 | 382 |
| | **16,394** | **18,951** |

[1] Amounts due from joint venture companies represent the amounts lent by the Company, net of impairments, to PEL and EdS, including credit support provided to suppliers of EdS. Interest on these amounts has been accrued at rates of 5.5 per cent. (2017: 5.5 per cent.). The receivable is comprised of £1.1 million due from EdS and £14.9 million due from PEL. The loans are due on demand and are shown as current assets, the board are expecting repayments to commence 2019. An impairment review has been carried out, based on cashflow model, consequently there are no expected credit losses.

| | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| **b) Company – current** | | |
| Loans to Joint Ventures[2] | 14,879 | 17,044 |
| Loans to Subsidiaries[1] | 1,590 | 3,772 |
| Other receivables and prepayments | 144 | 76 |
| | **16,613** | **20,892** |

The amounts owed by subsidiary companies include:

[1] Loans to subsidiaries in Cochrane Power Limited £9.9 million and Rurelec Project Finance Limited £1.0 million are repayable on demand. These loans have been impaired to £0.6 million in Cochrane Power Limited, the UK holding company for assets in Chile. The loans to Chile and Rurelec Project Finance Limited bear zero per cent interest rates. During the year the Group received £2.0 million/US $2.7 million (2017: £3.3 million/US $ 4.3 million) from EdS in service of the amounts due to Rurelec Project Finance Limited. The total outstanding at the year-end was £1.0 million (2017: £3.1 million).

[2]The amounts owed by joint venture companies are interest bearing at rates of between 0 per cent. and 11 per cent. and are repayable on demand. The receivable is comprised of £14.9 million due from PEL. The loans are due on demand and are shown as current assets, the board are expecting repayments commence 2019. An impairment review has been carried out, based on discounted value in use with a discount rate of 11.49%, consequently there are no expected credit losses.

All trade and other receivables are unsecured and are not past their due by dates. The fair values of receivables are not materially different to the carrying values shown above.

As set out in note 20 the Company has outstanding loans from BPAC. Security on these loans includes a pledge over all assets of the Group.

## 14. INVENTORIES

| **Company - Inventories** | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| Inventories | 9,456 | 8,895 |

Inventories comprises of two Siemens 701DU turbines acquired from IPSA in June 2013. Further details of which are set out in note 12. Storage and insurance costs for the turbines in the year totalled £102k (2017: £117k).

As set out in note 20 the Company has outstanding loans from BPAC. Security on these loans includes a pledge over all the assets of the Group.

## 15. CASH AND CASH EQUIVALENTS

| | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| **a) Group** | | |
| Cash and short-term bank deposits | 351 | 163 |
| **b) Company** | | |
| Cash and short-term bank deposits | 350 | 162 |

Cash and short-term bank deposits are held, where the balance is material, in interest bearing bank accounts, accessible at between 1 and 30 days' notice. The effective average interest rate is less than 1 per cent. The Group holds cash balances to meet its day-to-day requirements.

As set out in note 20 the Company has outstanding loans from BPAC. Security on these loans includes a pledge over all the assets of the Group.

## 16. SHARE CAPITAL

| | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| In issue, called up and fully paid | | |
| 561,387,586 ordinary shares of 2p each (2017: 561,387,586) | 11,228 | 11,228 |

Ordinary shares have no redemption rights and are entitled to full rights to dividends and excess capital on winding up.

## 17. SPECIAL NON-DISTRIBUTABLE RESERVE

On 17 December 2014 the High Court approved the reduction in the share premium account of the company of £45,000,000 and the creation of a special reserve in the accounts of the Group. The Group had accumulated losses on its profit and loss account of £7,371,683. The existence of these losses prevents the Company from paying dividends to its shareholders out of future profits until these losses have been eliminated. The Board considered that the accumulated losses represented a permanent loss and given the size of the accumulated losses, there was in the opinion of the Board no reasonable prospect of the losses being eliminated in the short term. It was proposed that the permanent loss should be recognised by eliminating the deficit on the profit and loss account. This would be achieved by the reduction in the balance on the Share Premium Account of the Company.

The Company had built up a substantial Share Premium Account through the issue of shares for cash at values in excess of the nominal value of those shares. At the time of the High Court hearing, the balance standing to the credit of the share premium account was £67,835,921. A resolution was proposed and successfully passed at a General Meeting on 25 November 2014 to reduce the amount standing to the credit of the share premium account of the Company by £45,000,000 from £67,835,921 to £22,835,921.

The resolution was subsequently confirmed by the High Court in the terms proposed at the time by the Board, the effect of the Capital Reduction was to release part of the amount standing to the credit of the Share Premium Account of the Company so that after certain creditors are repaid £45,000,000 (i) may be used by the Company to eliminate the deficit on the profit and loss account and (ii) the balance credited to the distributable reserves of the Company to allow the Company to pay dividends in due course. Until the creditors are repaid the balance is to be held in a Special Non-distributable Reserve. The balance of unpaid creditors in these accounts is £88k (2017: £254k).

Share Premium account, after the deduction of £45,000,000 is £22,753,689.

The implementation of the Capital Reduction is subject to a number of criteria which are explained further below.

**Capital Reduction – Share Premium Account**

Share premium is treated as part of the capital of the Company and arises on the issue by the Company of shares at a premium to their nominal value. The premium element is credited to the Share Premium Account. The Company is generally precluded from the payment of any dividends or other distributions or the redemption or buy back of its issued shares in the absence of sufficient distributable reserves, and the Share Premium Account can be applied by the Company only for limited purposes.

In particular, the Share Premium Account is a non-distributable capital reserve and the Company's ability to use any amount credited to that reserve is limited by the Companies Act. However, with the confirmed approval of our shareholders by way of a special resolution and subsequent confirmation by the High Court, the Company has reduced our Company's share premium account and credited it to a Special Non-distributable reserve pending the settlement of certain creditors (please see above). Once these creditors are settled the Special Non-distributable reserve will be credited to the profit and loss account.

To the extent that the release of such a sum from the Share Premium Account creates or increases a credit on the profit and loss account, that sum represents distributable reserves of the Company subject to the restrictions set out below.

**Capital Reduction – Procedure**

In order to approve the Capital Reduction, the High Court was required to be satisfied that the interests of the Company's creditors will not be prejudiced by the Capital Reduction. The Company was not required to seek

written consent to the Capital Reduction from its creditors. However, for the benefit of those of its creditors from whom consent is not required, the Company will not be capable of making a distribution to shareholders until any such outstanding obligations have been discharged, and the Company has given an undertaking to that effect to the High Court. At the date of the audit report there are some £ 0.1 million (2017: £0.3 million) of creditors to be settled. The Board of Directors consider that these amounts will be settled in the short term and therefore the £45 million remains within a Special Reserve which is non-distributable until these settlements have occurred.

The Capital Reduction does not affect the number of Shares in issue, the nominal value per Share or the voting or dividend rights of any Shareholder.

## 18. TRADE AND OTHER PAYABLES

| | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| **a) Group – current** | | |
| Trade payables | 677 | 815 |
| Accruals | 97 | 84 |
| | **774** | **899** |
| **b) Company – current** | | |
| Trade payables | 372 | 517 |
| Accruals | 97 | 84 |
| | **469** | **601** |

## 19. TAX LIABILITIES

| | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| **Group/Company – current** | | |
| P.A.Y.E. | 7 | 7 |
| | **7** | **7** |

## 20. BORROWINGS

| | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| **Group/Company – Current** | | |
| Other Loans | 1,200 | 1,448 |
| | **1,200** | **1,448** |
| **Group/Company –Total Borrowings** | **1,200** | **1,448** |
| The Group's borrowings are repayable as follows: | | |
| Within 1 year | 1,200 | 1,448 |
| | **1,200** | **1,448** |

**Group and Company**
£1.2 million (2017: £1.4 million) from BPAC, this loan is secured by a pledge against the Group's assets. At the year end the loan repayment was due on 30 June 2019. The interest rate from 1 January 2018 until 31 December 2018 was 12.5%, from 1 July 2019 the rate will be 13.5%. Since the year end the loan has been further extended and is now due on 30 June 2020, or upon any significant asset sales.

**Net Debt Reconciliation**

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| **a) Group** | | |
| **Balance at start of year** | **1,448** | **4,037** |
| **Non-Cash flow transactions** | | |
| Transfer to liabilities held for sale | - | (2,608) |
| Interest charge | 152 | 419 |
| **Cash flow transactions** | | |
| Interest paid | (400) | (80) |
| Principal repayment | - | (320) |
| **Balance at end of year** | **1,200** | **1,448** |
| | | |
| **b) Company** | | |
| **Balance at start of year** | 1,448 | 1,661 |
| **Non-Cash flow transactions** | | |
| Interest charge | 152 | 187 |
| **Cash flow transactions** | | |
| Interest paid | (400) | (80) |
| Principal repayment | - | (320) |
| **Balance at end of year** | **1,200** | **1,448** |

**Sensitivity analysis to changes in interest rates:**
If interest rates on the Group's borrowings during the year had been 0.5 per cent. higher or lower with all other variables held constant, the interest expense and pre-tax losses would have had a nominal impact on earnings.

**Sensitivity analysis to changes in exchange rates:**
None (2017: US $510k) of these loans are denominated in US $. In 2017 these were included in liabilities held for sale. As a result, the liability to the Group's lenders will change as exchange rates change. The overall effect on the Group's net equity which would arise from changes in exchange rates is set out in Note 5 above.

The effect on borrowings alone if exchange rates weakened or strengthened by 10 per cent. with all other variables held constant would be to reduce or increase the value of the Group's borrowings and equity by £nil (2017: £38k).

The Group's Joint Venture borrowings are denominated in AR $ and US $ and are substantially related to specific electricity generating assets and therefore the effect on the net equity of the Group is limited.

## 21. INVESTMENTS

| | Year Ended 31.12.18 £'000 |
|---|---|
| **Cost at 1 January 2018** | **100** |
| Disposal during the year | 100 |
| **Balance at 31 December 2018** | **-** |

| | Year Ended 31.12.17 £'000 |
|---|---|
| **Cost at 1 January 2017** | **100** |
| Additions during the year | **-** |
| **Balance at 31 December 2017** | **100** |

**At the year end the Company held the following investments:**

**Direct investments:**

**1.** 50 per cent. (2017: 50 per cent.) of the issued share capital of Patagonia Energy Limited ("PEL"), a company registered in the British Virgin Islands under registration number 620522. PEL owns 100 per cent. of the issued share capital of EdS, a company registered in Argentina. EdS is a generator and supplier of electricity to the national grid in Argentina.

**2.** Nil per cent. (2017: 100 per cent.) of the issued share capital of Cascade Hydro Limited ("CHL"), a company registered in England and Wales under registration number 7640689. CHL owns, through intermediate holding company, Cascade Hydro Power S.A.C., 100 per cent. interest in Electricidad Andina, S.A. and 99.9 per cent. of Empresa de Generacion Electrica Colca, S.A.C.,all of them being companies registered in Peru. On 30 December 2017 the Company entered into a SPA to dispose of CHL, and its subsidiaries, the sale completed on 30 January 2018, please see note 27 for further details.

**3.** 100 per cent. (2017: 100 per cent.) of the issued share capital of Cochrane Power Limited, a company registered in England and Wales under registration number 8220905. Cochrane Power Limited owned at the year-end, through intermediate holding companies, 100 per cent. interest in Central Illapa, S.A. and 100 per cent. interest in Termoelectrica del Norte, S.A., both being companies registered in Chile.

**4.** 100 per cent. (2017: 100 per cent.) of the issued share capital of Rurelec Project Finance Limited a company registered in England and Wales under registration number 7523554.

**Indirect investments:**

| Name | Trading address/registered address | Interest held |
|---|---|---|
| Energia del Sur S.A.* | Arroyo 880, Piso 2<br>C1007AAB<br>Ciudad Autonoma de Buenos Aires<br>Argentina | 50% |
| Electrica del Sur S.A.* | Arroyo 880, Piso 2<br>C1007AAB<br>Ciudad Autonoma de Buenos Aires<br>Argentina | 50% |
| SEA Energy S.A.** | Arroyo 880, Piso 2<br>C1007AAB<br>Ciudad Autonoma de Buenos Aires<br>Argentina | 100% |
| Rurelec Chile SpA**** | C/O Guerrero Olivos<br>Av Vitacura 2939<br>Piso 8<br>Las Condes<br>Santiago<br>Chile | 100% |
| Rurelec Chile Limitada**** | C/O Guerrero Olivos<br>Av Vitacura 2939<br>Piso 8<br>Las Condes<br>Santiago<br>Chile | 99.99% |
| Termoelectrica del Norte S.A.**** | C/O Guerrero Olivos<br>Av Vitacura 2939<br>Piso 8<br>Las Condes<br>Santiago<br>Chile | 100% |
| Central Illapa S.A.**** | C/O Guerrero Olivos<br>Av Vitacura 2939<br>Piso 8<br>Las Condes<br>Santiago<br>Chile | 100% |

*Held via Patagonia Energy Limited and equity accounted as a joint venture, see Note 23
**Held via Rurelec Project Finance Limited, in liquidation
****Held via Cochrane Power Limited

The results of all of the above directly and indirectly held subsidiaries have been included in the consolidated group accounts except where joint ventures are equity accounted as indicated.

## 22. JOINT VENTURE

The Group's only joint arrangement within the scope of IFRS 11 is its 50 per cent. investment in Patagonia Energy Limited ("PEL"), which owns 100 per cent. of EdS in Argentina. Management has reviewed the classification of PEL in accordance with IFRS 11 and has concluded that it is a joint venture and therefore it has been accounted for using the equity accounting method as set out in IAS 28.

The Group does not participate in losses of the joint venture. In prior years the losses had exceeded the investment in the joint venture and therefore the Group has not recognised its share of losses in the joint venture. During 2017 the joint venture made a loss. Total loss position at the year-end was £45.6 million (2017 restated: £38.1 million).

The following table sets out the results of the joint venture in Argentina of which the Group has a 50 per cent. share:

| | Year ended 31.12.18 £'000 | *Restated Year ended 31.12.17 £'000 |
|---|---|---|
| Revenue | 17,432 | 17,420 |
| Expenses | (21,267) | (18,396) |
| Non-current Assets | 28,653 | 48,092 |
| Current Assets | 5,045 | 7,660 |
| Non-current Liabilities | (52,916) | (53,269) |
| Current Liabilities | (7,428) | (10,519) |

*Restatement due to hyperinflation accounting in the Joint Venture

Revenue is derived from one principal customer, which the directors consider is of a good quality.

## 23. RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

| a) Group | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| **Loss for the year before tax** | **(622)** | **(5,825)** |
| Net Finance Income | (579) | (1,096) |
| Adjustments for: | | |
| Unrealised exchange (gains)/losses | (1,735) | 2,570 |
| Write down of loans | 2,429 | 1,329 |
| Gain on disposal | (1,250) | - |
| Write down of Turbine | 236 | 296 |
| Impairment/(increase) of Goodwill | - | 29 |
| Movement in Working Capital: | | |
| Change in Trade and Other Receivables | 23 | 103 |
| Change in Trade and Other Payables | 157 | 123 |
| Cash Used in Operations | **(1,341)** | **(2,471)** |

| b) Company | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| **Loss for the year before tax** | **(3,250)** | **(7,068)** |
| Net Finance Income | (1,147) | (1,198) |
| Adjustments for: | | |
| Unrealised exchange (gains)/losses on loans | (1,741) | 3,138 |
| Loss on disposal | 1,398 | - |
| Write down of loans | 2,249 | 3,580 |
| Movement in working capital: | | |
| Change in trade and other receivables | 785 | (148) |
| Change in trade and other payables | 476 | (1,468) |
| Cash used in operations | **(1,230)** | **(3,164)** |

## 24. FINANCIAL RISK MANAGEMENT

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

**a) Foreign currency risk**
The Group is exposed to translation and transaction foreign exchange risk. 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. As a result of recent inflation, Argentine GAAP measures for hyperinflation have come into force. The EdS financials included in this report, along with restatement of prior year have been prepared with these measures. The Directors are of the view that these accounts require no further adjustment.

The Group also had exposure to the US $ as a result of borrowings denominated in this currency.

**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) Capital management policies and liquidity risk**
The Group considers its capital to comprise its ordinary share capital, share premium, accumulated retained earnings and other reserves.

The Group's objective when maintaining capital is to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Company meets its capital needs primarily by equity financing. The Group sets the amount of capital it requires to fund the Group's project evaluation costs and administration expenses. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company and Group do not have any derivative instruments or hedging instruments. It has been determined that a sensitivity analysis will not be representative of the Company's and Group's position in relation to market risk and therefore no such analysis has been undertaken.

As set out in Note 20, the Group has £1.2 million (2017: £1.4 million) of loans falling due within 12 months. The directors consider that the Group will be able to raise sufficient funds from the sale of assets and from other sources to discharge the loans.

The following table sets out when the financial obligations fall due:

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| **a) Group** | | |
| Current – due within 1 year: | | |
| Trade payables | 774 | 899 |
| Tax liabilities | 7 | 7 |
| Borrowings | 1,200 | 1,448 |
| **Total due within 1 year:** | **1,981** | **2,354** |

| b) Company | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Current – due within 1 year: | | |
| Trade payables | 469 | 601 |
| Tax liabilities | 7 | 7 |
| Borrowings | 1,200 | 1,448 |
| **Total due within 1 year:** | **1,676** | **2,056** |

**d) Credit risk**

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying value. The Group's trade and other receivables are actively monitored.

**e) Fair values**

In the opinion of the Directors, there is no significant difference between the fair values of the Group's and the Company's assets and liabilities and their carrying values and none of Group's and the Company's trade and other receivables are considered to be impaired.

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

| 31 December 2018 | Company Financial Assets at Amortised Cost £'000 | Company Borrowings and Payables at Amortised Cost £'000 | Group Financial Assets at Amortised Cost £'000 | Group Borrowings and Payables at Amortised Cost £'000 |
|---|---|---|---|---|
| Trade and Other Receivables < 1 year | 16,613 | - | 16,394 | |
| Cash and Cash Equivalents | 350 | - | 351 | - |
| Trade and Other Payables < 1 year | - | (476) | - | (781) |
| Borrowings < 1 year | - | (1,200) | - | (1,200) |
| **Total** | **16,963** | **(1,676)** | **16,745** | **(1,981)** |

| 31 December 2017 | Company Loans and Receivables £'000 | Company Borrowings and Payables at Amortised Cost £'000 | Group Loans and Receivables £'000 | Group Borrowings and Payables at Amortised Cost £'000 |
|---|---|---|---|---|
| Trade and Other Receivables < 1 year | 20,892 | - | 18,951 | |
| Cash and Cash Equivalents | 162 | - | 163 | - |
| Trade and Other Payables < 1 year | - | (609) | - | (906) |
| Borrowings < 1 year | - | (1,448) | - | (1,448) |
| **Total** | **21,054** | **(2,057)** | **19,114** | **(2,354)** |

## 25. OPERATING LEASE COMMITMENTS

**Office premises**

Less than one year £26k (2017: £22k).

Office premises relates to the Company's offices.

## 26. RELATED PARTY TRANSACTIONS

**During the year the Company and the Group entered into material transactions with related parties as follows**

**a) Company**

(i) Paid salaries to directors, who are considered Key Management Personnel which amounted to £0.3 million (2017: £0.5 million).

| | Year ended 31.12.18 £'000 | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|---|
| | **Base Salary/Fee** | **Total** | **Total** |
| A Morris | - | **-** | **67** |
| B Rowbotham | 30 | **30** | **30** |
| S Morris | 91 | **91** | **193** |
| A Coveney | 201 | **201** | **199** |
| **Total** | **322** | **322** | **489** |

B Rowbotham provided services under a service agreement contract with Mountbeach Associates Ltd until June 2017, since then he has been on payroll.
S Morris provided services under a service agreement contract with SC Morris Ltd.
A Coveney provided services under a service agreement contract with Coveney Associates Consulting Ltd. Coveney Associates Consulting Ltd provided short term working capital loan of £50,000 on 14 February 2018. This loan was repaid on 16 February with an arrangement fee of £1,000.

(ii) In the prior period, received from its former 100 per cent. subsidiary Independent Power Corporation PLC ("IPC") a credit note of £20k relating to the prior period.

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Sales | - | - |
| Purchases | - | (20) |
| Y/E debtor | - | - |
| Y/E creditor | - | - |

(iii) Charged negative interest on loans to its 100% subsidiary Rurelec Project Finance Ltd ("RPFL") totalling £0.1 million (2017: £0.4 million). The loan balance outstanding at the year-end was £1.0 million (2017: £3.0 million).

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Y/E debtor | 1,008 | 2,965 |
| Interest charged | (81) | (432) |

(iv) Charged interest on loans to its 50% owned joint venture company, Patagonia Energy Ltd ("PEL") amounting to £0.8 million (2017: £0.9 million). Received loan repayments of £ nil (2017: £ nil). The Directors have assessed the recoverability of the loans and consider that it is appropriate to recognise an impairment of £2.5 million in the year (2017: £1.3 million). After impairment reviews the loan balances at the year-end totalled £14.8 million (2017: £15.6 million). Interest on these loans has been accrued at an effective rate of 5.5 % (2017: 5.5%). The total outstanding before impairment is £39.3 million (2017: £34.5 million).

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Y/E debtor | 14,794 | 15,666 |
| Repayment | - | - |
| Interest charged | 840 | 862 |

(v) Received from its joint venture company Energia del Sur S.A. ("EdS") repayments totalling £nil (2017: £nil) of support previously given to creditors of EdS. £0.5 million (2017: £0.5 million) of credit support remains outstanding at the year end. In the prior year the loan was considered to be fully impaired due to Argentine restrictions on its repayment, these matters were resolved in 2018 with repayment expected in 2019.

(vi) Provided loans and charged interest of 0.5% per month to its 100 per cent. subsidiary Cochrane Power Ltd. New loans in the year totalling £0.1 million (2017: £0.2 million). The total outstanding at the year-end was £9.9 million (2017: £9.2 million). These loans have been impaired to £1.2 million (2017: £0.8 million).

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Y/E debtor | 1,248 | 805 |
| Further loans made | 112 | 196 |
| Interest charged | 568 | 522 |

(vii) In the prior year provided loans to its former 100 per cent. subsidiary Cascade Hydro Ltd ("CHL") of £0.4 million and charged CHL interest of £nil. The sale of CHL completed on 30 January 2018 for US$250k of which US$175k has been received.

| | Year ended 31.12.18 £'000 | Year ended 31.12.17 £'000 |
|---|---|---|
| Y/E debtor | - | - |
| Further loans made | - | 386 |
| Interest charged | - | - |

**b) Group**

RPFL received £2.0 million (2017: £3.3 million) in repayments from EdS. The interest rate on accrued interest was zero, the effective interest rate (on principal and accrued interest) was nil (2017: nil). The total outstanding at the year-end was £1.1 million (2017: £3.1 million).

## 27. ASSETS HELD FOR SALE

Prior year Assets held for sale relate to three project companies within Peru. These business segments were reclassified to assets held for sale following the commitment of the Group's management on 16 September 2014 to restructure its Peruvian operations by means of sale. Two disposal groups were identified, one of which comprised the Canchayllo run of the river plant, sold in July 2015, with the rest of the project companies included in the second group. The second group, along with their UK holding company Cascade Hydro Limited have been disposed of. The transaction completed on 30 January 2018, the consideration was US $250k, of which US $175k has been received.

| Assets Classified as Held for Sale | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| Trade and Other Receivables | - | 2,265 |
| | **-** | **2,265** |

| Liabilities Classified as Held for Sale | Year Ended 31.12.18 £'000 | Year Ended 31.12.17 £'000 |
|---|---|---|
| Trade and Other Payables | - | 3,515 |
| | **-** | **3,515** |

## 28. CONTROL

The Directors consider that the ultimate controlling party is Sterling Trust Limited on the basis of their 53.9% shareholding in the Company.

## 29. POST BALANCE SHEET DATE EVENTS

Since the year end:

RPFL has received final payment from EdS for the former Standard Bank loan and associated fees on 29 May 2019.

Rurelec has repaid BPAC £850k of interest and principal of the extended £1.2 million loan.

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**COMPANY INFORMATION**

**Directors**
S.C. Morris (Executive)
A.H. Coveney (Executive)
B. Rowbotham (Non-Executive)

**Secretary**
M J. Bravo Quiterio

**Company number**
4812855

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