



22nd May 2008

**PRELIMINARY RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (unaudited)**

Highlights

- Guaracachi added 79MW of new gas fired capacity in Bolivia – a 25% increase in 12 months
- 160 MW of new combined cycle projects in Argentina and Bolivia under development and financed during the year
- Group turnover in year to 31 December 2007 – £22.6m
- Operating profit - £2.3m, Guaracachi contribution increases to £3.4m
- Net Asset Value per share 47p at 31.12.07
- Dividend of 2.5p per share proposed, an increase of 11 per cent.

Post year end highlights

- Approval and registration of 148,019 tonnes per year of CO₂ reductions in the form of CER for EdS
- Preliminary agreement with BNP Paribas for a forward purchase of CERs for the life of the Kyoto Protocol

Jimmy West, Chairman, said: "2007 was a year of considerable progress for Rurelec. Our operating subsidiaries have been able to make solid progress which will underpin future earnings. The markets in which we operate have continued to grow over the past year and are expected to continue to do so and the Board is confident that the Group will be in a position to reap the benefits of growth over the coming years."

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For a copy of the full results please log on to: www.rurelec.com

CHAIRMAN'S STATEMENT

The Group's strategy is to own and operate modern, low emission power generation plants in Latin America, paying dividends to shareholders based on strong cash flows and at the same time, developing and constructing new power generation capacity with judicious use of project and local subsidiary company debt.

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

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

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

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

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

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

In 2007 Guaracachi added 79 MW of new gas-fired capacity in Santa Cruz and Sucre in Bolivia, increasing its capacity by nearly one quarter in just one year. EdS made considerable progress on its combined cycle conversion project adding 60 MW of additional steam turbine capacity at Comodoro Rivadavia in Argentina, due to be commissioned in August 2008. At the same time Guaracachi started construction in Sucre of a further 6 MW of Jenbacher gas engine capacity which is currently being commissioned while successfully completing financing of the combined cycle conversion project which is adding 96 MW of steam turbine capacity in Santa Cruz, for operation in the middle of 2009.

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

We have announced two important developments since the year end. The first is the approval and registration of 148,019 tonnes per year of CO₂ reductions in the form of Certified Emission Reductions certificates ("CERs") for EdS. This was granted by the Executive Board of the United Nations Framework Convention on Climate Change ("UNFCCC") in early May 2008. The registration is valid for three separate crediting periods of seven years each.

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

CHAIRMAN'S STATEMENT

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

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

Jimmy West
Chairman

CONSOLIDATED INCOME STATEMENT AND STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2007

Consolidated income statement	Notes	Year ended 31.12.07 £'000	Year ended 31.12.06 £'000
Revenue	1	22,636	20,660
Cost of sales	2	(17,409)	(15,853)
Gross profit		5,227	4,807
Administrative expenses	3	(2,959)	(2,426)
Operating profit		2,268	2,381
Other income	5	423	2,426
Negative goodwill arising on acquisition of subsidiary	6	-	13,313
Finance income	7	93	200
Finance expense	7	(1,089)	(632)
Profit before tax		1,695	17,688
Tax expense	8	(1,271)	(1,296)
Profit for the year		<u>424</u>	<u>16,392</u>
Attributable to:			
Minority interests	20	1,027	1,934
Equity shareholders	20	(603)	14,458
		<u>424</u>	<u>16,392</u>
Basic and diluted (loss) / earnings per share	11	(0.85p)	<u>21.17p</u>

All activities relate to continuing activities

Statements of recognised income and expense

a) Group			
Exchange differences arising on translation of foreign operations		(602)	(4,564)
(Loss) / profit for the year		(603)	14,458
Total recognised income and expense for the year		<u>(1,205)</u>	<u>9,894</u>
b) Company			
Profit for the year		<u>687</u>	<u>1,570</u>
Total recognised income and expense for the year		<u>687</u>	<u>1,570</u>

CONSOLIDATED BALANCE SHEET
At 31 December 2007

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

COMPANY BALANCE SHEET
At 31 December 2007

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

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2007

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

COMPANY CASH FLOW STATEMENT
For the year ended 31 December 2007

	Notes	Year ended 31.12 07 £'000	Year ended 31.12 06 £'000
Cash flows from operating activities			
Cash (used in) / generated from operations	24	(846)	1,080
Interest received		61	20
Interest paid		(2)	(3)
Net cash (used in) generated from operations		<u>(787)</u>	<u>1,097</u>
Cash flows from investing activities			
Dividend received (net of tax)		1,520	1,841
Loans to subsidiaries and joint venture company		-	(21,432)
Repayment of loan by joint venture company		368	-
Acquisition of interest in joint venture company		-	(863)
Net cash generated from / (used in) investing activities		<u>1,888</u>	<u>(20,454)</u>
Net cash inflow / (outflow) before financing activities		<u>1,101</u>	<u>(19,357)</u>
Cash flows from financing activities			
Issue of shares (net of costs)		2,780	18,674
Loan (repayments) / drawdowns		(817)	665
Equity dividend paid		<u>(1,613)</u>	-
Net cash generated from financing activities		<u>350</u>	<u>19,339</u>
Increase / (decrease) in cash and cash equivalents		1,451	(18)
Cash and cash equivalents at start of year		<u>66</u>	<u>84</u>
Cash and cash equivalents at end of year		<u>1,517</u>	<u>66</u>

PRINCIPAL ACCOUNTING POLICIES

General information

Rurelec is the Group's ultimate parent company. It is incorporated and domiciled in England and Wales. The address of Rurelec's registered office is given on the information page. Rurelec's shares are traded on the AIM market of the London Stock Exchange PLC. The nature of the Group's operations and its principal activities are the generation of electricity in South America.

The unaudited financial information set out above does not constitute Statutory Accounts within the meaning of Section 240 of the Companies Act 1985.

Basis of preparation

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

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

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

IFRS 7 (Financial Instruments: Disclosures)

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

IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 January 2009)
IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
IFRS 8 Operating Segments (effective 1 January 2009)
IFRIC 11 IFRS 2 - Group and Treasury Share Transactions (effective 1 March 2007)
IFRIC 12 Service Concession Arrangements (effective 1 January 2008)
IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)

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

Changes in accounting policies and presentation

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

PRINCIPAL ACCOUNTING POLICIES - continued

Consolidation

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

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Joint ventures are arrangements in which the Group has a long-term interest and shares control under a written contractual agreement. The Group reports its interests in jointly controlled entities using proportionate consolidation such that the Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line by line basis.

Goodwill, or the excess of interest in acquired assets, liabilities and contingent liabilities over cost, arising on the acquisition of the Group's interest in subsidiary or jointly controlled entities is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

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

Acquisitions of subsidiaries and joint venture entities are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the acquired company, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the entity prior to acquisition. On initial recognition, the assets and liabilities of the acquired entity are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Investments in subsidiaries and joint ventures are stated at cost in the balance sheet of the Company.

Goodwill

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

Foreign currency translation

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

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

In the consolidated financial statements, all separate financial statements of subsidiary and jointly controlled entities, originally presented in a currency different from the Group's presentation currency, have been converted into sterling. Assets and liabilities have been translated into sterling at the closing rate at the balance sheet date. Income and expenses have been converted into sterling at the average rates over the reporting period. Any differences arising from this procedure have been charged/(credited) to the Foreign Currency Reserve.

PRINCIPAL ACCOUNTING POLICIES - continued

Income and expense recognition

Revenue is recognised upon the performance of services or transfer of risk to the customer. Revenues represent the total amount receivable by the Group for electricity sales, excluding VAT. Electricity sales includes the income from the sale of electricity generated and the income received for keeping power plants operating and available for despatch into the grid as required. During the year under review and the prior year, no revenues were derived from the sale of equipment purchased with a view to subsequent resale.

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

Dividends

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

Borrowing costs

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

Property, plant and equipment

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

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

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

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land by equal annual instalments over their estimated useful economic lives. The periods generally applicable are:

Buildings	25 to 50 years
Plant and equipment	3 to 15 years

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

PRINCIPAL ACCOUNTING POLICIES - continued

Impairment of tangible and intangible assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Taxation

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

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

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

No deferred tax is provided on differences between the fair value of assets and liabilities acquired in an acquisition and the carrying value of the assets and liabilities of the acquired entity nor on the differences relating to investments in subsidiary and joint venture companies to the extent that the temporary difference can be controlled will probably not reverse in the foreseeable future.

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

PRINCIPAL ACCOUNTING POLICIES - continued

Financial assets

The Group's financial assets include cash and cash equivalents, loans and receivables.

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

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

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated cash flows.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All transaction costs are recognised immediately in the income statement.

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

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

Inventories

Inventories comprise spare parts and similar items for use in the Group's plant and equipment. Inventories are valued at the lower of cost and net realisable value on a first-in, first-out basis.

Shareholders' equity

Equity attributable to the shareholders of the parent company comprises the following:

"Share capital" represents the nominal value of equity shares.

"Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

"Foreign currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.

"Profit and loss reserve" represents retained profits.

Pensions

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

Employee indemnity provision

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

PRINCIPAL ACCOUNTING POLICIES - continued

Key assumptions and estimates

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

NOTES TO THE FINANCIAL STATEMENTS

1 Segment analysis

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

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

a) 12 months to 31.12.2007	Argentina £'000	Bolivia £'000	UK £'000	Intra-Group £'000	Total £'000
Revenue	3,962	18,674	-	-	22,636
Cost of sales	(3,700)	(13,709)	-	-	(17,409)
Administrative expenses	(468)	(1,184)	(972)	-	(2,624)
Exchange gains / (losses)	(151)	(263)	79	=	(335)
Operating profit / (loss)	(357)	3,518	(893)	-	2,268
Other income	-	423	-	-	423
Finance income	-	32	61	-	93
Finance expense	(157)	(930)	(2)	-	(1,089)
Dividend received	=	=	1,738	(1,738)	=
Profit / (loss) before tax	(514)	3,043	904	(1,738)	1,695
Tax expense	(124)	(930)	(217)	=	(1,271)
Profit / (loss) for the year	(638)	2,113	687	(1,738)	424
Total assets	12,248	95,733	27,473	(25,920)	109,534
Total liabilities	8,046	37,294	1,288	(-)	46,628
Capital expenditure	4,050	16,804	=	=	20,854
Depreciation	355	2,659	=	=	3,014
b) 12 months to 31.12.2006	Argentina £'000	Bolivia £'000	UK £'000	Intra-Group £'000	Total £'000
Revenue	3,735	16,925	-	-	20,660
Cost of sales	(3,105)	(12,748)	-	-	(15,853)
Administrative expenses	(515)	(1,125)	(515)	-	(2,155)
Exchange gains / (losses)	(2)	(497)	228	=	(271)
Operating profit / (loss)	113	2,555	(287)	-	2,381
Other income	-	2,426	-	-	2,426
Negative goodwill	-	13,313	-	-	13,313
Finance income	-	181	19	-	200
Finance expense	(28)	(601)	(3)	-	(632)
Dividend received	=	=	1,841	(1,841)	=
Profit before tax	85	17,874	1,570	(1,841)	17,688
Tax expense	(310)	(986)	=	=	(1,296)
Profit / (loss) for the year	(225)	16,888	1,570	(1,841)	16,392
Total assets	7,775	78,630	26,425	(26,285)	86,545
Total liabilities	3,368	18,763	2,094	(1,928)	22,297
Capital expenditure	2,320	4,837	=	=	7,157
Depreciation	327	2,258	=	=	2,585

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Segment analysis - continued

Sensitivity analysis:

The Group's electricity generating assets are located in Argentina and Bolivia and as a result, the Group's reported results are affected by currency movements.

The key exchange rates applicable to the results for the year to 31 December 2007 were as follows:

i) Closing rate	31 December 2007	31 December 2006
Boliviano to £	15.40	16.24
AR \$ to £	6.30	6.01
US \$ to £	2.00	1.96

ii) Average rate		
Boliviano to £	16.10	15.23
AR \$ to £	6.25	5.70
US \$ to £	2.00	1.84

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

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

The results of the parent company are affected by exchange rate movements in so far as dividends received are received in US \$. If the US \$ had been stronger or weaker by 10% as compared to the actual rate when the dividend from Guaracachi was received in 2007, with all other variables held constant, the profit of the parent company and the net equity of the parent company would have been £0.2m higher or lower than reported (2006 - £0.2m).

2 Cost of sales

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

3 Administrative expenses

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

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Administrative expenses - continued

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

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

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

Management	19	18
Operations	<u>74</u>	<u>70</u>
Total	<u>93</u>	<u>88</u>

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

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

Management	<u>7</u>	<u>7</u>
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c) Directors remuneration

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

5 Other income

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

6 Negative goodwill arising on acquisition of subsidiary

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Tax expense

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

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

9 Dividends

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

10 Holding company's result for the year

As permitted by Section 230 of the Companies Act 1985, the holding company's income statement is not shown separately in the financial statements. The profit for the year was £0.7m (31 December 2006 – profit £1.57m).

11 Earnings per share

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

11 Earnings per share - continued

b) Underlying (loss) / earnings per share

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

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

12 Property, plant and equipment	Land	Plant and equipment	Plant under construction	Total
	£'000	£'000	£'000	£'000
a) Group				
Cost at 1 January 2006	108	3,939	930	4,977
Assets acquired on acquisition	4,934	54,520	10,470	69,924
Exchange adjustments	(567)	(6,602)	(1,309)	(8,478)
Additions	<u>9</u>	<u>3,366</u>	<u>3,782</u>	<u>7,157</u>
Cost at 31 December 2006	4,484	55,223	13,873	73,580
Exchange adjustments	(94)	(2,220)	(244)	(2,558)
Additions	-	3,401	17,453	20,854
Transfers in classification	-	<u>8,880</u>	<u>(8,880)</u>	-
Cost at 31 December 2007	<u>4,390</u>	<u>65,284</u>	<u>22,202</u>	<u>91,876</u>
Depreciation at 1 January 2006	-	124	-	124
Exchange adjustments	-	(15)	-	(15)
Charge for year	-	<u>2,585</u>	-	<u>2,585</u>
Depreciation at 31 December 2006	-	2,694	-	2,694
Exchange adjustments	-	(1,067)	-	(1,067)
Charge for year	-	<u>3,014</u>	-	<u>3,014</u>
Depreciation at 31 December 2007	-	<u>4,641</u>	-	<u>4,641</u>
Net book value – 31.12.07	<u>4,390</u>	<u>60,643</u>	<u>22,202</u>	<u>87,235</u>
Net book value – 31.12.06	<u>4,484</u>	<u>52,529</u>	<u>13,873</u>	<u>70,886</u>

i) The value of property, plant and equipment recognised upon the initial inclusion of EdS in the financial statements in 2005 was £4.15m. This amount included a negative fair value adjustment of £0.45m resulting from a professional valuation carried out at the date of the acquisition.

ii) The value of property, plant and equipment recognised upon the initial inclusion of Guaracachi in the financial statements in 2006 was £69.9m. This amount included a positive fair value adjustment of £14.3m resulting from a professional valuation carried out at the date of the acquisition.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

13 Intangible assets	31.12.07	31.12.06
	£'000	£'000
At 1 January 2007	3	7
Amortisation	(3)	(3)
Exchange difference	=	(1)
At 31 December 2007	=	<u>3</u>

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

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

Non-current trade receivables represents retentions by the Electricity Regulator in Argentina. It is expected that the retention will either be released or contributed towards ongoing capital projects.

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

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

i) Other receivables and prepayments at 31 December 2007 includes an amount of £0.9m (31 December 2006 - £1.85m) relating to a 'Stabilisation Fund' in Guaracachi. Under Resolution No. 014/2002, the Superintendent of Electricity in Bolivia set up a stabilisation fund to stabilise the electricity tariffs paid by end users. The purpose of these funds is to help smooth the impact on consumers of changes in spot prices.

ii) Trade and other receivables are unsecured and are not past their due by dates.

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

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

No deferred tax asset has been recognised in respect of the parent company's tax losses (£1.1m at 31 December 2007) in view of the uncertainty over the timing of the utilisation of these tax losses.

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Deferred tax - continued	31.12.07	31.12.06
	£'000	£'000
b) Liability at 1 January 2007	739	-
Arising on acquisition	-	460
Charged to tax expense	254	352
Exchange difference	(15)	(73)
Liability at 31 December 2007	<u>978</u>	<u>739</u>

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

16 Inventories	31.12.07	31.12.06
	£'000	£'000
Spare parts and consumables	<u>2,562</u>	<u>3,146</u>

Spare parts and consumables are valued at cost.

17 Current tax assets	31.12.07	31.12.06
	£'000	£'000
Sales taxes / Vat	1,771	1,326
Pre-paid profits tax	<u>1,467</u>	<u>979</u>
	<u>3,238</u>	<u>2,306</u>

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

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

Cash and short-term bank deposits are held in interest bearing bank accounts, accessible at between 1 and 30 days notice. The effective average interest rate is 3%. The Group holds cash balances to meet its day-to-day requirements. The cash balance at 31 December 2007 reflected the issue of US \$11m loan notes in December 2008 (note 23)

Restricted deposits represents funds held as collateral against borrowings.

NOTES TO THE FINANCIAL STATEMENTS - continued

19 Share capital	31.12.07	31.12.06
	£'000	£'000
a) Authorised		
120,000,000 ordinary shares of 2p each	<u>2,400</u>	<u>2,400</u>
b) Allotted, called up and fully paid		
73,288,775 ordinary shares of 2p each	<u>1,466</u>	<u>1,366</u>
(31 December 2006 – 68,288,775)		
Reconciliation of movement in share capital	Number	£'000
At 1 January 2006	21,350,000	427
Allotment in January 2006	<u>46,938,775</u>	<u>939</u>
Balance at 31 December 2006	68,288,775	1,366
Allotment in May 2007	3,400,000	68
Allotment in June 2007	<u>1,600,000</u>	<u>32</u>
At 31 December 2007	<u>73,288,775</u>	<u>1,466</u>

The allotment in 6 January 2006 was at 42p per share. The allotments in May and June 2007 were at 59.25p and 57p respectively. The difference between the total consideration arising from shares issued and the nominal value of the shares issued has been credited to the share premium account.

20 Statement of changes in equity

	Attributable to equity shareholders						Total equity
	Share capital	Share premium	Foreign currency reserve	Retained earnings	Total	Minority interest	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
a) Group							
Balance at 1.1.06	427	3,568	(384)	2,084	5,695	-	5,695
Allotment of shares	939	18,775	-	-	19,714	-	19,714
Share issue costs	-	(1,040)	-	-	(1,040)	-	(1,040)
Arising on acquisition	-	-	-	-	-	33,894	33,894
Exchange differences	-	-	(4,564)	-	(4,564)	(3,921)	(8,485)
Minority dividend	-	-	-	-	-	(1,922)	(1,922)
Profit for year	=	=	=	<u>14,458</u>	<u>14,458</u>	<u>1,934</u>	<u>16,392</u>
Balance at 31.12.06	<u>1,366</u>	<u>21,303</u>	<u>(4,948)</u>	<u>16,542</u>	<u>34,263</u>	<u>29,985</u>	<u>64,248</u>
Balance at 1.1.07	1,366	21,303	(4,948)	16,542	34,263	29,985	64,248
Allotment of shares	100	2,827	-	-	2,927	-	2,927
Share issue costs	-	(147)	-	-	(147)	-	(147)
Minority dividend	-	-	-	-	-	(1,717)	(1,717)
Equity dividend	-	-	-	(1,613)	(1,613)	-	(1,613)
Exchange differences	-	-	(602)	-	(602)	(614)	(1,216)
(Loss)/profit for year	=	=	=	<u>(603)</u>	<u>(603)</u>	<u>1,027</u>	<u>424</u>
Balance at 31.12.07	<u>1,466</u>	<u>23,983</u>	<u>(5,550)</u>	<u>14,326</u>	<u>34,225</u>	<u>28,681</u>	<u>62,906</u>

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

NOTES TO THE FINANCIAL STATEMENTS - continued

21 Trade and other payables	31.12.07	31.12.06
	£'000	£'000
a) Group - current		
Trade payables	13,865	4,419
Accruals	<u>1,374</u>	<u>562</u>
	<u>15,239</u>	<u>4,981</u>
b) Company - current		
Trade payables	117	24
Accruals	<u>59</u>	<u>55</u>
	<u>176</u>	<u>79</u>
c) Group – non-current		
Staff indemnity provision (note i below)	<u>179</u>	<u>247</u>
i) Staff indemnity provision represents statutory long service entitlements due to employees in Guaracachi. The entitlement is payable on leaving service.		
22 Current tax liabilities	31.12.07	31.12.06
	£'000	£'000
a) Group		
Sales taxes / Vat	330	394
Profits taxes	<u>1,377</u>	<u>560</u>
	<u>1,707</u>	<u>954</u>
b) Company		
UK corporation tax	=	<u>85</u>
23 Borrowings	31.12.07	31.12.06
	£'000	£'000
a) Group - current		
Loan from CAMMESA (note i below)	330	377
Bank loans - EdS (note ii below)	736	-
Bank loans - Guaracachi (note iii below)	5,228	2,547
Deferred consideration payable	-	1,265
Other loans (note iv below)	<u>1,752</u>	<u>665</u>
	<u>8,046</u>	<u>4,854</u>
b) Group – non current		
Loan from CAMMESA (note i below)	189	198
Bank loans - EdS (note ii below)	4,266	-
Bank loans - Guaracachi (note iii below)	10,094	10,324
Loan note – Guaracachi (note v below)	<u>5,930</u>	-
	<u>20,479</u>	<u>10,522</u>
Group – total borrowings	<u>28,525</u>	<u>15,376</u>
The borrowings are repayable as follows:		
On demand or within one year	8,046	4,854
In the second year	2,431	2,093
In the third to fifth years inclusive	6,344	3,587
After five years	<u>11,704</u>	<u>4,842</u>
	<u>28,525</u>	<u>15,376</u>
c) Company – current		
Deferred consideration payable	-	1,265
Other loans (note iv below)	<u>1,112</u>	<u>665</u>
	<u>1,112</u>	<u>1,930</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

23 Borrowings – continued

i) CAMMESA, the Argentine wholesale market administrator, has advanced funds to EdS to support capital expenditure. The loan bears interest at 7% per annum. The loan is repayable in equal instalments. At 31 December 2007, the Group's share of the repayments due within 12 months amounted to £0.33m (31 December 2006 - £0.38m). The Group's share of the loan repayable in more than 12 months is £0.19m (31 December 2006 - £2.0m).

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

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

iii) Bank loans to Guaracachi comprise:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

23 Borrowings – continued

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

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

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

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

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

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

	As at date of acquisition	At 31.12.07
Swap rate for 15 year Euro loans	3.50%	3.50%
Adjustment for country and credit risk	<u>5.00%</u>	<u>5.00%</u>
Total	<u>8.50%</u>	<u>8.50%</u>

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

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

(f) Loan of US\$ 0.9m from Banco Economico. The interest rate is 8% and the loan is repayable as to US\$ 0.5m in 2008 and US\$ 0.4m in 2009.

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

v) Loan note

In December 2007, Guaracachi issued a US\$ 20m bond, with an interest coupon of 8.55%. At 31 December 2007, US\$ 11.86m had been issued. The bond matures in November 2017 with principal repayments of 1/3 of the outstanding amount in each of years 2015, 2016 and 2017.

Sensitivity analysis to changes in interest rates:

If interest rates on the Group's borrowings during the year had been 0.5% higher or lower with all other variables held constant, the interest expense and pre-tax profits would have been £0.1m lower or higher than reported.

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

NOTES TO THE FINANCIAL STATEMENTS - continued

23 Borrowings – continued

Sensitivity analysis to changes in exchange rates:

The Group's borrowings are denominated in £, US \$ and Ar \$. As a result, the liability to the Group's lenders will change as exchange rates change. The Group's borrowings are substantially related to specific electricity generating assets and therefore the effect on the net equity of the Group is limited. The overall effect on the Group's net equity which would arise from changes in exchange rates is set out in note 1 above.

The effect on borrowings alone if exchange rates weakened or strengthened by 10% with all other variables held constant would be to reduce or increase the value of the Group's borrowings and equity by £2.7m (2006 - £1.4m).

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

24 Reconciliation of profit before tax to cash generated from operations

	Year ended 31.12.07	Year ended 31.12.06
a) Group	£'000	£'000
Result for the year before tax	1,694	17,688
Net finance costs	996	432
Adjustments for:		
Depreciation	3,014	2,588
Negative goodwill	-	(13,313)
Movement in working capital:		
Change in inventories	510	(545)
Change in trade and other receivables	776	(4,080)
Change in trade and other payables	<u>10,244</u>	161
Cash generated from operations	<u>17,234</u>	<u>2,931</u>
	Year ended 31.12.07	Year ended 31.12.06
b) Company	£'000	£'000
Result for the year before tax	905	1,833
Net finance costs	(59)	(17)
Adjustments for:		
Dividend received	(1,520)	(1,841)
Tax paid on dividend received	(217)	(263)
Movement in working capital:		
Change in trade and other receivables	34	1,201
Change in trade and other payables	<u>11</u>	<u>167</u>
Cash (used in) / generated from operations	<u>(846)</u>	<u>1,080</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

25 Investments	31.12.07	31.12.06
	£'000	£'000
Cost at 1 January 2007	3,777	3,770
Additions	-	7
Balance at 31 December 2007	<u>3,777</u>	<u>3,777</u>

The Company holds the following investments:

a) Subsidiary companies:

i) 100% of the issued share capital of Energia para Sistemas Aislados S.A. ("Energais"), a company registered in Bolivia under registration number 107752. This company was acquired in October 2004. Energia is in the process of negotiating the installation of its small generating units in rural areas in Bolivia.

ii) 100% of the issued share capital of Bolivia Integrated Energy Limited ("BIE"), a company registered in the British Virgin Islands, under registration number 510247. BIE owns, through an intermediary holding company, 50.00125% of the issued share capital of Empresa Electrica Guaracachi S.A. (Guaracachi), a company registered in Bolivia. Guaracachi is a generator and supplier of electricity to the national grid in Bolivia. The investment in BIE was acquired in January 2006.

b) Joint venture entity:

Through the Group's ownership of 50% of the issued share capital of Patagonia Energy Limited ("PEL"), a company registered in the British Virgin Islands under registration number 620522, the Group has a 50% interest in the share capital of Energia del Sur S.A. (EdS), a company registered in Argentina. EdS is a generator and supplier of electricity to the national grid in Argentina. The investment in PEL was acquired in July 2005.

26 Interest in joint ventures

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

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

NOTES TO THE FINANCIAL STATEMENTS - continued

27 Financial risk management

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

a) Foreign currency risk

The Group is exposed to translation and transaction foreign exchange risk. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group. The Group's principal trading operations are based in South America and as a result the Group has exposure to currency exchange rate fluctuations in the principal currencies used in South America. The Group also has exposure to the US dollar and the Euro as a result of borrowings denominated in these currencies.

b) Interest rate risk

Group funds are invested in short term deposit accounts, with a maturity of less than three months, with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

c) Liquidity risk

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

d) Credit risk

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

e) Fair values

In the opinion of the directors, there is no significant difference between the fair values of the Group's and the Company's assets and liabilities and their carrying values other than as disclosed in note 23.

28 Capital commitments

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

29 Contingent liabilities

EdS has entered into a long term maintenance agreement with a third party who provides for the regular service and replacement of parts of two turbines. The agreement runs until 2022. The Group's share of the total payable under the agreement until the year 2022 amounts to US\$11m/£5.61m. In the event that EdS wished to terminate the agreement before 2022, a default payment may become payable. The Group does not anticipate early termination and therefore no provision has been made in this regard.

Guaracachi has received a claim in respect of VAT amounting to US\$1.7m. The Bolivian tax authorities maintain that the VAT, which was associated with an insurance claim, is payable to the tax authorities. Guaracachi's management do not consider the claim to be valid and accordingly no provision has been made in respect of this claim.

NOTES TO THE FINANCIAL STATEMENTS - continued

30 Related party transactions

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

i) Paid £0.12m to Independent Power Corporation PLC (IPC) under a “Shared Services Agreement”. P R S Earl and E R Shaw are shareholders and directors of IPC and J G West is a director. An amount of £0.01m was outstanding at 31 December 2007.

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

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

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

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