

Andina plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

(Company No. 8095058)

Andina plc

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Andina plc

STRATEGIC REPORT

HIGHLIGHTS

Andina plc (“Andina” or the “Company” and with its subsidiaries the “Group”) is a Latin American energy group.

Our financial results incorporating the results of Andina together with its subsidiaries for the year ended 31 December 2018 are set out below.

Year ended 31 December	2018	2017
	US\$m	US\$m
Revenue	248.2	245.1
Operating loss	(13.5)	(2.6)

BUSINESS REVIEW

The Group’s focus is on the energy sector including electricity generation and distribution on the regulated public sector in South America. Its principal assets are a 51% indirect controlling interest in Empresa Distribuidora de Electricidad de Mendoza S. A. (“EDEMSA”), the main electricity distribution company in the Province of Mendoza and a 47% indirect controlling interest in Hidroeléctrica Ameghino S. A. (“HASA”), a 60MW hydroelectric power plant in the Province of Chubut.

TRADING AND FINANCIAL PERFORMANCE

Revenue for the Group for the year increased from US\$245.1 million in 2017 to US\$248.2 million in 2018. Revenue from operating activities in local currency increased by 39% year on year but the devaluation of the Argentine peso (“AR\$”) against the US dollar (“US\$”) resulted in Group revenue in the reporting currency of US\$ increasing by 1.3% (see Note 2.10 for details of changes in exchange rates). The distribution business represents 96.8% of Group revenue and the generating business and corporate represents the remaining 3.2%.

The Group’s total assets have increased from US\$254.0 million at the end of 2017 to US\$337.5 million at the end of 2018. The increase mainly resulted from the inflation adjustment of property, plant and equipment in EDEMSA.

Total current liabilities decreased from US\$254.5 million at the end of 2017 to US\$164.5 million at the end of 2018. At the year-end, the Group had cash resources of US\$22.3 million compared to US\$5.1 million at the end of 2017.

Borrowings have decreased from US\$16.3 million at the end of 2017 to US\$11.6 million at the end of 2018. Current borrowings increased from US\$7.2 million at the end of 2017 to US\$10.0 million at the end of 2018 and non current borrowings decreased from US\$9.1million and the end of 2017 to US\$1.6 million at the end of 2018.

The directors will not be recommending the payment of a dividend for Andina Plc.

OPERATIONAL AND FINANCIAL REVIEW

Due to the devaluation of the AR\$ referred to above, the financial review has been prepared in AR\$ and US\$ to enable the reader to better understand the underlying performance of the business.

EDEMSA

Financial

It is important to point out that the financial statements have been adjusted for inflation and restated, since in 2018 EDEMSA modified the valuation of the high voltage networks and the power transformers within Property, Plant and Equipment as the directors’s consider that the historic cost adjusted by the inflation model reflects more adequately the carrying value of the assets of the Company.

In 2018 EDEMSA reported a post-tax gain of US\$20.8 million compared with US\$15.2 loss million in 2017. Sales for the year have increased primarily from the increase in tariffs. The tariff increases for the 4th tariff period arise from Decree No. 2573/15, pursuant to which the new tariffs were implemented quarterly with effect from 1 March 2016 until 1 June 2017. Additionally, Decree No. 1163/17 approved tariff adjustments resulting from inflation since the tariff review took place in 2015. This adjustment, backdated to February 2017, was put into effect partially in July 2017 and the remainder in November 2017, with the backdated portion to be collected in 9 monthly instalments from November 2017 to July 2018. Finally, in December 2017, the Provincial parliament passed Law 9034 which included a further tariff increase to finance an additional capex programme to be executed prior to 31 July 2018. This increase was also backdated to February 2017, with the backdated portion to be collected in monthly instalments up to July 31, 2018. Tariff increases are collected prospectively.

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STRATEGIC REPORT (continued)

EDEMSA (continued)

Financial (continued)

On 8 February 2017, the Ente Provincial Regulador Eléctrico (“EPRE”) notified Resolution EPRE No. 5/17 to start the process of the 5th tariff revision, for the period starting on 1 August 2018 up to 31 July 2023. On 5 June 2018, the EPRE through Resolution EPRE No. 75/18 called for a public hearing in order to consider the new tariff scheme. The public hearing was held on 3 July 2018.

Later, Decree No. 1238/18, published on 1 August 2018 instructs the EPRE to determine and enforce the new tariff tables for the 5th Tariff Period, enforceable as of the date of publication. The new tariff tables published were the same as those in force as of July 31, 2018. In August 2018, EDEMSA appealed the decree on the basis that none of the additional costs from July 2018 onwards were included. The resolution of that appealed is still pending.

On 19 October 2018, the company requested the EPRE to review the procedures to update the Distribution Value Add (“VAD”) portion of the tariff in accordance with Decree No. 48/17 and in line with Decree No. 2573/15, to be applied as of February 2019. The EPRE, through Resolution No. 54/19, called for a public hearing in order to consider the new tariff scheme. The public hearing was held on 5 April 2019. On July 4, 2019, Decree No. 1481/19 was published, it instructs EPRE to put into effect new tariff scheme effective as of 4 July 2019 which reflects the results of the public hearing.

Payments to CAMMESA

On 7 March 2018, EDEMSA presented to CAMMESA an irrevocable offer to pay the debt owed to the Wholesale Electric Power Market (“MEM”) for the outstanding balance of invoices due between 9 May 2012 and 31 January 2016. This offer was framed within the guidelines established by the Secretary of Electric Energy to CAMMESA, in which it is instructed to accept payment proposals that comply with such conditions.

This payment plan was formally accepted by CAMMESA on 8 March 2018. The payment plan included a reduction of late charges, a grace period from 1 February 2016 to April 2018, a financing term of 90 months until September 2025 and a fixed annual interest rate of 10%. The agreement is being fulfilled.

As of 31 December 2018, EDEMSA had paid the energy purchase invoices dated between February 2016 to June 2018 to CAMMESA and was past due in the payments of the invoices for July, August, September, October, November and December 2018. Invoices for energy purchases for the year 2019 have been paid as they fall due. The payment of the outstanding balances of US\$ 62.8 is being negotiated as at the date of issuance of this report and is classified as a current liability.

Compensation of debt

On 21 December 2016, Law 27341 was published (the 2017 National Budget Law), in which Article 15 established that the Ministry of Energy in consultation with the Provincial jurisdictions, will determine the differences in income received by the distributors during the Tariff Convergence Programme in 2014 and 2015 (time in which electricity tariffs were frozen), compared with the income that would have corresponded to them if the concession contract had been applied (“Foregone Income”).

Due to this article, the National Government should have instructed CAMMESA to apply the Foregone Income credit calculation to the cancellation of the debts that the distributors maintained with CAMMESA, subject to their withdrawal of any legal or administrative claims related to the Tariff Convergence Programme. It should be noted that the Foregone Income of EDEMSA during the existence of the Tariff Convergence Program was greater than its debt with CAMMESA subject to compensation as detailed in the previous section.

The Ministry of Energy did not put into effect the debt compensation mandated by the 2017 National Budget Law and this instruction was not repeated in the 2018 National Budget Law. On 27 October 2017, EDEMSA submitted a formal administrative claim to request the application of Article 15 of Law 27.341. It is important to mention that the Provincial Regulator (EPRE) has determined the Foregone Income of EDEMSA during the Tariff Convergence Program 2014 – 2015. This claim is pending response as of the date of approval of these financial statements. On 7 May 2018, EDEMSA requested a quick response (“Pronto Despacho”).

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STRATEGIC REPORT (continued)

EDEMSA (continued)

Financial (continued)

Administrative expenses and marketing costs, in local currency, increased less than inflation year on year. The biggest increases were seen in salaries and social security costs, training & other personnel expenses.

Operating loss has increase mainly due to the impairment of Property, Plant and Equipment. The Company completed a discounted cash flow analysis which resulted in an impairment of non-current assets as the discounted cash flows exceeded the net book value of the assets. The impairment was driven by the application of IAS 29.

The financial income results from the refinancing of the debt with CMMESA and gains from financial assets. The financial costs primarily result from interest on the outstanding debt with CMMESA.

Total liabilities have increased during the year mainly due to lack of payment to CMMESA from August to December 2018 but because of the devaluation of Argentine peso there is a decrease of 18.2% from 2017.

Operational and commercial

During 2018, progress was made in consolidating the improvements made in previous years in relation to productivity and process efficiency. In that regard, the company has worked intensively with large customers to introduce new economic technical solutions to meet their needs. Some of them have joined the demand while some others will be included in 2019 and 2020, due to the infrastructure investment required.

During the year, the company has restructured its measurement and billing system with the aim to improve process efficiency. Additionally, the company continued with its plan to convert the physical invoice into a digital one.

Energy losses: During 2018, the level of energy losses increased to 14.09%. The trend of energy losses is as follows: December 2015: 10.94%; December 2016: 12.35%; and December 2017: 12.66%. This increase in losses was primarily due to a decrease in the demand from large industries (which historically have lower energy losses) and due to the increase in tariffs after the removal of subsidies during the economic recession. This affected the most vulnerable population to a greater extent and increased the level of energy loss.

HASA

Financial

The company recorded a profit after tax for the year of US\$0.8 million compared to the 2017 profit after tax of US\$1.1 million. Sales increased to US\$6.3 million compared to US\$6.1 million in 2017. The power generated in 2018 was 122 GWh, a decrease of 38% compared to the 196 GWh generated in 2017. The increase in total revenue was mainly due to the increase in tariff.

The current tariff structure was established under Resolution 019/2017 S.E., a modification of Resolution 022/2016 S.E.

Operational

Water supply during the year was 929.5 hm³ compared to 1.450 hm³ in 2017.

The total energy produced during the year was sold in the spot market. Collections on billings to CMMESA remained constant at 60 days, the same level as 2017.

EARNINGS PER SHARE

Basic and diluted profit per share was 0.08 cents in 2018 compared to a loss per share of 0.12 cents in 2017.

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STRATEGIC REPORT (continued)

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 business and consider the following relevant in assessing performance.

Revenue

Sales provide a measure of the Group's activity that is influenced by the demand for electricity, the amount of electricity generated and energy prices. Revenue increased from AR\$4,558 million (US\$245.1 million) in 2017 to AR\$9,332 million (US\$248.2 million) in 2018.

Gross margin

This represents the margin generated by the core business and excludes all non-operating costs, such as financing and tax expenses as well as any one-off items. Gross margin increased to 17.6% in 2018 from 16.5% in 2017.

Energy losses

This measures the efficiency of the energy distributed and includes the technical and commercial loss. Energy losses increased from 12.66% at the end of 2017 to 14.09% at the end of 2018.

Water level

The reservoir water level is an indication of the amount of power that can be generated. The water level at the end of 2018 was 154.34 metres compared to 157.4 metres at the end of 2017.

FUTURE DEVELOPMENT

Management is working with the regulatory authorities in order to instrument the Article 15 of law 27.341. The implementation of the referred article is expected to allow EDEMESA to cancel the existing debt with CAMMESA against the credit generated from the income not received during the convergence programme in 2014 and 2015, when electricity tariffs were frozen.

PRINCIPAL RISKS AND UNCERTAINTIES

Refer to the Operational and Financial Review above for disclosure of the regulatory and operational risks. The main regulatory and operational risks relate to tariffs and the situation with CAMMESA.

**Approved by the Board of Directors
and signed on behalf of the Board**

**Neil Bleasdale
Chairman
13 August 2019**

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DIRECTORS' REPORT

The directors present their report and the audited consolidated financial statements of Andina for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is a Latin American energy Group, with electricity generation and distribution interests in Argentina.

NAMES, QUALIFICATIONS AND EXPERIENCE OF DIRECTORS

The directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

Neil Bleasdale (Chairman)

Neil Bleasdale joined the board on 17 May 2013. Neil is also the Chairman and Chief Executive Officer of EDEMSA. He is a businessman and holds a B.A. (with honours) from the University of Leeds, England. He also acts as a non-executive director and alternate director of a number of other Argentine companies.

Luis Alvarez Poli (Chief Executive Officer, Chief Financial Officer and Company Secretary)

Luis Alvarez Poli joined the board on 6 June 2012. Luis graduated as a Certified Public Accountant and Corporate Administrator from the Universidad Católica Argentina in Buenos Aires. He also has a postgraduate MBA from the Instituto de Altos Estudios Empresariales IAE. Luis has more than 20 years of experience in capital markets, investor relations and financial restructuring in energy and media companies. He was previously a financial director and manager in, among others, Transportadora de Gas del Sur and Petrobras (formerly Perez Companc) and has worked for Banco Macro in Buenos Aires. In 2014 he became president of Hidroeléctrica del Sur S.A ("HDS").

Jorge Depresbiteris (Chief Operating Officer)

Jorge Depresbiteris joined the board on 17 May 2013. Jorge graduated from Universidad Tecnológica Nacional with a degree in Electrical Engineering in 1982. He has many years of experience in different roles in multi-national electricity companies and is currently the Commercial Manager at EDEMSA responsible for commercial operations, planning and strategies and customers service. Jorge worked in several management positions in both generation and distribution for CMS Energy from 1994 to 2008 in Argentina and Venezuela, where he was a General Manager of the vertically-integrated Seneca power Company in Isla Margarita, with 125,000 customers.

Carlos Bastos (Non-Executive Director)

Carlos Bastos recently joined the board on 8 May 2018. Carlos graduated as an engineer specialising in energy. He was Secretary of State for Energy, Public Works and Communications from 1991 to 1996. During that period he established the regulatory framework approved by law for the operation of private electric power companies. In later years, he has been working for several private companies as well as in public institutions.

Marcelo Comba (Non-Executive Director)

Marcelo Comba joined the board on 17 May 2013. Marcelo graduated as a solicitor from the University of Buenos Aires in 1988 and became a Master in Business Law in 1994. After working in the legal departments of Siemens S.A. and Ferrovias SAC, he has worked since 2002 as a Partner in the law firm of Aidar Bestene-Garcia Moreno & Associates. He is also the former President of HASA.

Nigel John Duxbury (Chief Financial Officer)

Nigel Duxbury joined the board on 6 June 2012. Nigel has extensive experience both as a finance director and senior executive in small and large quoted and unquoted companies within Europe, Asia and the USA. He has a background in finance and accountancy, having qualified as a chartered accountant with Touche Ross, London. He resigned from the Board on April 10, 2018. No indemnity provision has been determined on this regard.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to US\$18.6 million (2017: US\$19.3 million loss).

The directors will not be recommending the payment of a dividend for Andina Plc.

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DIRECTORS' REPORT (continued)

FINANCIAL RISK MANAGEMENT

The Group's exposure to financial risk is set out in Note 28 to the financial statements.

COUNTRY OF INCORPORATION

The Company was incorporated in England and Wales.

COUNTRY OF OPERATION

The Group's activities are based in Argentina.

GOING CONCERN

The directors have reviewed the cash position of the Company and the Group as at 31 December 2018 and for a period of 12 months from the date of this report and consider it appropriate that the Company and Group financial statements are prepared on the going concern basis for the reasons set out below.

At 31 December 2018, as detailed in note 21, the Company was in default of a US\$7.4 million loan having not complied with the loans repayment terms and had net current liabilities of \$8.2m.

On 21 August 2018 the Company received a letter from the lender confirming the Company was in default of its loan and demanding immediate repayment of the full loan amount. The Company does not have sufficient funds to repay the loan or meet future financial liabilities as they fall due. As a result, the directors of the Company have secured a line of credit for up to US\$ 3.6 million, of which US\$ 1.0 million has been drawn that covers the full overdue amount and is currently negotiating with the existing lender.

The directors are performing a number of actions to manage the cash flow risk and have a reasonable expectation that they will be able to renegotiate the terms of the loan based on their previous history with the lender, including previous negotiations of the loan terms. In the event that the directors are unable to reach an agreement with the existing lender or secure new lines of credit with another third party in order to meet their current financial liabilities, they could consider satisfying the debt through the sale of shares in its subsidiary companies.

The directors recognise that these circumstances give rise to material uncertainties that may cast significant doubt on the Company's and Group's ability to continue as a going concern. However, after making enquiries and careful consideration of the financial alternatives of the Company, including considering the likelihood of either reaching agreement with the existing lender of the parent company loan, securing new loans, or considering satisfying its debt through the sale of shares in its subsidiary companies, the directors have concluded that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future.

DISCLOSURE OF INFORMATION TO THE AUDITORS

In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant audit information of which the Company's auditors were unaware; and
- that director has taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

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

FUTURE DEVELOPMENTS

Refer to the Strategic Report.

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DIRECTORS' REPORT (continued)

EVENTS AFTER THE REPORTING DATE

Refer to the Strategic Report.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the Annual General Meeting.

**Approved by the Board of Directors
and signed by order of the Board**

**Luis Alvarez Poli
Company Secretary
13 August 2019**

Andina plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company 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 of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

Independent auditors' report to the members of Andina plc

Report on the audit of the financial statements

Opinion

In our opinion, Andina plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 December 2018; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated and Company cash flow statements, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern – Group and Company

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

As at 31 December 2018, the Company had net current liabilities of \$8.2 million, was in default on a US\$7.4million loan and has received a request to repay the loan in full on demand.

The directors of the Company are performing a number of actions to manage the cash flow risk. This includes negotiating the terms of the agreement with the lender, securing new loans with third parties and considering raising capital by selling shares in subsidiary companies. However, at the date of this report, the outcome of these actions is uncertain. These conditions, along with other matters explained in note 2.2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities. With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 10, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Peter Acloque (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 August 2019

Andina plc

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	31-Dec-18 US\$'000	31-Dec-17 US\$'000 (Restated)
Revenue	4	248,213	245,070
Cost of sales		(204,424)	(204,700)
Gross profit		43,789	40,370
Distribution costs		(20,154)	(22,874)
Administrative expenses		(20,515)	(22,177)
Impairment of property, plant and equipment	12	(17,246)	-
Other operating income		619	2,085
Operating profit / (loss)		(13,507)	(2,596)
Finance income	7	48,117	4,773
Finance costs	8	(31,212)	(24,541)
Gain on monetary position	2.10	24,863	-
Profit / (loss) before taxation		28,261	(22,364)
Taxation (charge) / credit	9	(9,679)	3,112
Profit / (Loss) for the year		18,582	(19,252)
 Profit / (Loss) attributable to:			
Owners of the parent		7,918	(11,927)
Non-controlling interests		10,664	(7,325)
		18,582	(19,252)
 Earnings per share			
	10	Cents 0.08	Cents (0.12)

The notes on pages 22 to 62 are an integral part of these financial statements.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the Company profit and loss account.

Andina plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	31-Dec-18 US\$'000	31-Dec-17 US\$'000 (Restated)
Profit / (Loss) for the year		18,582	(19,252)
<i>Other comprehensive income / (loss):</i>			
<i>Items that will not be reclassified to profit or loss</i>			
Other comprehensive loss		(798)	(595)
Translation differences		106,080	(1,397)
Income tax relating to these items	9	200	149
Total comprehensive income / (expense) for the year		124,064	(21,095)
Total comprehensive income / (expense) attributable to:			
Owners of the parent		64,799	(12,868)
Non-controlling interests		59,265	(8,227)
Total comprehensive income / (expense) for the year		124,064	(21,095)

The above items will not be subsequently reclassified to profit and loss unless the underlying assets are disposed of.

The notes on pages 22 to 62 are an integral part of these financial statements.

Andina plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	Note	31-Dec-18 US\$'000	31-Dec-17 US\$'000 (Restated)	31-Dec-16 US\$'000 (Restated)
Non-current assets				
Property, plant and equipment	12	203,530	110,235	87,815
Intangible assets	13	8,771	6,698	8,052
Deferred tax assets	14	42	18,993	15,883
Inventories	16	3,095	3,863	4,782
Trade and other receivables	15	145	2,623	4,891
Total non-current assets		215,583	142,412	121,423
Current assets				
Inventories	16	3,696	4,586	5,634
Trade and other receivables	15	57,441	72,819	41,427
Financial assets	17	38,465	29,104	16,543
Cash and cash equivalents	19	22,341	5,106	11,306
Total current assets		121,943	111,615	74,910
Total assets		337,526	254,027	196,333
Current liabilities				
Trade and other payables	20	142,588	224,328	168,341
Financial liabilities	21	9,952	7,209	11,071
Provisions	22	11,995	22,983	12,144
Total current liabilities		164,535	254,520	191,556
Non-current liabilities				
Trade and other payables	20	48,004	14,418	8,715
Financial liabilities	21	1,611	9,072	3,511
Provisions	22	507	689	776
Deferred tax liabilities	14	28,034	4,557	-
Total non-current liabilities		78,156	28,736	13,002
Total liabilities		242,691	283,256	204,558
Net assets / (liabilities)		94,835	(29,229)	(8,225)
Capital and reserves				
Called up share capital	23	14,904	14,904	14,904
Accumulated losses		(47,993)	(55,606)	(43,542)
Merger reserve		40,432	40,432	40,432
Translation reserve		31,292	(25,894)	(25,181)
Equity attributable to owners of the parent		38,635	(26,164)	(13,387)
Non-controlling interests	25	56,200	(3,065)	5,162
Total equity		94,835	(29,229)	(8,225)

The notes on pages 22 to 62 are an integral part of these financial statements.

The financial statements on pages 14 to 62 were approved by the Board of Directors and authorised for issue on 13 August 2019 and were signed on its behalf by:

Luis Alvarez Poli, Director

Company No. 8095058

Andina plc

COMPANY STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	Note	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Non-current assets			
Investments in subsidiaries	18	32,398	34,437
Total non-current assets		32,398	34,437
Current assets			
Trade and other receivables	15	100	2,805
Cash and cash equivalents	19	20	19
Total current assets		120	2,824
Total assets		32,518	37,261
Current liabilities			
Trade and other payables	20	908	1,256
Financial liabilities	21	7,454	3,097
Total current liabilities		8,362	4,353
Non-current liabilities			
Trade and other payables	20	2,589	-
Deferred income tax liabilities	14	-	2,324
Financial liabilities	21	913	5,652
Total non-current liabilities		3,502	7,976
Total liabilities		11,864	12,329
Net assets		20,654	24,932
Capital and reserves			
Called up share capital	23	14,904	14,904
Loss for the year		1,051	(827)
Retained losses		(30,482)	(26,950)
Merger reserve		40,432	40,432
Translation reserve		(5,251)	(2,627)
Total equity		20,654	24,932

The Company's gain for the year amounted to US\$1 million (2017 loss: US\$ 0.8 million).

The notes on pages 20 to 62 are an integral part of these financial statements.

The financial statements on pages 14 to 62 were approved by the Board of Directors and authorised for issue on 13 August 2019 and were signed on its behalf by:

Luis Alvarez Poli, Director

Company No. 8095058

Andina plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital US\$'000	Accumulated losses / (profits) US\$'000	Revaluation reserve US\$'000	Merger reserve US\$'000	Translation reserve US\$'000	Equity attributable to owners of the parent US\$'000	Non controlling interests US\$'000	Total equity US\$'000
At 31 December 2016	14,904	(43,542)	22,071	40,432	(25,181)	8,684	26,368	35,052
Adjustment policy change (Note 2.5)	-	-	(22,071)	-	-	(22,071)	(21,206)	(43,277)
At 1 January 2017 (Restated)	14,904	(43,542)	-	40,432	(25,181)	(13,387)	5,162	(8,225)
Loss for the year	-	(11,927)	-	-	-	(11,927)	(7,325)	(19,252)
Other comprehensive loss	-	(228)	-	-	-	(228)	(218)	(446)
Translation differences	-	-	-	-	(713)	(713)	(684)	(1,397)
Total comprehensive (loss) / income for the year	-	(12,155)	-	-	(713)	(12,868)	(8,227)	(21,095)
Fair value of share based payments	-	91	-	-	-	91	-	91
At 31 December 2017 (Restated)	14,904	(55,606)	-	40,432	(25,894)	(26,164)	(3,065)	(29,229)
Profit for the year	-	7,918	-	-	-	7,918	10,664	18,582
Other comprehensive loss	-	(305)	-	-	-	(305)	(293)	(598)
Translation differences (*)	-	-	-	-	57,186	57,186	48,894	106,080
Total comprehensive income/(expenses) for the year	-	7,613	-	-	57,186	69,799	59,265	124,064
At 31 December 2018	14,904	47,993	-	40,432	31,292	38,635	56,200	94,835

The notes on pages 22 to 62 are an integral part of these financial statements.

(*) Includes initial hyperinflation impact of US\$137 million detailed in Note 2.10, net of US\$31 million translation impact of opening balances at the year end exchange rate."

Andina plc

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital US\$'000	Accumulated losses US\$'000	Merger reserve US\$'000	Translation reserve US\$'000	Total equity US\$'000
At 1 January 2017	14,904	(27,041)	40,432	(4,976)	23,319
Loss for the year	-	(827)	-	-	(827)
Translation differences	-	-	-	2,349	2,349
Total comprehensive expense for the year	-	(827)	-	2,349	1,522
Fair value of share based payments	-	91	-	-	91
At 31 December 2017	14,904	(27,777)	40,432	(2,627)	24,932
Change in accounting policy (Note 2.5)	-	(2,705)	-	-	(2,705)
Restated balance at 31 December 2017	14,904	(30,482)	40,432	(2,627)	22,227
Loss for the year	-	1,051	-	-	1,051
Translation differences	-	-	-	(2,624)	(2,624)
Total comprehensive expense for the year	-	1,051	-	(2,624)	(1,573)
At 31 December 2018	14,904	(29,431)	40,432	(5,251)	20,654

The notes on pages 22 to 62 are an integral part of these financial statements.

Andina plc

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	31-Dec-18 US\$'000	31-Dec-17 US\$'000 (Restated)
Profit / (Loss) before taxation		28,261	(22,364)
Adjustments for:			
Depreciation and amortisation		2,254	3,962
Increase in inventories		(1,776)	(6,477)
Decrease/(Increase) in trade and other receivables		17,856	(36,443)
(Decrease)/Increase in creditors and other payables		(11,114)	75,332
(Decrease)/Increase in provisions for liabilities and charges		(15,727)	13,766
Finance costs		25,443	23,163
Impairment of property, plant and equipment		17,246	-
Finance income		(9,530)	(4773)
Gain on monetary position		(24,863)	-
Share based payments		-	91
Cash generated from operations		28,050	46,257
Taxation paid		-	(1,961)
Net cash generated from operating activities		28,050	44,296
Cash flows from investing activities			
Purchase of property, plant and equipment		(14,487)	(30,946)
Purchase of financial assets		(2,843)	(16,509)
Proceeds from sale of financial assets		235	(642)
Interest received		14,181	4,351
Net cash used in investing activities		(2,914)	(43,746)
Cash flows from financing activities			
Repayments of borrowings and interest paid		(5,953)	(8,224)
Proceeds from borrowing		464	2,893
Dividends paid by 47% owned subsidiary		(280)	(132)
Net cash used in financing activities		(5,769)	(5,463)
Net increase / (decrease) in cash and cash equivalents		19,367	(4,913)
Cash and cash equivalents at the beginning of the year		5,106	11,306
Effect of foreign exchange rate changes		(2,132)	(1,287)
Cash and cash equivalents at the end of the year	19	22,341	5,106

Significant non-cash transactions

There were no significant non-cash transactions in 2018 or 2017 apart from the transactions detailed below:

	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Transfer of inventory to property, plant and equipment	3,434	6,455

The notes on pages 22 to 62 are an integral part of these financial statements.

Andina plc

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Profit/ (Loss) for the year before taxation		1,051	(827)
Adjustments for:			
Decrease in trade and other receivables (Note 2.5)		-	8
Increase / (Decrease) in trade creditors and other payables		151	(206)
Finance costs		344	939
Finance income		(1,546)	-
Share based payments		-	91
Cash generated in operations		-	5
Net cash generated in operating activities		-	5
Cash flows from financing activities			
Loans payment		-	(5)
Net cash used in financing activities		-	(5)
Net change in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		19	15
Effect of foreign exchange rate changes		1	4
Cash and cash equivalents at the end of the year	19	20	19

Significant non-cash transactions

There were no significant non-cash transactions in 2018 or 2017.

The notes on pages 22 to 62 are an integral part of these financial statements.

Andina plc

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company (public company limited by shares) is incorporated in England and Wales and domiciled in the United Kingdom with its registered office at 1 South Quay, Victoria Quays, Sheffield, United Kingdom, S2 5SY. The principal activities of the Company and its subsidiaries (together “the Group”), and a description of its operations, are set out in the Directors’ Report.

2. ACCOUNTING POLICIES

2.1 Introduction

The Group was demerged from Andes Energia plc (now “Phoenix Global Resources”) with effect from 11 July 2012.

All Andina group companies, which were owned and controlled by Andes Energia plc prior to the demerger, were transferred to the new ultimate parent company, Andina Plc. The introduction of the new ultimate parent company constitutes a group reconstruction. The transaction fell outside the scope of IFRS 3 “Business Combinations”.

2.2 Going concern

The directors have reviewed the cash position of the Company and the Group as at 31 December 2018 and for a period of 12 months from the date of this report and consider it appropriate that the Company and Group financial statements are prepared on the going concern basis for the reasons set out below.

At 31 December 2018, as detailed in note 21, the Company was in default of a US\$7.4 million loan having not complied with the loans repayment terms and had net current liabilities of \$8.2m.

On 21 August 2018 the Company received a letter from the lender confirming the Company was in default of its loan and demanding immediate repayment of the full loan amount. The Company does not have sufficient funds to repay the loan or meet future financial liabilities as they fall due. As a result, the directors of the Company have secured a line of credit for up to US\$ 3.6 million, of which US\$ 1.0 million has been drawn that covers the full overdue amount and is currently negotiating with the existing lender.

The directors are performing a number of actions to manage the cash flow risk and have a reasonable expectation that they will be able to renegotiate the terms of the loan based on their previous history with the lender, including previous negotiations of the loan terms. In the event that the directors are unable to reach an agreement with the existing lender or secure new lines of credit with another third party in order to meet their current financial liabilities, they could consider satisfying the debt through the sale of shares in its subsidiary companies.

The directors recognise that these circumstances give rise to material uncertainties that may cast significant doubt on the Company's and Group's ability to continue as a going concern. However, after making enquiries and careful consideration of the financial alternatives of the Company, including considering the likelihood of either reaching agreement with the existing lender of the parent company loan, securing new loans, or considering satisfying its debt through the sale of shares in its subsidiary companies, the directors have concluded that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future.

2.3 Basis of preparation

The consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and with the Companies Act 2006 as applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historic cost convention, except for the net assets and results of the Company's operations in Argentina, an economy that is considered hyperinflationary, which are expressed in terms of the measuring unit current at the closing date of the reporting period. See Note 2.10. The principal accounting policies adopted are set out below. Where a change in the presentation format between the prior year and current year financial statements has been made during the year, comparative figures have been restated accordingly.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.4 Critical accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the groups accounting policies.

Management estimates and assumptions affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key judgments

- Recognition of deferred tax assets
- Control over subsidiaries

Regarding the situation with CAMMESA and the rest of the judgments regarding the future development of the negotiations, see detail in Note 20.

Key estimates

- Impairment of property, plant and equipment, intangible assets and investments
- End of services benefits

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are shared below.

A. Estimations and assumptions involving the risk of significant adjustments to the figures in the financial statements

Impairment of property, plant and equipment, intangible assets and investments

Estimated useful lives and residual values are reviewed annually, taking into account prices prevailing at each reporting date. The carrying values of property, plant and equipment are also reviewed for impairment where there has been an event or change in circumstance that would indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction.

The value in use is determined using the present value of the future cash flow expected to be derived from an asset or cash generating unit. The calculation of estimated future cash flows and residual values is based on management's reasonable estimates and is therefore subjective.

The directors carried out impairment tests of assets at the cash generating unit level. See Notes 12 and 2.17. Additionally, during the year, the Company changed its accountancy policy for some assets. See Note 2.5.

End of service benefits

The Group recognises a provision for employee end of service benefits that include management's best estimate of certain variables which may not ultimately match the amounts actually paid at the end of service. The key assumptions are wage increases, employee turnover, the mortality rate and the discount rate. Past experience and actuarial tables of mortality are used in making the estimate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.4 Critical accounting estimates and judgements (continued)

B. Critical accounting judgments in applying the company's accounting policies:

Recognition of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. There remains a risk that future taxable profits are not available to utilise deferred tax assets recognised. The extent of future profits largely depends on the timing and extent of tariff increases and the announcements for general new regulations in the electricity market.

Control over subsidiaries

Management has evaluated the level of influence and control exercised by the Company on its investment and has determined that it exercises control over them. Consequently, it has presented consolidated financial figures.

Andina owns 80% of HDS shares, which holds 54% of HASA (47% indirect holding). Andina is able to control the returns of the entity through the approval of the entity financial statements, entering into significant contracts, and the ability to make significant decisions without other shareholder approval.

2.5 Adoption of new and revised International Financial Reporting Standards

Other than as set out below, the accounting policies have been applied consistently to all years presented.

New and amended standards adopted by the Group

- IFRS-15 - Revenue from contracts with customers The Company adopted IFRS-15 "Revenue from contracts with customers" as from January 1, 2018, when application of this standard became mandatory. The first step for applying IFRS-15 was to determine whether or not there is a contract in place and whether or not that contract was entered into with the customer. The assessment was made based on a portfolio of similar contract (or performance obligations). As from adoption of this standard, no significant impact has been identified. It was not necessary to make adjustments to the opening balance sheets, that affected the retained earnings, as the effects identified represented no changes in the 2017 net profits reported previously. See note 2.7 for further detail in accounting policy.
- IFRS 9 "Financial Instruments" replaces the pronouncements of International Accounting Standards (IAS) 39, which deals with recognition, classification and measurement of financial assets and financial liabilities, the disposal of financial instruments, the impairment of financial assets and hedge accounting. Adoption of IFRS 9 Financial Instruments as from January 1, 2018 resulted in changes in accounting policies but no significant adjustment arise to the amounts recorded in the consolidated financial statements, however there was an impact in the Company explained in section "Changes in accounting policies" The new accounting policies are explained in Note 2.18.
- Amendments to IFRS 2 "Share-based Payments": It clarifies how to account be certain share-based payment transactions. This amendment did not have a material impact on these financial statements.
- IFRS IC 22 "Foreign Currency Transactions and Advance Consideration": It deals with exchange rate transactions or transaction sections in which there is a consideration weighed in a foreign currency. The interpretation provides a guide for the creation of one or multiple payments / receipts. It aims at reducing the diversity in the practice. This standard did not have a material impact on these financial statements.

Andina plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.5 Adoption of new and revised International Financial Reporting Standards (continued)

New standards, amendments and interpretations issued but not effective for the year beginning 1 January 2018 and not adopted early

At the date of authorisation of these financial statements, a number of new and revised IFRSs have been issued by the IASB but are not yet effective, as listed below. The directors have performed an initial review of each of the new and revised standards, and based on the Group's current operations and accounting policies, are of the view that their adoption will not lead to any material change in the Group's financial reporting.

- Amendment to IFRS 9 "Financial Instruments", Prepayment Features with Negative Compensation: This amendment confirms that, when a financial debt measured at amortized cost without it being cancelled, a profit or loss must be immediately included in the period results. This amendment was published in October 2017 and is effective for periods beginning on or after 1 January 2019.
- IFRS 16 "Leases": It removes, for lessees, the distinction between "finance leases", which are registered in the statement of financial position, and "operating leases", which do not need an acknowledgement of future lease payments. In its place, a unique model is developed that assimilates the current finance lease. This standard applies for those financial years beginning on or after 1 January 2019 with earlier application permitted if IFRS 15 "Revenue from Contracts with Customers" is also applied. The Group leases some machinery and commercial space under operating leases. These leases are short-term leases and leases involved insignificant lease payments. The Group applied the following procedure: a) performed an inventory of the agreements in effect as of December 31, 2018, b) evaluated the agreements under the decision tree established by IFRS-16 to identify a lease, c) applied exemptions to the agreements considered short-term and of insignificant value. As the Group's activities as lessee are immaterial; therefore, the Group does not expect them to have a significant impact on the financial statements. However, some additional disclosures will be required as from its entry into effect.
- IFRS IC 23 "Uncertainty over Income Tax Treatments": This standard specifies how the recognition and following of measurement requirements from IAS 12 "Income Taxes" are applied when there is uncertainty over income taxes treatments.. This standard was published in June 2017 and is effective for periods beginning on or after 1 January 2019.
- Amendment to IAS 19 "Employee Benefits": This amendment requires an entity to apply updated premises to determine the current operating and financial cost for the rest of the period after a plan amendment, curtailment, or settlement occurs and how to account this effect in the financial year result as part of past rendered services or as gain / loss in the termination. This amendment was published in February 2018 and is effective for periods beginning on or after 1 January 2019.
- Amendments to IAS 1 and IAS 8 "Definition of Material": These amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", and consequent amendments to other IFRS Standards, clarify the definition of material and its application by: aligning the wording of the definition of material across IFRS Standards and the Conceptual Framework for Financial Reports; clarifying the explanation accompanying the definition of material; and including some of the supporting requirements in IAS 1 in the definition of non-relevant information. This amendment was published in October 2018 and is effective for periods beginning on or after 1 January 2020.

Changes in accountancy policy

Group -Property, plant and equipment

During the year, the Group changed its accounting policy for those assets classified as "high-power lines and power transformers" within property, plant and equipment, which has been applied to all the elements that belong to the same classification of assets. Previously, the Group valued these assets according to the revaluation method.

In 2018, the Group changed its policy and the accounts for these assets at historical cost. The revaluation method was adopted as a measurement parameter for these assets because, even though the criteria for International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") were not yet reached, there was an inflationary context during a long period of time in which the properties' value measured in historical terms caused the financial information of the Group fail to represent the non-monetary items' values.

Andina plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.5 Adoption of new and revised International Financial Reporting Standards (continued)

Change in accountancy policy

Group - Property, plant and equipment (continued)

Considering that the Argentine economy was identified as hyperinflationary 2018 financial year for international financial reporting standards, and IAS 29 requires the non-monetary amounts under a hyperinflationary economy to be re-expressed retrospectively, the cost for using the revaluation method is not justified compared to the cost for employing the re-translation method applied by IAS 29.

According to IAS 8, this change in the accounting policy has been applied retrospectively. The nominal amounts reported as of 31 December 2017 and 31 December 2016, were the following:

Impact in consolidated statement of financial position

Impact in sectors	As originally presented	Adjustment	Restated
	US\$'000		
At 31 December 2017			
Property, plant and equipment	179,729	(69,494)	110,235
Deferred income tax assets	790	18,203	18,993
Accumulated losses	(59,895)	4,289	(55,606)
Non-controlling interests	19,879	(22,944)	(3,065)
Revaluation reserve	31,666	(31,666)	-
At 1 January 2017			
Property, plant and equipment	154,395	(66,580)	87,815
Deferred income tax assets	-	15,883	15,883
Non-controlling interests	26,368	(21,206)	5,162
Revaluation reserve	22,071	(22,071)	-

Impact in consolidated income statement

Impact in sectors	As originally presented	Adjustment	Restated
	US\$'000		
At 31 December 2017			
Cost of sales	(210,284)	5,584	(204,700)
Distribution costs	(23,123)	249	(22,874)
Administrative expenses	(22,287)	110	(22,177)
Gain on revaluation of networks and power transformers	20,973	(20,973)	-
Earnings per share	(0,18)	0,06	(0.12)

As a result, these financial statements have been corrected since 1 January 2017, including an adjustment of results from previous financial years. The impact to the current year cannot be identified due to the application of IAS 29.

These figures are not impacted by application of IAS 29.

Company – IFRS 9

The Parent Company has applied IFRS 9 retrospectively, but has elected not to restate the comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Parent Company's previous accounting policy.

Andina plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.5 Adoption of new and revised International Financial Reporting Standards (continued)

Change in accountancy policy (continued)

Company – IFRS 9 (continued)

As a result of the changes in the Company's accounting policies, prior year financial statements had to be restated. As explained below, IFRS 9 was adopted without restating comparative information. The reclassifications and adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognized in the opening balance sheet on 1 January 2018. The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Impact in statement of financial position

Impact in sectors	December 2017	IFRS 9	1 January 2018
	US\$'000		
At 31 December 2017			
Trade and other receivables	2,705	(2,705)	-
Accumulated losses	(27,777)	(2,705)	(30,482)

2.6 Basis of consolidation

The consolidated financial statements include the financial statements of Andina and its subsidiaries.

Subsidiaries are entities (including special purpose entities) over which the group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, where appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's interest therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination together with the non-controlling interests' share of profit or loss and each component of other comprehensive income since the date of the combination. Total comprehensive income is attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The non-controlling interest of shareholders in the acquire is initially measured at their proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Andina plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.7 Revenue recognition

The Group adopted IFRS 15: 'Revenue from contracts with customers' from 1 January 2018. The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15, resulting in insignificant adjustments to amounts previously recognised in the financial statements. The key changes to accounting policies are described below.

Revenue relates mainly to electricity generation and distribution services.

Energy supply to business and residential customers

The Group supplies electricity to residential and business customers in Mendoza, Argentina. The vast majority of contractual energy supply arrangements have no fixed duration, require no minimum consumption by the customer and can be terminated by either party at any time. The Group has determined that no enforceable rights and obligations exist at inception of the contract and arise only once the Group is the legal supplier of energy to the customer. The performance obligation is the supply of energy over the contractual term. The performance obligation is considered to be satisfied as the customer consumes based on the units of energy delivered. This is the point at which revenue is recognised.

In respect of energy supply contracts, the Group considers that it has the right to consideration from the customer for an amount that corresponds directly with the value delivered to the customer through their consumption. It is the judgement of the Group that the customer consumes energy as the Group supplies and, as a result, the Group recognises revenue for the amount which the entity has a right to invoice. The Group's assessment of the amount that it has a right to invoice includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (known as unread revenue).

Unread electricity comprises unbilled revenue and is estimated through the billing systems, using historical consumption patterns, on a customer-by-customer basis, taking into account weather patterns, load forecasts and the differences between actual meter readings being returned and system estimates. Actual meter readings continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts.

The Group holds a number of energy supply power contracts that specify a minimum consumption volume over a specified contractual term. The transaction price for these contracts is the minimum supply volume multiplied by the price determined by EPRE per unit of energy. Revenue from the sale of additional volumes is considered to be variable and not included in the transaction price. Revenue for these contracts continues to be recognised as invoiced.

Energy generated

The Group generates electricity to be sale through the national Wholesale Electricity Market (MEM), administrated by CAMMESA and regulated by the Secretary of Energy of the Nation (SEN).

The amount of energy generated, is determined by the hourly demand that CAMMESA has and the price is established by SEN. There is a single performance obligation. Company recognizes its income based on the amounts expected to be received, once the performance obligation has been satisfied.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.7 Revenue recognition (continued)

Accounting policies applied until 31 December 2017

The revenue included the fair value of the consideration received or to be received for the provision of the service in the normal course of operations. They were recognized when the following conditions were met:

- The risks and benefits of ownership had been transferred
- The amount of income could be reasonably measured
- It was likely that future economic benefits flowed to the Group
- The Group did not retain for itself any involvement associated with the property nor retained effective control of the services provided
- The costs incurred, in relation to the transaction could be reasonably measured.

The Group recognises revenue when the amount can be measured reliably, it is probable that future economic benefits are generated to the entities, collection is reasonably assured and when specific criteria for the operations of the Company are met.

Other operating income

Other operating income primarily arises from ancillary services provided to third parties and is recognised at the time the service is provided.

2.8 Finance income

Finance income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable.

2.9 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.10 Foreign currency

Functional and presentation currency

The individual financial statements of each Group company are maintained in the currency of the primary economic environment in which it operates (its functional currency), which in the case of the Argentinean companies is the Argentine Peso and in the case of the Company is Pounds Sterling. For the purposes of the consolidated financial statements, the results and financial position of each Group entity are expressed in US Dollars, which is the presentation currency for the consolidated and Company financial statements, to facilitate comparison with other utility companies.

Andina plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.10 Foreign currency (continued)

Functional and presentation currency (continued)

The financial statements are presented in US\$ and the average rate used was US\$1.31 to £1 and AR\$28.11 to US\$1 and the closing rate used was US\$1.37 to £1 and AR\$37.6 to US\$1 (2017: average rate US\$1.29 to £1 and AR\$ 17.26 to US\$1 and closing rate US\$1.35 to £1 and AR\$18.60 to US\$1).

Functional currency of a hyperinflationary economy

IAS 29 requires that the financial statements of an entity with the functional currency of an inflationary economy must be expressed in the measure unit current at the closing date of the financial year being informed, regardless of whether they are based on the historical cost method or the current cost method. To this effect, in general terms, the inflation produced since the acquisition or the revaluation date, accordingly, must be calculated within the non-monetary section. Said requirements also include the comparative information of the financial statements.

In order to determine whether an economy is considered as hyperinflationary according to IAS 29, the Standard details a series of elements to be considered which include an accumulated inflation rate in three years that approximates or exceeds the 100%. Hence, according to IAS 29, the Argentine economy must be considered as hyperinflationary since 1 July 2018.

According to IAS 29, the financial statements of an entity that reports in the currency of a hyperinflationary economy must be reported in terms of the measure unit current at the date of the financial statements. All amounts from the statement of financial position that are not presented in the measure unit current at the time of presentation must be updated applying a general prices index. The components of the income statement must be presented in the updated measure unit to the date of presentation of the financial statements, applying a general prices index from the date the incomes and expenses were accounted.

The inflation adjustment of initial prices was computed taking into consideration the indexes established by the FACPCE (Argentine Federation of Professional Councils in Economic Sciences) basing on the prices index published by the National Statistics Institute (INDEC).

The price indexes used for restatement of the financial statements were:

Year	Index
2018	184.2552
2017	124.7956
2016	100.0000

The main procedures to determine the inflation adjustment are the following:

- All monetary assets and liabilities in the statement of financial position are not adjusted, since the financial statements are already re-expressed at the year-end exchange rate.
- Non-monetary assets and liabilities that were computed at cost prices at the date of the statement of financial position and the capital assets are adjusted based on the corresponding adjustment coefficients.
- All the elements in the income statement are updated applying the relevant conversion factors;
- Gains and losses in purchasing power arising from the net monetary position are recognized in the consolidated statement of income as a separate line under gain on monetary position for US\$ 24,863.

On the initial adjustment for inflation, the capital asset accounts were adjusted as follows:

- The capital was adjusted since the date of the last adjustment for inflation accounted.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.10 Foreign currency (continued)

Transactions and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising are included in the income statement for the period.

Foreign subsidiaries conversion

The results and financial positions of the Company's subsidiaries that have a functional currency different from the Company's currency are converted to the reporting currency as follows, depending on whether the functional currency is in a hyperinflationary environment or not.

Entities with non-hyperinflationary functional currency

- Assets and liabilities from each statement of financial position presented are converted at the exchange rate of the closing date of the statement of financial position.
- The accounting capital of each statement of financial position presented is converted at the historical exchange rate.
- Profits and losses from each income statement are converted at the yearly average exchange rate (when the average exchange rate does not represent a reasonable approximation to the accumulated effect from the transaction rates, the exchange rate at the date of the transaction or the monthly average are used.)
- All exchange rate differences arising from this are accounted in the other comprehensive income.
- Gains and losses arising on the re-translation of the opening net assets of the Company at prevailing exchange rates are transferred to the translation reserve.

Subsidiaries with hyperinflationary functional currency

- Assets, liabilities, and the capital from the statements of financial position, as well as profit and loss from the statement of income, are converted at the exchange rate at the closing date of the statement of financial position, after being adjusted in functional currency.
- Assets, liabilities, capital, profits and losses from the comparative period are maintained in accordance with the amounts obtained at the conversion of the previous financial year. Said amounts are not adjusted to the following exchange rates because the Company presents its financial information in US dollars, a non-hyperinflationary currency.

Effect on consolidated financial statements

The initial recognition of hyperinflation in the consolidated financial statements where the presentation currency is not from a hyperinflationary economy, does not require a restatement of the comparative figures; therefore, the difference between the net assets as at December 2017 for subsidiaries in Argentina and the initial net assets as of 1 January 2018 due the effects of IAS 29 restating the financial information of said entities was recognised in through other comprehensive income as part of Translation reserve during 2018. The accumulated effect of the initial application of IAS 29 was US\$137 million, as detailed in this Note, presented net of US\$33 million translation impact of opening balances at the year end exchange rate. The Group made the accounting election to recognise the adjustment of the net assets included in translation differences.

2.11 Government grants

Government grants are recognised at their fair value when there is reasonable certainty that those grants will be collected and that the Company will meet all the conditions established.

Government grants received in relation to the purchase of non-current assets are deducted from the cost of such assets. These assets are depreciated over their estimated useful lives based on their net acquisition cost.

Andina plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.12 Employee benefits

Long term benefits for years of service

This represents the accrued benefits to be paid to employees covered by the collective bargaining agreement for light and power, that have completed twenty, twenty-five, thirty, and thirty-five years of service. This is paid in the form of a special remuneration equivalent to the monthly salary in the month that the year of service conditions are met. This amount doubles when the employee reaches forty years of service.

Long term benefits for retirement or disability

The Group operates a defined benefit plan. This represents accrued benefits to be paid to employees covered by the collective bargaining agreement for light and power, for staff reaching retiring age or retiring as a result of disability prior to this.

All such employees who have at least five years of service with the Group are entitled to this benefit. Employees are paid a bonus equivalent to ten months of their last monthly salary. This benefit is increased by two percent for each year of service exceeding the first five years. These benefits are valued according to the actuarial method of the projected unit credit. The Group estimates the future outcome of certain variables that affect the value of the liability, including the rate of inflation, salary increases and changes in mortality rates. The amounts calculated are discounted using a discount rate that reflects the time value of money and the risks specific to the flows considered. The differences between the prior year estimates and the actual charge and changes in estimates are classified as gains and losses with administrative expenses.

The main assumptions used in the calculation are the discount rate and the expected salary increase.

The actual rate used to discount the obligations of these benefits was determined using as reference the market yield (at the end of the reporting period) of the bonds issued by the National Government. The salary increase rate responds to the historical evolution of it.

The sensitivity of the liability for defined benefit plans to changes in the main actuarial assumptions is as follows:

	<u>Change in actuarial assumption</u>	<u>Change in liabilities (US\$'000)</u>
Real discount rate	Increase / decrease of 1%	Decrease of 0.35 / Increase of 0.40
Rate of salary increase	Increase / decrease of 1%	Increase of 0.42 / Decrease of 0.36

See more detail in Note 6.

2.13 Taxation

Current and deferred income tax

The income tax expense for the period comprises current and deferred income tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.13 Taxation (continued)

Current and deferred income tax (continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Minimum notional income tax

The Group determines the tax on notional presumed income by applying the current rate of 1% on the Group's taxable assets at year-end. The tax on notional presumed income and the income tax complement each other. The Group's tax obligation for each year will be equal to the higher of these taxes. However, should the tax on notional presumed income exceed income tax in any given financial year, such excess may be computed as a payment on account of any excess of income tax over the tax on minimum presumed income that may arise in any of the ten subsequent financial years. The Group recognized the tax on notional presumed income earned in previous years as a credit, considering that it will offset future taxable income.

2.14 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted: (i) including any market performance conditions (for example, an entity's share price); (ii) excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and (iii) including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement and the grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium. The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the Company financial statements. The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

2.15 Property, plant and equipment

Property, plant and equipment (except of high voltage networks and power transformers included in "High voltage networks and power transformers") are shown at cost less subsequent depreciation. Costs include expenditures that are directly attributable to the acquisition of the items.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.15 Property, plant and equipment (continued)

During this financial year, EDEMSA modified its accounting policy regarding the Property, plant and equipment valuation sector for those assets classified as “high-power lines and power transformers”, which has been applied to all the elements that belong to the same classification of assets. Previously, EDEMSA valued these assets according to the revaluation method. Note 2.5.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

- Networks and power transformers	30 to 50 years
- Buildings and land*	30 to 50 years
- Machinery and equipment	up to 25 years
- Transformers	30 to 40 years
- Work in progress and other assets*	4 to 9 years
- Impairment **	

*Land and work-in-progress included within ‘Work in progress and other assets’ are not depreciated. Other assets includes IT and communication equipment, furniture and other goods.

**An asset’s carrying amount decreased immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (see Note 2.17). Impairment of fix assets has been detailed in a separated column for better understanding.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

2.16 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company’s share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognised for the amount by which the asset’s carrying value exceeds its recoverable amount.

The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Concession assets

Concession assets acquired are stated at fair value at the date of acquisition. Amortisation is charged on a straight-line basis over the 30 years (EDEMSA) and 50 years (HASA) terms of the concession and is recognised within administrative expenses.

2.17 Impairment of assets

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. See Note 13.

The assessment of long-term asset recoverability requires significant judgment. As of 31 December 2018, the present value of the future cash flow generated by these assets has been developed and compared with its book value.

This revaluation of the recoverability of non-current assets is performed annually or more frequently if there are events or circumstances that indicate a potential impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.17 Impairment of assets (continued)

These cash flow projections are based on extrapolated financial budgets using an estimated industry growth rate.

In relation to the estimations made, the following variables were taken into account: (i) the rate increases granted and the application of new rate increases according to the current rate regime in accordance with the estimate of rate growth foreseen by the Group, (ii) demand projections based on demographic growth (iii) the evolution of operating costs, (iv) the effect of variables related to inflation and the exchange rate, among others. The Group prepared its projections with the understanding that it will reach an agreement in relation to its past due debt with CAMMESA.

The discount rates used are real interest rates and reflect specific risks related to the industry and the country in which the Group operates.

The flow of funds was prepared based on estimates, sensitising some variables if applicable.

The results of this revaluation of non-current assets indicated the need to record an impairment of its plant, property and equipment at year end of US\$ 17.2 million which has been recorded in the consolidated income statement. Additionally, because of the impact of IAS 29, a full impairment of the distribution intangibles for US\$ 6.7 million (as of December 2017), has been performed and disclosed in the statement of equity changes as part of hyperinflation impacts.

Based on this analysis, the Group considers that the carrying amount of the remaining assets does not exceed the estimated value in use in accordance with the current economic and technical conditions.

However, the Group is not in a position to ensure that the future performance of the premises used to prepare its projections will be in line with what was estimated, so that they may differ with the estimates made at the date of preparation of these financial statements.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped by business segment for which there are separately identifiable cash flows (cash-generating units).

2.18 Financial assets

Classification

The Group classifies financial assets into the following categories:

- *financial assets measured at amortised cost;
- *financial assets measured at fair value through other comprehensive income; and
- *financial assets measured at fair value through profit or loss.

This classification depends on whether the financial asset is an investment in a debt or an equity instrument. In order for a financial asset to be measured at amortized cost, the two conditions described below must be met. All other financial assets are measured at fair value.

Financial assets at amortized cost

Financial assets are measured at amortized cost if the following conditions are met:

- The objective of the Group's business model is to hold the assets to collect the contractual cash flows; and
- The contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal.

Financial assets at fair value through profit or loss

If any of the above-detailed conditions is not met, financial assets are measured at fair value through profit or loss.

All investments in equity instruments are measured at fair value. For those investments that are not held for trading, the Group may irrevocably elect at the time of their initial recognition to present the changes in the fair value in other comprehensive income. The Group's decision was to recognize the changes in fair value in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)**2.18 Financial assets (continued)*****Recognition and derecognition***

Regular-way purchases and sales of financial assets are recognised on the trade date, being the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Measurement***Financial assets measured at amortised cost***

Financial assets are classified and measured at amortised cost when the objective of the asset is to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired and when interest is recognised using the effective interest method. This category of financial assets includes trade and other receivables. Interest on assets held at amortised cost is calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Financial assets measured at fair value through other comprehensive income

Financial assets are classified and measured at fair value through other comprehensive income when the objective of holding the asset is both to collect contractual cash flows and sell the financial assets, and the contractual cash flows represent solely payments of principal and interest. The Group does not have any financial assets classified in this category.

Financial assets measured at fair value through profit or loss

Financial assets are classified and measured at fair value through profit or loss when the asset does not meet the criteria to be measured at amortised cost or fair value through other comprehensive income. Such assets are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Derivatives, other than those designated as effective hedging instruments, and equity instruments are included in this category (if existed). Interest income from financial assets at fair value through profit or loss is included in net gains/(losses)

Impairment – general

Credit risk arises from the group's financial assets which are carried at amortised cost and at fair value through other comprehensive income ('FVOCI'), including cash and cash equivalents and outstanding receivables with customers. The Group assesses at the end of each reporting period a financial asset or group of financial assets is impaired based on the credit loss model set out in IFRS 9.

Impairment – assets carried at amortised cost

For loans and receivables, the group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. The expected loss rates are based on historical loss rates, that are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables as they fall due. Loans and receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.19 Inventories

Raw materials and consumables are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost formula method. Classification is performed based on average consumption of these assets in recent years. The Group has no history of obsolete or slow moving inventory.

2.20 Trade receivables

The receivables arising from services billed to customers but not collected as well as those arising from services rendered but unbilled at the closing date of each year are recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

2.21 Cash and cash equivalents

Cash and cash equivalents include call deposits held with banks and other short-term highly liquid investments with original maturities of 3 months or less.

2.22 Trade payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method.

2.23 Financial liabilities

Bank loans and other borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost.

2.24 Finance leases

Finance leases have been treated as financial purchases and stated at present value at the initial transaction date plus accrued interest at the year end.

2.25 Provisions

Provisions for legal and other claims are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability.

2.26 Share Capital

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs, allocated between share capital and share premium. Equity instruments issued by the Company for non-cash consideration are recorded at the market value of the equity instrument at the date of issue, net of direct issue costs, allocated between share capital and share premium. See Note 26.

2.27 Public Service Quality – Penalties

EDEMSA's activities are regulated by the provincial regulator, Ente Provincial Regulador Eléctrico ("EPRE"). EPRE regulates rate approval and control and supervision of service, technical product and commercial quality. Failure to comply with the provisions of the concession and applicable regulations may result in penalties being imposed. EDEMSA has been assessed as being in breach of the stage II quality standards and is therefore subject to penalties. However, the Group considers the application of these quality standards should be relaxed due to the economic damage sustained as a result of the continuing delays in implementing new tariffs. As of the date of these financial statements, this position has not been resolved and the Group has included its best estimate of the liabilities associated with the prospective penalties as a provision in these financial statements. The balance included in provisions at the year end amounted to US\$7.6 million (2017: US\$16.7 million), and US\$4.1 million (2017: US\$5.7 million) to cover the risks associated with possible fines.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

2.28 Restrictions arising from the concession contract of EDEMSA

EDEMSA's shares, rights and obligations under the concession contract may not be assigned, in whole or part, to a third party without the prior consent of the Province of Mendoza.

2.29 Preservation of the assets comprising the hydroelectric complex

The concession operator agrees to use the assigned assets in such a manner so as to preserve them from any damage, fair wear and tear excepted and not to alter the nature, purpose or use of any assets comprising the hydroelectric complex. The concession operator is forbidden to pledge, mortgage or assign these assets. Furthermore, the concession operator is forbidden to grant the possession of the assets or consent to any third-party event or act that may affect or reduce their value. The concession agreement provides for certain revocation clauses in the event such non-compliance arises.

2.30 Consulting contract

On 14 June 2010, the Board of EDEMSA approved the execution of a consulting contract. In this regard, on 30 June 2010, the Company signed a contract with MSO Andes Energía Argentina S.A. (the Advisor), for which the Advisor provided the experience and knowledge that would be convenient or necessary for the correct management of the Company. This service involved different areas of the organization.

Since August 2017, EDEMSA has not received the services of MSO, however, it maintained the provision for the fees, based on the negotiations that were being held. Followly negotiation, at year end there are no transactions, credits or debts between MSO and EDEMSA and the contract with the previous operator has been resolved.

Trench Energy Consulting S.R.L.

On a timely basis, EDEMSA management began to evaluate new available alternatives, negotiating certain terms and commercial conditions with a new operator, Trench Energy Consulting S.R.L., to which EDEMSA transferred advances on account of the eventual future contract.

In this regard, on 10 August 2018, EDEMSA received a formal offer from Trench Energy Consulting S.R.L. ("Trench") for a comprehensive consulting service. Given the interruption of the services of MSO, since August 2017, Trench has been providing this service to the Company. Trench is developing commercial activities and receiving, among others, advisory services from Andes Electricidad S.A., an indirect controlling company of EDEMSA, as part of a development and expansion plan.

EDEMSA's management has accepted all the terms detailed in this note and others included in the contract and has given a corresponding impact on these financial statements.

3. CONTINGENT LIABILITIES

EDEMSA has received a claim from the Argentine fiscal bureau in respect of a different interpretation of tax assessed in certain years. On 25 June 2007 the Group received notice from the authorities of its intention to pursue the claim plus interest and penalties. In the opinion of EDEMSA's tax advisors, the criterion used by the Argentine fiscal bureau is not in line with tax regulation. For this reason the Group has not made a provision for this claim. On 19 July 2007 EDEMSA filed appeals with the National Tax Court. The Group does not believe an estimate of its financial effect is practicable and could be misleading. The matter remains outstanding as at year end, and the Company's positions remains the same based on recent tax advice.

Andina plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. OPERATIONAL SEGMENTS

IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision maker, which is considered to be the Board of the Company. In the opinion of the Board the operations of Andina, comprise two operating segments, that is, electricity distribution and electricity generation. An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses and whose results are regularly reviewed by the Board.

The following is an analysis of the Group's revenue and results by operating segment. The operations are based in Argentina.

2018	Electricity distribution	Electricity generation	Other corporate	Total
Analysis of revenue and profit:	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	240,282	6,326	1,605	248,213
Impairment of property, plant and equipment	(17,246)	-	-	(17,246)
Operating (loss)/profit	(15,902)	1,938	457	(13,507)
Gain/(Loss) on monetary position	25,691	(828)	-	24,863
Finance income	45,064	1,507	1,546	48,117
Finance costs	(25,300)	(892)	(5,020)	(31,212)
Profit/(Loss) before income tax	29,553	1,725	(3,017)	28,261
Income tax expense	(8,801)	(878)	-	(9,679)
Profit/(Loss) for the year	20,752	847	(3,017)	18,582

2017	Electricity distribution	Electricity generation	Other corporate	Total
Analysis of revenue and profit:	US\$'000	US\$'000	US\$'000	US\$'000
	(Restated)	(Restated)	(Restated)	(Restated)
Revenue	239,008	6,062	-	245,070
Operating (loss)/profit	(4,371)	1,804	(29)	(2,596)
Finance income	4,788	497	(512)	4,773
Finance costs	(23,862)	(588)	(91)	(24,541)
(Loss)/profit before income tax	(23,445)	1,713	(632)	(22,364)
Income tax benefit/(expense)	8,277	(608)	(4,557)	3,112
(Loss)/profit for the year	(15,168)	1,105	(5,189)	(19,252)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

4. OPERATIONAL SEGMENTS (continued)

Other corporate costs are monitored on an on-going basis and largely relate to finance costs on financial liabilities.

	2018	2017
	US\$'000	US\$'000
Analysis of total assets:		(Restated)
Electricity distribution	322,744	246,604
Electricity generation	14,326	7,083
Total segment assets	337,070	253,687
Unallocated assets	456	340
Consolidated total assets	337,526	254,027
Analysis of total liabilities:		
Electricity distribution	217,971	257,540
Electricity generation	5,726	3,439
Total segment liabilities	223,697	260,979
Unallocated liabilities	18,994	22,277
Consolidated total liabilities	242,691	283,256
Analysis of total capital expenditure:		(Restated)
Electricity distribution capital expenditure	17,921	37,401
Electricity generation capital expenditure	-	-
Consolidated total capital expenditure	17,921	37,401
Analysis of total depreciation charged:		
Impairment of distribution property plan and equipment	17,246	-
Electricity distribution depreciation	2,054	3,753
Electricity generation depreciation	74	16
Consolidated total depreciation and impairment charged	19,374	3,769
Analysis of total amortisation charged:		
Electricity distribution amortisation	-	127
Electricity generation amortisation	126	66
Consolidated total amortisation charged	126	193

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NOTES TO THE FINANCIAL STATEMENTS (continued)

5. OPERATING PROFIT/ (LOSS)

	2018	2017
	US\$'000	US\$'000
		(Restated)
This is stated after charging:		
Amortisation	126	193
Depreciation	2,128	3,769

An analysis of auditors' remuneration is as follows:

Audit of the Company's individual and consolidated financial statements	120	185
Audit of the Company's subsidiaries	130	100
Total audit fees	250	285
Audit-related assurance services	2	24
Tax and legal compliance services	12	21
Total non-audit fees	14	45

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

a) Staff numbers and costs

The average monthly number of persons including executive directors was:

	2018	2017
	No.	No.
Selling	165	164
Technical	426	423
Administration	170	168
	761	755

	2018	2017
	US\$'000	US\$'000
Wages and salaries	31,105	35,350
Social security costs	4,415	9,105
Share based payments	-	53
	35,520	44,508

b) Directors' emoluments

The directors' emoluments for services provided to the Company and other Group companies were as follows:

	2018	2017
	US\$'000	US\$'000
Aggregate emoluments	473	962
Emoluments of the highest paid director	200	380

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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS (continued)

c) Employee benefits

Provision has been made for retirement and disability benefits in accordance with note 2.12. There are no plan assets and therefore the liability presented is the gross defined benefit liability

As at 31 December 2018 the following provision has been made:

Provision for employee benefits	Current	Non-current	Total
	US\$'000	US\$'000	US\$'000
Benefits for retirement/disability	1,116	3,972	5,088
Long term benefits for years of service	104	763	867
Total 31 December 2018	<u>1,220</u>	<u>4,735</u>	<u>5,955</u>
Benefits for retirement/disability	1,685	5,646	7,331
Long term benefits for years of service	97	1,092	1,189
Total 31 December 2017	<u>1,782</u>	<u>6,738</u>	<u>8,520</u>

The following amounts have been expensed in the income statement during the year:

Charge to the income statement	2018	2017
	US\$'000	US\$'000
Benefits for retirement/disability	1,132	2,427
Long term benefits for years of service	227	438
Total	<u>1,359</u>	<u>2,865</u>

The movements in provisions made are detailed below:

Movement in provisions	US\$'000	US\$'000
Balance as at 1 January 2018	8,520	8,108
Service costs	705	1,111
Interest accrued	654	1,158
Actuarial losses	798	596
Benefits paid	(2,906)	(1,145)
Foreign exchange movement	<u>(1,816)</u>	<u>(1,308)</u>
Balance as at 31 December 2018	<u>5,955</u>	<u>8,520</u>

7. FINANCE INCOME

	2018	2017
	US\$'000	US\$'000
Refinancing (Note 20)	24,170	-
Gains on assets held as fair value through profit	12,196	2,633
Interest income	<u>11,751</u>	<u>2,140</u>
	<u>48,117</u>	<u>4,773</u>

8. FINANCE COSTS

	2018	2017
	US\$'000	US\$'000
Commercial interest	20,597	20,197
Interest costs	<u>10,615</u>	<u>4,344</u>
	<u>31,212</u>	<u>24,541</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

9. TAXATION (CHARGE) / CREDIT

	2018 US\$'000	2017 US\$'000 (Restated)
<i>Income tax relating to profit / (loss) for the year</i>		
Current tax	(951)	(541)
Deferred taxation (including tax rate difference)	(8,728)	3,653
Income tax (charge) / credit	<u>(9,679)</u>	<u>3,112</u>

The tax on the Group's income / (loss) before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows.

	2018 US\$'000	2017 US\$'000 (Restated)
Profit / (loss) before taxation	28,261	(22,364)
Income tax charge / (credit) on profit / (loss) at standard rate of 30% (2017: 35%)	(8,478)	7,827
Effects of:		
Other differences	(29)	(4,516)
Tax losses for which no deferred tax asset was recognised	(160)	(199)
Hyperinflation impact	(1,012)	-
Income tax (charge) / benefit	<u>(9,679)</u>	<u>3,112</u>
<i>Income tax relating to comprehensive loss for the year</i>		
Deferred income tax – Tax rate difference	(40)	(60)
Deferred income tax – Employee benefits	240	209
Income tax benefit / (loss)	<u>200</u>	<u>149</u>
Loss on comprehensive income before tax	(798)	(595)
Income tax credit on profit at standard rate of 30% (2017: 35%)	240	209
Effects of:		
Deferred taxation – Tax rate difference	(40)	(60)
Income tax benefit / (loss)	<u>200</u>	<u>149</u>

The tax rate used for the 2018 and 2017 for current tax is the corporate tax rate of 30% and 35%, respectively, payable by corporate entities in Argentina on taxable profits under tax law in that jurisdiction. On 29 December 2018, Law 27,430 was enacted. This law made some modifications to previous income tax law:

- Tax Rate: the modification states new tax rate parameters. For 2018 and 2019, the tax rate will be 30%, and from 2020 it will be 25%.
- Effect on deferred tax: for the accounting calculation of the deferred tax, the rate expected to be in force at the time of the reversal of the original asset or liability should be used. Therefore, when measuring assets and liabilities for deferred taxes, the 30% rate should be used for those temporary differences whose reversal is expected to occur in the years beginning before 1 January 2020, and the 25% for the remaining temporary differences.
- Additional tax on distributed earnings: this modification increases the aggregated tax rate to approximately 35% (2017: 0%, 2018/19: 7%, 2020: 13%) for the shareholders. It must be paid at the time profits are distributed and paid as a higher current tax on behalf of the shareholders.

The Group is liable to pay a minimum notional income tax at the applicable tax rate (1%), calculated on the amount of computable assets at the closing of the financial year. This tax is supplementary to income tax and the Group's tax liability in each financial year will be the higher of the minimum notional income tax and the income tax for the year. If the minimum notional income tax for a given financial year exceeds the amount of income tax, such excess may be carried forward as a partial payment of income tax for any of the ten following financial years.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit / loss for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. The basic and diluted earnings / loss per share are the same as there are no instruments that have a dilutive effect on losses.

	2018 Cents	2017 Cents (Restated)
Basic and diluted loss per share	0.08	(0.12)
	US\$'000	US\$'000
Profit / (Loss) for the financial year attributable to owners of the parent	<u>7,918</u>	<u>(11,927)</u>
	No. '000	No. '000
Weighted average number of shares	<u>96,156</u>	<u>96,156</u>
Diluted weighted average number of shares	<u>96,156</u>	<u>96,156</u>
Potential number of dilutive warrants	<u>2,158</u>	<u>9,982</u>

The warrants are deemed non-dilutive and immaterial for the purposes of this calculation.

11. PROFIT OR LOSS FOR THE YEAR

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not included its own income statement and statement of comprehensive income in these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

12. PROPERTY, PLANT AND EQUIPMENT

GROUP	Networks and power transformers stations	Buildings and land	Machinery and equipment	Transformers	Work in progress and other assets	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost						
At 31 December 2016	131,288	13,845	6,505	10,908	34,806	197,352
Revaluation 2016 (Note 2.5)	(66,580)	-	-	-	-	(66,580)
At 1 January 2017 (Restated)	64,708	13,845	6,505	10,908	34,806	130,772
Transfers	21,788	5,584	934	1,615	(29,921)	-
Additions	147	-	63	-	37,191	37,401
Disposals	(21)	-	0	-	0	(21)
Foreign exchange movements	(6,494)	(2,428)	(1,022)	(1,710)	(5,606)	(17,260)
At 31 December 2017 (Restated)	80,128	17,001	6,480	10,813	36,470	150,892
Transfers	2,822	-	383	425	(3,630)	-
Additions	-	301	28	-	17,592	17,921
Disposals	-	-	-	-	-24	(24)
Hyperinflation adjustments(*)	237,307	21,106	20560	28,255	28,015	335,243
Foreign exchange movements	(40,758)	(8,583)	(3,250)	(5,459)	(18,454)	(76,504)
At 31 December 2018	279,499	29,825	24,201	34,034	59,969	427,528
Depreciation						
At 1 January 2017 (Restated)	(28,887)	(1,756)	(4,210)	(3,688)	(4,416)	(42,957)
Charge for the year	(1,854)	(744)	(247)	(350)	(574)	(3,769)
Foreign exchange movements	3,880	311	632	564	682	6,069
At 31 December 2017 (Restated)	(26,861)	(2,189)	(3,825)	(3,474)	(4,308)	(40,657)
Charge for the year	(1,018)	(363)	(120)	(178)	(449)	(2,128)
Hyperinflation adjustment(*)	(131,233)	(6,027)	(17,020)	(15,666)	(14,777)	(184,723)
Impairment	(15,395)	-	-	(1,851)	-	(17,246)
Foreign exchange movements	13,794	1,055	1,911	1,754	2,242	20,756
At 31 December 2018	(160,713)	(7,524)	(19,054)	(19,415)	(17,292)	(223,998)
Net Book Value						
At 31 December 2018	118,796	22,301	5,147	14,619	42,677	203,530
At 31 December 2017 (Restated)	53,267	14,812	2,655	7,339	32,162	110,235

Under the contracts by which the Group's electricity generation and distribution assets were acquired and are regulated, there are restrictions on use of the assets and also obligations to maintain relevant assets with the intention of protecting the services they provide. In addition, the Group cannot pledge relevant assets as security for borrowings, other than for borrowings incurred to fund the acquisition of such assets.

*Machinery and equipment includes assets held under finance leases for US\$'000 1,007 (2017: US\$'000 1,995).

(*) Includes the effect of initial application of IAS 29 and 2018 impact. See note 2.10 for more detail.

The recoverable amount of these assets is determined based on value-in-use calculations considering each one of the cash generated units (CGU) based on the main segments. These calculations use cash flow projections based on financial budgets, adapted to cover a five year period. Cash flows beyond the five year period are extrapolated using an estimated growth rate of 1%, which the Directors believe reflects economic growth in the Province of Mendoza. The cash flows include estimates of tariff increases, gross and net margins, growth rates and discount rates. Management determines the budgeted gross margin based on past performance and its expectations for market development. The weighted average growth rates are consistent with the forecasts included in industry reports. The discount rates used (2018 and 2017) are real interest rates, pre-tax and reflect specific risks relating to the industry and the country of operation. Management re-evaluated the assumptions underlying the cash flow projections and the recoverable amount under different scenarios. Whilst, all scenarios produced consistent values, it should be noted that since negotiations are still in process, the final outcome may differ from the assumptions used.

Impairment charge

The recoverable amount of the distribution CGU is below the carrying amount of the CGU at 31 December 2019 by US\$ 17,246 (2017 nil).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Impact of possible changes in key assumptions

If the tariff used for 2019, in the value-in-use calculation for the distribution CGU had been 20% lower than management's estimates at 31 December 2018, the group would have had to recognise an impairment against the carrying amount of property, plant and equipment of additional US\$ 40 million, while if it had been 20% higher, the company would recover the full amount impaired including the intangible assets.. If the pre-tax discount rate applied to the cash flow projections of this CGU had been 20% higher than management's estimates, the group would have had to recognise an impairment against property, plant and equipment of additional US\$ 42 million.

13. INTANGIBLE ASSETS

GROUP	Goodwill	Concession	Total
	US\$'000	US\$'000	US\$'000
Cost			
At 1 January 2017	4,468	7,709	12,177
Foreign exchange movements	(652)	(1,125)	(1,777)
At 31 December 2017	<u>3,816</u>	<u>6,584</u>	<u>10,400</u>
Hyperinflation adjustments(*)	(1,889)	12,792	10,903
Foreign exchange movements	(1,927)	(3,324)	(5,251)
At 31 December 2018	<u>-</u>	<u>16,052</u>	<u>16,052</u>
Accumulated Amortisation			
At 1 January 2017	-	(4,125)	(4,125)
Charge for the year	-	(193)	(193)
Foreign exchange movements	-	616	616
At 31 December 2017	<u>-</u>	<u>(3,702)</u>	<u>(3,702)</u>
Charge for the year	-	(126)	(126)
Hyperinflation adjustments (*)	-	(5,354)	(5,354)
Foreign exchange movements	-	1,901	1,901
At 31 December 2018	<u>-</u>	<u>(7,281)</u>	<u>(7,281)</u>
Net Book Value			
At 31 December 2018	<u>-</u>	<u>8,771</u>	<u>8,771</u>
At 31 December 2017	<u>3,816</u>	<u>2,882</u>	<u>6,698</u>

(*) Includes the initial effects of IAS 29 which includes an impairment for the Goodwill and Concession assets of EDEMSA to nil based on the analysis perform by the Group taking into account restatement balances and comparing them to previous year recoverable amounts. See Note 2.10.

Accumulated Amortisation

The amortisation charge for the year is included in the costs of sales line in the income statement.

Goodwill

Goodwill arose on the acquisition of the electricity distribution business in the Province of Mendoza in 1998 by EDEMSA. The recoverable amount of this asset is determined based on value-in-use calculations following the same procedures and assumptions as detailed in Note 12.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

13. INTANGIBLE ASSETS (continued)

Concession assets

The concession assets represent the amount paid to acquire the concessions and are valued at cost less accumulated depreciation. The Group considers that the book value of these assets does not exceed the estimated value in use under present economic and technical conditions, which were estimated in the context of the current regulatory position in the electricity market mentioned in the previous paragraph, except of the distribution assets, which has been impaired at nil.

Intangibles related to distribution business had been dully impaired based on the analysis perform by the Group taking into account restatement balances and comparing them to previous year recoverable amounts. This effect has been included as part of the initial effect of IAS 29.

2018	Distribution	Generation	Total
	US\$'000	US\$'000	US\$'000
Net book value	-	8,771	8,771
	Years	Years	
Remaining life	10	26	
2017	Distribution	Generation	Total
	US\$'000	US\$'000	US\$'000
Net book value	3,816	2,882	6,698
	Years	Years	
Remaining life	11	27	

Under a 1998 concession agreement, SODEMSA was awarded an exclusive right to distribute electricity in the Province of Mendoza. The concession agreement is 30 years divided into three management periods of 10 years each. Under a 1994 concession agreement, HASA was awarded a 50 year concession to operate the Ameghino hydro power generating plant located in the Province of Chubut.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

14. DEFERRED TAX

GROUP	Provision for bad debts US\$'000	Notional income tax US\$'000	Provision charges US\$'000	Employee benefits US\$'000	Other US\$'000	Carry forward losses US\$'000	Total US\$'000
Deferred tax asset							
At 1 January 2017 (Restated)	730	4,738	9,260	2,837	605	2,529	20,699
(Charged)/credited to the profit and loss account (including rate difference)	11	(330)	2,553	(314)	(210)	4,341	6,051
(Charged)/credited to the employee benefits	-	-	-	149	-	-	149
Foreign exchange movement	(107)	(630)	(1,539)	(402)	(73)	(688)	(3,439)
At 31 December 2017 (Restated)	634	3,778	10,274	2,270	322	6,182	23,460
Initial hyperinflation effect	302	-	7,961	1,081	309	(368)	9,285
(Charged)/credited to the profit and loss account	(42)	-	(9,482)	(435)	(183)	2,532	(7,610)
(Charged)/credited to the employee benefits	-	-	-	200	-	-	200
Minimal notional tax paid	-	1,314	-	-	-	-	1,314
Foreign exchange movement	(472)	(1,907)	(10,896)	(1,692)	(320)	(2,948)	(18,235)
At 31 December 2018	422	3,185	(2,143)	1,424	128	5,398	8,414
				Property plant and equipment US\$'000	Write off from intangible assets US\$'000	Borrowings US\$'000	Total US\$'000
Deferred tax liability							
At 1 January 2017 (Restated)				3,338	565	913	4,816
Charged to the profit and loss account				2,694	(85)	(211)	2,398
Foreign exchange movement				(2,701)	(76)	30	(2,747)
At 31 December 2017 (Restated)				3,331	404	732	4,467
Initial hyperinflation effect				72,424	(1,677)	(1,742)	69,005
Charged to the profit and loss account				804	243	71	1,118
Foreign exchange movement				(39,588)	643	803	(38,142)
At 31 December 2018				36,971	(388)	(135)	36,448
Net deferred income tax liability as at 31 December 2018							<u>(28,034)*</u>
Net deferred income tax asset as at 31 December 2017							<u>18,993**</u>

* In addition to the net deferred income tax liability of US\$28m, the Group has recognized a non-offsetting deferred income tax asset of US\$ 0.04m.

**During 2017, in addition to the net deferred income tax asset of US\$19.5m, the Group recognized a deferred income tax liability of US\$ 4.6m in relation to undistributed earnings.

Minimum notional income tax is payable in Argentina and is supplementary to income tax. At the year end the Group determines the amount of minimum notional income tax due at the applicable tax rate and its tax liability is the higher of the minimum notional tax and the income tax due. However, if the minimum notional income tax for a given year exceeds the amount of income tax, such excess may be carried forward against future income tax liabilities for a maximum of ten years.

The minimum notional income tax is included as a deferred tax asset to the extent that it is probable that taxable profits will be available against which the minimum notional income tax can be utilised.

In the Group, losses in respect of which deferred tax assets have been recognised will expire between 2019 and 2022.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

15. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	31-Dec-18 US\$'000	31-Dec-17 US\$'000	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Non-current				
Trade receivables (*)	94	1,950	-	-
Other debtors	51	673	-	-
	145	2,623	-	-
Current				
Trade receivables	17,075	17,591	100	100
Less: provision for impairment	(2,240)	(2,589)	-	-
	14,835	15,002	100	100
Prepayments and accrued income	18,658	32,580	-	-
Advance to suppliers	10,682	14,355	-	-
Loans to subsidiaries	-	-	2,569	2,705
Other taxes and social security	6,469	3,421	-	-
Grants	47	88	-	-
Other receivables	6,750	7,373	-	-
Les: provision for impairment (**)	-	-	(2,569)	-
	57,441	72,819	100	2,805

Trade receivables are non-interest bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade receivables approximates to their book value. The directors consider that the carrying amount of other receivables approximates to their fair value.

(*) The energy and capacity of HASA is sold in the Argentine wholesale market through transactions administrated by CAMMESA. However, the lack of determination of a uniform price by the Argentine Energy Secretariat led there to being insufficient funds to finance the wholesale market, resulting in the creation of the Fund for the Necessary Investments to allow for the Increase of Electric Power Supply in the Argentine Wholesale Electric Power Market (“FONINVEMEM”). In previous years CAMMESA stipulated how these debts should be cancelled.

(**) The Company has a loan with it's fully controlled subsidiary. Based on management analysis it will not be collected from the subsidiary in the short term and Directors are analysing the capitalisation of this amount during 2019. As the subsidiary has not liquid funds or means of guaranty capital, the balance has been impaired to nil.

Agreement with Phoenix Global Resources Plc Group (“PGR Group”)

On 12 September 2018, Phoenix Global Resources Plc (former Andes Energia Plc) sent an offer letter to the Group with the aim of dismissing and dropping all past, present, future or potential claims among the companies which may derive from current contracts. The offer mentioned debit and credit balances possessed by the Companies of the PGR Group with the Group as a whole.

Subsequently, after new negotiations and revisions of balances and transactions that had been maintained in the past, PGR, Grecoil y Cía S.A. and MSO Andes Energía Argentina S.A. sent a new offer letter on 27 November 2018 in which it was agreed that US\$ 935 (in thousands) was owed to the Group.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

15. TRADE AND OTHER RECEIVABLES (continued)

	The Group		The Company	
	31-Dec-18 US\$'000	31-Dec-17 US\$'000	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Provision for impairment of trade receivables				
As at 1 January	2,589	2,031	2,569	-
Impairment losses recognised on receivables	534	922	-	-
Foreign exchange movements	(883)	(364)	-	-
As at 31 December	2,240	2,589	2,569	-

As at 31 December 2018, US\$2.2 million trade receivables were impaired (2017: US\$2.6 million). No additional details have been disclosed since the provision is immaterial.

16. INVENTORIES

	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Non-current		
Raw materials and consumables	3,095	3,863
	<u>3,095</u>	<u>3,863</u>
Current		
Raw materials and consumables	3,696	4,586
	<u>3,696</u>	<u>4,586</u>

As at 31 December 2018, US\$3.4 million of inventory was transferred to property, plant and equipment (2017: US\$6.5 million); US\$3.8 million was transferred to expenses (2017: US\$0.4 million) and included in 'Cost of Sales'. Inventory has been classified as current and non-current to more accurately reflect the period of consumption. No inventory was written off in the year.

17. FINANCIAL ASSETS

	The Group		The Company	
	31-Dec-18 US\$'000	31-Dec-17 US\$'000	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Current assets				
Loans to other entities	-	66	-	-
Other investments	12,557	6,786	-	-
Listed government bonds	25,908	22,252	-	-
	<u>38,465</u>	<u>29,104</u>	<u>-</u>	<u>-</u>

Other investments

Other investments are carried at fair value through profit or loss, which is management's best estimate of their fair value (Level 2). These financial assets includes mainly trust and common funds and foreign currency for investments.

Listed bonds

Listed bonds comprehends mainly national government bonds from Argentina (Bonar X). These financial assets were valued based on quoted prices at the year end (Level 1).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

18. INVESTMENTS IN SUBSIDIARIES

	2018	2017
	US\$'000	US\$'000
Non-current assets		
As at 1 January	34,437	31,377
Foreign exchange movements	(2,039)	3,060
As at 31 December	<u>32,398</u>	<u>34,437</u>

The directors consider the carrying value of investments is supportable based on the value in use of the assets in HASA and EDEMSA.

At 31 December 2018 the Company had the following subsidiary undertakings. They have the same year-end date as the Company and have been included in the consolidated financial statements. The Company's subsidiary undertakings all have share capital consisting solely of ordinary shares. All the interests are held partly directly and partly indirectly through intermediate subsidiaries, which are wholly owned.

	Registered office	Country of incorporation	Area of Operation	Activity	Ownership Control Interest %
Andina Electricidad Limited	1 South Quay, Victoria Quays, Sheffield S2 5SY	UK	UK	Holding	Direct 100
Andes Electricidad S.A.	Maipú 1252, 2 nd Floor, Ciudad Autónoma de Buenos Aires	Argentina	Argentina	Holding	Direct 100
Inversora Andina de Electricidad S.A. ("IADESA")	Belgrano 815 - Mendoza	Argentina	Argentina	Holding	Indirect 100
Mendinvert S.A.	Belgrano 815 - Mendoza	Argentina	Argentina	Holding	Indirect 100
SODEMSA	Belgrano 815 - Mendoza	Argentina	Argentina	Holding	Indirect 100
Empresa Distribuidora de Electricidad de Mendoza S.A. ("EDEMSA") (*)	Belgrano 815 - Mendoza	Argentina	Argentina	Electricity distribution	Indirect 51
Hidroeléctrica del Sur S.A. ("HDS")	Juez Tedín N° 2728 - Ciudad Autónoma de Buenos Aires	Argentina	Argentina	Holding	Indirect 80
Hidroeléctrica Ameghino S.A. ("HASA")	Sarmiento 698- Trelew- Chubut	Argentina	Argentina	Electricity generation	Indirect 47

See operational segment note 4, which provides a summary of the financial information for electricity distribution (EDEMSA) and electricity generation (HASA).

(*) EDEMSA's financial statements are available at www.cnv.gov.ar

19. CASH AND CASH EQUIVALENTS

	<u>The Group</u>		<u>The Company</u>	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	US\$'000	US\$'000	US\$'000	US\$'000
Cash at bank and in hand	5,943	4,704	20	19
Short term deposits	16,398	402	-	-
	<u>22,341</u>	<u>5,106</u>	<u>20</u>	<u>19</u>

The directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

20. TRADE AND OTHER PAYABLES

	The Group		The Company	
	31-Dec-18 US\$'000	31-Dec-17 US\$'000	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Current				
Trade payables	101,538	127,839	165	135
Social security and other taxes	19,600	25,852	-	-
Accrued expenses	14,351	67,064	743	644
Government payables related to compensation funds	2,463	2,151	-	-
Other payables	4,636	1,422	-	114
Other payables from subsidiaries	-	-	-	363
	<u>142,588</u>	<u>224,328</u>	<u>908</u>	<u>1,256</u>
Non-current				
Trade payables	41,292	-	2,289	-
Pension benefits and other social security	5,131	8,815	-	-
Other payables	<u>1,581</u>	<u>5,603</u>	<u>300</u>	<u>-</u>
	<u>48,004</u>	<u>14,418</u>	<u>2,589</u>	<u>-</u>

Company

Non-current other payables include US\$ 0.3 million due to a subsidiary of the Company.

Group

Current other payables include mainly an amount of US\$ 4.2 million due to the Chairman of the Company, a party connected to the Chairman, a party connected to a shareholder of the Company and companies to which these parties are related. Although at year end this debt is set as current the Company has received a commitment to defer repayment for US\$ 4.1 million until March 2021.

Non-current other payables include an amount of US\$ 1.6 million due to a shareholder of the Company and Companies, to which this party is related, repayable by March 2021.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

20.1 Status of EDEMSA tariff review and settlement of CAMMESA payable

In Argentina, power generators sell their electricity on the wholesale market, operated by CAMMESA, who administer the wholesale electricity market, including: the operation and dispatch of generation and price calculation; and the administration of the commercial transactions in the electricity markets. While the Argentine power sector is deregulated, the Energy Secretariat has veto power over CAMMESA and has the ability to alter the functioning of the competitive market.

The revenues of the Group's principal trading subsidiary, EDEMSA, are subject to a regulated tariff regime set by the Province of Mendoza, which under its concession agreement is revised on a specified periodic basis.

An electricity tariff review for the Province of Mendoza was scheduled to occur in 2013 (fourth tariff period) but it was not implemented at that time. As a result, during 2013 – 2016, EDEMSA did not receive the appropriate electricity tariff and was unable to fund its operating costs and capital expenditure requirements for some time. The Company managed this situation from late 2012 by not paying its principal supplier, CAMMESA, the state owned electricity wholesaler.

In December 2015 the province of Mendoza approved decree No. 2573/15. This put into effect a new tariff schedule, effective from 1 March 2016. From that date the Company has received the tariff as agreed. On February 8, 2017, Ente Provincial Regulador Eléctrico (“EPRE”) put forward Resolution No. 5/17. This resolution started of the tariff review process corresponding to the 5th Rate Period, which will begin on 1 August 2018 and end on 31 July 2023.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

20. TRADE AND OTHER PAYABLES (continued)

20.1 Status of EDEMSA tariff review and settlement of CAMMESA payable (continued)

Decree No. 1238/18 published on 1 August 2018 determines and enforces the new tariff schedules for the 5th Rate Period, without variation with respect to those in effect as of 31 July 2018. EDEMSA challenged said decree and requested EPRE to modify the tariffs approved for the 5th Rate Period for the correct determination and adaptation of the VAD, note that it is pending answer.

On 19 October 2018, EPRE was requested to activate the VAD adaptation procedure envisaged in Decree No. 48/17 in accordance with Decree No. 2573/15. Through Resolution 54/19, EPRE convened the Public Hearing held on April 5, 2019 in order to consider the adequacy of the VAD of the electricity distributors of Mendoza. In the same, the distributors presented their proposals for adaptation of the VAD and the Regulatory Entity explained its calculation of readjustment that concluded in an increase for the period beginning on February 1, 2019. This increase became effective as of July 3, 2019.

Payment plan agreed

During recent years, and particularly since the enactment of Resolution of Ministerio de Energía y Minería (“MEyM”) No. 6/2016, EDEMSA has been negotiating a feasible payment plan with CAMMESA. On 7 March 2018, EDEMSA presented CAMMESA with an irrevocable offer to pay the debt owed for outstanding balances of invoices due between 9 May 2012 and 31 January 2016. This payment plan was formally accepted by CAMMESA on 8 March 2018.

The payment plan includes a reduction in the amount of late interest payables, a grace period from 1 February 2016, a term of 90 monthly instalments with maturities between April 2018 and September 2025 and a fixed annual interest rate of 10%, based on this situation the Group recognised a gain of US\$ 24.2 million and disclose the debt in current (US\$ 28.1 million) and non current (US\$ 41.3 million) based on the due date of each instalments.

As of 31 December 2018, there has been no delay in the payment of the instalments.

Settlement of CAMMESA payable under Article 15

On 21 December 2016, Law 27.341 was published (National Budget 2017). Article 15 of this law established the compensation terms for the debt which distributors have with CAMMESA in relation to the purchase of energy. Under this law, a company is able to net off the income not received during the 2013 – 2016 period up to the amount payable to CAMMESA. If the ‘receivable’ owed to the company is higher than the liability owed to CAMMESA, the company will not receive an additional amount. As the income not received by EDEMSA is higher than the debt with CAMMESA, the impact will be to fully discharge the CAMMESA liability. We note that management have agreed a payment plan with CAMMESA post year end despite Article 15 on the basis that the terms are good from a cash flow perspective and the fact that they are operating in Argentina where it might take some time for laws to be implemented and acted upon. Although a payment plan was agreed, the Company did not relinquish their right to claim the Article 15 credit.

EDEMSA and the Public Services Secretary of Mendoza had a meeting on 27 March 2017 at which they committed to jointly work with the appropriate intervention of the EPRE so that the Energy Secretariat of the Nation and / or the corresponding national authorities could proceed with the implementation of Article 15.

On October 27, 2017, EDEMSA filed a formal complaint to the Energy Secretariat of the Nation to request the application of the aforementioned article. No response has been received regarding this claim as of the date of issuance of these financial statements.

Status as of 31 December 2018

As of 31 December 2018, EDEMSA did not pay current liabilities to CAMMESA for the amounts due from July to December 2018, totalling US\$ 62.8 (including interest).

The Company has requested CAMMESA to negotiate a payment plan for the debt mentioned in the previous paragraph, compatible with the new market conditions and considering that the company operates in a hyperinflationary country, which impacts by increasing operating costs with the passage of time.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

20. TRADE AND OTHER PAYABLES (continued)

20.1 Status of EDEMSA tariff review and settlement of CAMMESA payable (continued)

Possible effects

The payment plan in force for payments due from 9 May 2012 to 31 January 2016 establishes that the lack of payment corresponding to any of instalment and / or the lack of total payment of the billing that monthly has the obligation to cancel EDEMSA for its purchases of energy and power and / or by any other concept in the Wholesale Electricity Market, whose maturities operate during the term of the plan, if EDEMSA does not remedy the breach within a period of 5 working days after having been formally notified (written document) by CAMMESA, it will cause the immediate and automatic expiration of the payment plan. If this situation (notification) take place, CAMMESA could be entitled to claim the full payment of the overdue balances.

In August 2018, EDEMSA initiated a negotiation process and requested a fair payment plan with CAMMESA for the amounts due from July to December 2018 to be in line with the new market conditions (hyperinflationary economy), which have increased current operating costs and deteriorated the value of the amounts charged to customers. Negotiations are currently ongoing and all payments to the supplier have been paid as they become due (exclusive of amounts due from July to December 2018).

Management has analysed this situation with its internal legal, accounting and financial advisors and the different impacts in order to evaluate the strategy to be followed. Legal advisors stated that the Company has not received a formal notification from CAMMESA, nor any of the communications received from CAMMESA to date imply a reliable communication of the enforceability of the payment and that is an evidence that they could reach a consensus on this regard. For this reason to date, not having received notice of payment, the beginning of the period of 5 days to regularize the overdue debt has not been initiated. The Company estimated that even in the case that a notification could be received in the future for the payment of the current due debt, the Company has a structure and different financial alternatives that would allow it to avoid the expiration of the plan mentioned in the first point of this section. For this reason, Andina financial statements include the general debt with the creditor in accordance with the conditions existing to date, considering that the Company believes that the negotiations will conclude with a payment plan in line with the new economic and financial reality of the market.

General conclusions

Management, with its legal and financial advisors have analysed the situation described and its impact on the development of future operations. From the analysis carried out, it is concluded that the current status of the different channels under negotiation guarantees the normal development of the business, given that: i) the Company has informed that different payment plan alternatives are being negotiated, including a cash portion and the balance in instalments, ii) there is a financial possibility to attend in a timely manner the eventual claim of CAMMESA, iii) the creditor has not initiated compulsory collection actions during the current renegotiation process, iv) the Company has a right originating in article 15 of Law N ° 27.341 that would allow the cancellation of a relevant portion of all debt with CAMMESA and whose claim is ongoing, v) any step in the negotiation process does not imply a waiver of the right originated in article 15 of Law No. 27,341.

Based on the considerations detailed in previous paragraphs, the Directors conclude that Andina's financial statements correctly reflect the current debt situation with CAMMESA and there is a reasonable expectation that EDEMSA will have the necessary resources to continue in the normal course of its operations in the foreseeable future.

At year end, EDEMSA had payables past due to CAMMESA of US\$ 62.8 million (2017: US\$ 109.9 million excluding penalties). In AR\$ 2,364 million (2017: AR\$ 2,046 million).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21. FINANCIAL LIABILITIES

	The Group		The Company	
	31-Dec-18 US\$'000	31-Dec-17 US\$'000	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Current				
Bank borrowings	853	3,518	-	-
Other borrowings	8,886	3,431	7,454	3,097
Finance leases	213	260	-	-
	<u>9,952</u>	<u>7,209</u>	<u>7,454</u>	<u>3,097</u>
Non-current				
Bank borrowings	-	1,285	-	-
Other borrowings	997	6,929	913	5,652
Finance leases	614	858	-	-
	<u>1,611</u>	<u>9,072</u>	<u>913</u>	<u>5,652</u>

At 31 December 2018, the Group and Company had other borrowings primary comprised of:

Group

Current: (a) a US\$7.4 million loan in default carrying interest at a rate of 11% per annum, (b) a commitment to defer repayment of AR\$46 million (US\$1.22 million) until July 2021 with a rate of LIBOR per annum; (c) a AR\$6.2 million (US\$0.16 million) loan carrying interest at a rate of 5% per annum repayable in monthly instalments; (d) a AR\$1,5 million (US\$0.04 million) loan carrying interest at a rate of BADLAR plus 5% per annum repayable in monthly instalments.

Non current: (a) a AR\$3 million (US\$0.08 million) loan carrying interest at a rate of BADLAR plus 5% per annum repayable in monthly instalments; (b) a US\$0.9 million loan carrying interest at a rate of 8% per annum repayable by December 2021.

Company

(i) a US\$7.4 million loan in default carrying interest at a rate of 11% per annum (see section 2.2.); and (j) other borrowing include a US\$0.9 million loan with no coupon and no fixed repayment date.

The maturity profile of financial liabilities based on gross discounted cash flows is summarized below:

	The Group		The Company	
	31-Dec-18 US\$'000	31-Dec-17 US\$'000	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Maturity profile				
Within 1 year	9,952	7,209	7,454	3,097
Between 1 and 5 years	1,611	9,072	913	5,652
	<u>11,563</u>	<u>16,281</u>	<u>8,367</u>	<u>8,749</u>

The directors consider that the carrying amount of financial liabilities approximates to their fair value.

Movements of financial liabilities are summarized below:

	31-Dec-18 US\$'000	31-Dec-17 US\$'000
December 31, 2017	16,281	14,582
Proceeds from borrowing	464	2,893
Accrued interests	771	7,030
Repayments of borrowings and interest paid	<u>(5,953)</u>	<u>(8,224)</u>
December 31, 2018	<u>11,563</u>	<u>16,281</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

22. PROVISIONS

	Fines*	Legal claims	Total
	US\$'000	US\$'000	US\$'000
At 1 January 2017	11,826	1,094	12,920
Additional provisions	15,110	541	15,651
Used/Paid during the year	(1,751)	(269)	(2,020)
Foreign exchange movements	(2,701)	(178)	(2,879)
At 31 December 2017	22,484	1,188	23,672
Additional provisions	5,861	526	6,387
Used/Paid during the year	(5,309)	(297)	(5,606)
Foreign exchange movements	(11,351)	(600)	(11,951)
At 31 December 2018	11,685	817	12,502
	31-Dec-18	31-Dec-17	
	US\$'000	US\$'000	
Current	11,995	22,983	
Non current	507	689	
	12,502	23,672	

The provisions represent provisions for certain claims relating to penalties in connection with service quality, which are expected to crystallise within four years after the reporting date. The provisions charge is recognised in the income statement within cost of sales. In management's opinion, after taking appropriate legal advice, the outcome of these claims is unlikely to give rise to any significant loss in excess of the amounts provided.

The balance includes US\$11.9 million as current and US\$0.5 million as non-current. All fines are current. Of the provision for legal claims as at 31 December 2018, US\$0.3 million is current and US\$0.5 million is non-current. Of the provision for legal claims as at 31 December 2017, US\$0.4 million is current and US\$0.7 million is non-current.

*For further detail see Note 2.27

23. CALLED UP SHARE CAPITAL

	31-Dec-18	31-Dec-18	31-Dec-17	31-Dec-17
	No.	US\$'000	No.	US\$'000
Allotted, called up and fully paid				
Ordinary shares of 10 pence each	96,156,114	14,904	96,156,114	14,904
Redeemable preference shares of £1	50,000	78	50,000	78

The redeemable preference shares are classified as non-current liabilities (see Note 21).

The issued share capital is broken down as follows:

	2018	2017
	No.	No.
Ordinary shares of 10 pence each		
Balance at beginning and end of year	96,156,114	96,156,114
	2018	2017
	No.	No.
Redeemable preference shares of £1 each		
Balance at beginning and end of year	50,000	50,000

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NOTES TO THE FINANCIAL STATEMENTS (continued)

24. WARRANTS

The Group has constituted warrant instruments to create and issue warrants to subscribe for ordinary shares.

Details of warrants granted are as follows:

Exercise period	At	Granted	Lapsed	At end	Exercise Price
	1 January 2018	during year 2018	during year 2018	of year 2018	
	No.	No.	No.	No.	
June 2012 to June 2019 (*)	2,158,120	-	-	2,158,120	54 pence
January 2013 to January 2018 (*)	7,824,000	-	(7,824,000)	-	54 pence
	<u>9,982,120</u>	<u>-</u>	<u>(7,824,000)</u>	<u>2,158,120</u>	

(*) These warrants were not exercised at the date of issuance of these financial statements.

The fair values of warrants not yet lapsed, which fall under the scope of IFRS 2, were calculated using the Black-Scholes model. The estimated fair values of options, which fall under IFRS 2 and the inputs used in the model to calculate those fair values are as follows:

Date of grant	Number	Estimated Share price at fair value	Share price at date of grant	Exercise price	Expected volatility percentage	Expected life years	Risk free rate percentage	Expected dividends percentage
June 2012	2,158,120	23 pence	45.25 pence*	54 pence	53%	7	1.80%	0%

(*) The share price is the pre-demerger share price of Andes and the volatility was derived from the pre-demerger Andes share activity.

Warrants granted to and held by directors during the year are detailed below:

	01-Jan-18	Granted in the year	Lapsed during Year	31-Dec-18	Exercise Price	Exercise Dates
	No.	No.	No.	No.		
Neil Bleasdale	423,800	-	-	423,800	54 pence	2019
Luis Alvarez Poli	293,400	-	-	293,400	54 pence	2019
Marcelo Comba	65,200	-	-	65,200	54 pence	2019
Nigel Duxbury (*)	130,400	-	-	130,400	54 pence	2019
Senior Management	1,245,320	-	-	1,245,320	54 pence	2019
	<u>2,158,120</u>	<u>-</u>	<u>-</u>	<u>2,158,120</u>		

(*) Not appointed as director since April 2018.

25. NON-CONTROLLING INTERESTS

	31-Dec-18 US\$'000	31-Dec-17 US\$'000 (Restated)
At 1 January	(3,065)	5,162
Profit/(Losses) attributable to non-controlling interests	10,371	(7,543)
Translation differences	48,894	(684)
At 31 December	<u>56,200</u>	<u>(3,065)</u>

26. RESERVES

Merger reserve

The merger reserve arose following the completion of the demerger on 11 July 2012.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

26. RESERVES (continued)

Translation reserve

The translation reserve results from exchange differences arising from the translation of the assets and liabilities of the Group's operations into the presentation currency at exchange rates prevailing on the reporting date, and income and expense items at the average exchange rates for the year.

27. CAPITAL COMMITMENTS

	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Commitments for the acquisition of property, plant and equipment	13,491	20,650

All amounts are categorised as less than one year.

28. FINANCIAL RISK MANAGEMENT

The directors have reviewed the consolidated financial statements and have concluded that there are no significant differences between the book values and the fair values of the assets and liabilities of the Group and Company as at 31 December 2018.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain sufficient financial flexibility in order to undertake its investment plans, and to optimise the weighted average cost of capital and tax efficiency.

To maintain or adjust the optimum capital structure, the Group may put in place new debt facilities, issue new capital for cash, repay or restructure existing debt, amend its dividend policy, or undertake other such restructuring activities as appropriate.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group monitors capital on the basis of the net debt ratio, that is, the ratio of net debt to net debt plus equity. Net debt is calculated as gross debt, as shown in the statement of financial position, less cash and cash equivalents and excludes finance lease liabilities.

	The Group	
	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Borrowings, excluding finance lease liabilities	10,736	14,963
Less: Cash and cash equivalents	(22,341)	(5,106)
Net debt	(11,605)	9,857
Equity and net debt	83,230	(19,372)
Net debt ratio	(14%)	(51%)

The directors consider the net debt ratio to be within the acceptable range, considering the effect of IAS 29 over equity explained in Note 2.10.

Financial risk management

The Group's financial instruments comprise cash and cash equivalents, trade receivables, other receivables, trade and other financial payables and borrowings. The Group does not speculate in financial instruments. The numerical disclosures in this note deal with financial assets and liabilities as defined in IFRS 7 "Financial Instruments: Disclosure." The Group is exposed through its operations to a number of financial risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policy for managing these risks is set by the key management of the Company and the respective subsidiary and all such risks are managed at the Company and subsidiary level within the organisation. The policies for these risks are described further below:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

28. FINANCIAL RISK MANAGEMENT (continued)

Derivatives, financial instruments and risk management

The Group does not use derivative instruments or financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. The Group does not enter into hedging positions in respect of its exposure to foreign currency risk.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing liabilities and commodity risks, all of which are exposed to general and specific market movements. Management does not set limits on the value of risk that may be accepted. However, management is on alert for significant market movements and takes these movements into account in their future dealings.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice, this is unlikely to occur and changes in some of the factors may be correlated, for example, changes in interest rate and changes in foreign currency rates.

Foreign currency risk management

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is mainly exposed to currency risks on certain bank deposits, debtors and creditors denominated in a different currency from their functional currency

The Group's exposure to foreign currency risk mainly related to balance in US\$, based on carrying amounts at the reporting date as follows:

	2018	2017
	US\$'000	US\$'000
Trade and other receivables (Note 15)	2,478	1,510
Cash and cash equivalents	8,681	1,289
Liabilities (Note 20 and 21)	(20,629)	(16,824)
Net exposure	<u>(9,470)</u>	<u>(14,025)</u>

The following table presents sensitivities of profit and loss (after tax) and equity to changes in exchange rates applied at the end of the year relative to the functional currency of the Group, with all other variables held constant:

	31-Dec-18
	US\$'000
Functional currency strengthening by 25%	1,972
Functional currency weakening by 25%	(1,972)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If variable interest rates increased by 1% compared to the current rate this would result in a US\$0.66 million higher income/charge. The Group's exposure to cash flow interest rate risk comes from variable interest liabilities and its fair value interest rate risk through its fixed rate borrowings.

The Group does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Group's business.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. FINANCIAL RISK MANAGEMENT (continued)

Financial risk management (continued)

Price risk

Whilst the Group is not subject to price risk due to the service nature of the services it provides, the Group's business is based on a regulated tariff structure. If future tariff reviews are not forthcoming, this will adversely affect cash flows and the ability of the Group to invest in the business and could impair Group asset values (see Note 12 and 13). The Group has not entered into any derivative arrangements in this respect. In connection with electricity sales, the Group is not exposed to risk in relation to fluctuations in the prices paid to purchase the electricity in the market since any price fluctuations are passed on to the customers.

The Group is exposed to commodity price risk in relation to the purchase of copper wires used in the distribution networks. The Group does not use derivatives to hedge this risk. The Group is also exposed to price risk due to inflationary increases in the price of the goods and services it purchases. To manage its exposure to this risk, the Group has stated business practices aimed to select the most convenient suppliers, which ensure minimizing the costs of purchasing inputs without resigning the quality of them.

Credit risk

The Group's business is exposed to credit risks due to the possibility that customers may fail to meet their financial obligations. In accordance with the local legislation, the Group is not able to subject its customer portfolio to a regular credit risk assessment. The Group has the right to disconnect services if customers fail to meet their financial obligations. The Group is also subject to counterparty credit risk attributable to its deposits of cash and cash equivalents. The risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	The Group		The Company	
	31-Dec-18 US\$'000	31-Dec-17 US\$'000	31-Dec-18 US\$'000	31-Dec-17 US\$'000
Financial assets within trade and other receivables	40,435	55,043	100	2,805
Cash and cash equivalents	22,341	5,106	20	19
	<u>62,776</u>	<u>60,149</u>	<u>120</u>	<u>2,824</u>

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is monitored by the Group to ensure that it has sufficient resources to meet its financial obligations as they fall due.

The liquidity risk of the Group is managed by the Board. New borrowings are taken on where additional funds are required. The Group intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing. Where appropriate the board will seek additional funds from the issue of share capital, private or public placements.

The Group monitors its liquidity requirements through monthly management accounts and periodic cash flow forecasts.

The circumstances around the material uncertainty for the going concern assumption are discussed in note 2.2. Additionally, details explaining the situation in relation to amounts due to CAMMESA are discussed in note 20.1.

The table below shows the Group and Company's financial liabilities at 31 December 2018 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the balance presented in the statement of financial position is based on discounted cash flows.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

28. FINANCIAL RISK MANAGEMENT (continued)

Financial risk management (continued)

Liquidity risk (continued)

Group	Less than 1 year	From 1 to 5 years	More than 5 years	Total Future Payments
	US\$'000	US\$'000	US\$'000	US\$'000
Borrowings	12,021	3,020	-	15,041
Creditors	106,233	31,290	11,870	149,394
	<u>118,254</u>	<u>34,310</u>	<u>11,870</u>	<u>164,435</u>

Company	Less than 1 year	From 1 to 5 years	More than 5 years	Total Future Payments
	US\$'000	US\$'000	US\$'000	US\$'000
Borrowings	9,247	1,214	-	10,461
Creditors	908	2,289	-	3,197
	<u>10,155</u>	<u>3,503</u>	<u>-</u>	<u>13,658</u>

29. FINANCIAL INSTRUMENTS

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in the market. For the purpose of estimating the fair value of financial assets maturing in less than one year, the Group uses the market value. For other investments, the Group uses quoted prices in the market. In relation to financial liabilities, since most loans are taken at variable rates or fixed rates that approximate to market rates, the fair value of loans approximates their carrying value.

Set out below is a detail of the carrying amount and fair values of the Group's financial instruments. The different levels have been defined as follows:

Level 1: valued using trading prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: valued using inputs that are observable for the asset or liability, either directly (that is as prices), or indirectly (that are derived from prices); and

Level 3: valued using inputs that are not observable for the asset or liability.

	The Group		The Company	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	US\$'000	US\$'000	US\$'000	US\$'000
Financial assets				
Trade receivables and other receivables*	40,335	55,043	100	2,805
Financial assets**	38,465	29,104	-	-
Cash and cash equivalents	22,341	5,106	20	19
	<u>101,240</u>	<u>89,253</u>	<u>120</u>	<u>2,824</u>

* Not included tax credit and advance payments

**The listed government securities are Level 1

Andina plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. FINANCIAL INSTRUMENTS (continued)

	The Group		The Company	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	US\$'000	US\$'000	US\$'000	US\$'000
Financial liabilities				
Borrowings	11,563	16,281	8,367	8,749
Trade and other payables*	170,046	204,078	3,496	1,256
	<u>181,609</u>	<u>220,359</u>	<u>11,863</u>	<u>10,005</u>

* Not included social security and other taxes

30. RELATED PARTY TRANSACTIONS

Company

Amounts outstanding at 31 December 2018 and 31 December 2017 owed by and due to the Company's subsidiaries are presented below. These balances have been eliminated on consolidation.

Related party:	Other debtors		Other creditors	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	US\$'000	US\$'000	US\$'000	US\$'000
Andes Energy Limited	-	2,705	-	-
AESA	-	-	-	363
	<u>-</u>	<u>2,705</u>	<u>-</u>	<u>363</u>

Related party balances generally represents payments on behalf of said entity. No other transactions occurred with related parties.

Key Management Compensation

Compensation and other transaction for key management of the Company who have authority for planning, directing and controlling the Group;

	The Group		The Company	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
	US\$'000	US\$'000	US\$'000	US\$'000
Salaries and other short term benefits	468	1,318	80	98
Share based payments	25	25	25	25
Other debtors (*)	<u>2,578</u>	<u>775</u>	<u>23</u>	<u>775</u>
	<u>3,071</u>	<u>2,118</u>	<u>128</u>	<u>898</u>

(*)Additionally, other debtors includes US\$ 2.6 million (2017: US\$ 0.7 million) due to the Chairman of the Company and a related Company of the Chairman.

The ultimate parent undertaking and controlling party is Andina plc, a Company incorporated in England and Wales, United Kingdom.

31. EVENTS AFTER THE REPORTING DATE

When preparing these financial statements, the Company has evaluated events and transactions for subsequent recognition or disclosure at 31 December 2018 and up to 13 August 2019 (date of issuance of these financial statements), and has identified no significant subsequent events affecting same, except for: (i) the tariff increase for distribution segment in July 2019 and (ii) the devaluation of Argentine peso of 46.3%. Such devaluation calculated on the net liability in US\$ as at December 31, 2019, would result in an exchange difference loss of US\$ 0.9 million at the end of the year exchange rate.

Andina plc

OFFICERS AND ADVISERS

DIRECTORS

Neil Bleasdale (Chairman)
Luis Alvarez Poli (CEO/CFO)
Jorge Depresbiteris (COO)
Marcelo Comba (Non-Executive)
Carlos Bastos (Non-Executive)

SECRETARY

Luis Alvarez Poli, ACA

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