Andes Energia plc

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(Company No. 5083946)

Andes Energia plc

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Andes Energia plc

OVERVIEW

HIGHLIGHTS

Andes Energia plc ("Andes" or the "Company" and with its subsidiaries the "Group") is a Latin American energy group, with electricity distribution, hydroelectric power and oil and gas interests in Argentina and certain other exploration interests outside Argentina.

The Group's focus is on the Argentinean energy sector, which it believes offers premium assets at undervalued prices and the ability to generate additional value from integrating the whole price chain from the exploitation of natural resources through to the distribution of the energy produced. Its principal assets are a 51% indirect controlling interest in Empresa Distribuidora de Electricidad de Mendoza S.A., the main electricity distribution company in the Province of Mendoza ("EDEMSA"), an indirect controlling 47% interest in Hidroelectrica Ameghino S.A., a 60MW hydroelectric power plant in the Province of Chubut ("HASA") and oil and gas interests in Argentina which include four exploration licences covering nine licence blocks in the San Jorge and Neuquen basins.

Financial

Year ended 31 December	2008	2007	Change
	US$'m	US$'m	
Revenue	138.1	111.3	24%
EBITDA(1)	9.9	9.1	9%
(Loss)/profit before tax(2)	(12.5)	69.6	n/a
(Loss)/profit for the year attributable to equity holders	(9.6)	7.1	n/a
Gross debt(3)	84.5	72.7	US$(11.8)m

(1) *Before exceptional charges of US$16.2 million in 2007*

(2) *After finance income of US$89 million resulting from EDEMSA debt restructure and after exceptional charges of US$16.2 million in 2007 and non-cash finance charges of US$11 million in 2008 due to foreign exchange movements.*

(3) *Bonds stated at fair value at date of debt restructure. Has increased primarily as a result of the weakening of the AR$ against the US$*

Operational

- Acquisition of a further 25.5% indirect interest in the share capital of EDEMSA with effect from 21 February 2008. Andes now owns indirectly 51% of EDEMSA.
- Increase in EDEMSA's EBITDA for the year ended 31 December 2008 to AR$52.5 million (US$16.6 million) from AR$32.8 million in the previous year.
- Increase in electricity tariffs charged by EDEMSA by between 10% and 27%, implemented on 1 February 2008. This equates to an average tariff increase of 20%. The result of a further general tariff review was due to be implemented on 1 August 2008 and although this has been deferred, the Board remains confident that the new tariff regime will be forthcoming.
- Presentation of technical, financial and economic studies for the EDEMSA five year tariff review.
- Negotiations with financial creditors to extend maturities and minimize cash flow requirements in the short term.
- Completion of airborne geophysical and ground magnetic/gravimetric surveys on the San Jorge basin licenses.
- Drilling of the first exploration well in the south east of the Confluencia block.
- Swabbing of the Meseta del Humo well, located in the Buen Pasto block, confirmed a reservoir presence.

Andes Energia plc

CHAIRMAN'S STATEMENT

Overview

Our 2008 financial results incorporating the results of Andes together with its subsidiaries for the year ended 31 December 2008 are set out below.

The Group recorded a loss before tax of US$12.5 million on revenue of US$138.1 million for the year compared to a profit of US$69.6 million on revenue of US$111.3 million in 2007. The revenue increase results primarily from the EDEMSA tariff increase and the pass through of increases in the cost of energy purchased. In 2007 EDEMSA benefited from the restructuring of EDEMSA's debt, which resulted in a write back of US$89 million. The loss for the year has also been adversely impacted by the weakening of the AR$ against the US$ resulting in a non-cash exchange loss of US$7 million on the EDEMSA US$ bonds and the weakening of £ against the US$ resulting in a non-cash exchange loss of US$4 million on US$ debt held at the Company level. The loss after tax attributable to equity shareholders was US$9.6 million compared to a profit of US$7.1 million in 2007. Basic and diluted loss per share was US$0.08 for the year compared to a basic earnings per share of US$0.15 and diluted earnings per share of US$0.14 in 2007. In line with the dividend policy set out in the Group's re-admission document, no dividend is proposed.

As announced on 24 November 2008, EDEMSA expects the next tariff review for the third pricing period to take effect from 1 February 2009 but at the date of this announcement the provincial government law decree has not yet been issued. The Board remains confident that the new tariff regime will be forthcoming and will update the market as appropriate.

The results of HASA, our hydroelectric power plant, have benefited from a change in the regulations implemented in October 2008 that now allows HASA to sell all the electricity it generates to the wholesale market.

We drilled our first exploration well in the Confluencia block and continued our geochemical and airborne survey work. We are pleased with the results of the exploration program undertaken and believe the exploration licences we hold offer us excellent potential oil and gas production opportunities. Further details of the results of the work undertaken are included in the Chief Executive's Review.

Outlook

The Board is confident that the next tariff review that was due to be implemented 1 February 2009 will be approved by the Provincial Government in due course and management is hopeful that tariff adjustments will continue to be made to bring them closer to those applicable in other South American countries.

The change in the regulations that became effective in 2008, enabling HASA to sell all the electricity it generates to the wholesale market, has resulted in an increase of nearly 100% in the average selling price of electricity generated.

Whilst the international economic turmoil and the fall in commodity prices, specifically oil, have had an impact on oil companies and in particular exploration projects, following meetings with the Chubut regulatory authority and as announced on 12 May 2009, management believes the authorities will be flexible with regards to exploration licence commitments in this time of uncertainty, to ensure exploration activities continue.

The Group's prime focus for the balance of this year and the beginning of 2010 will be the continued development of its oil and gas interests in Argentina. The Group holds licences in prolific oil and gas provinces in Argentina all of which we believe have the potential for significant discoveries and reserves.

Neil Bleasdale
Chairman
29 June 2009

Andes Energia plc

CHIEF EXECUTIVE'S REVIEW

Introduction

Andes's strategy of an integrated energy player has proved a resilient economic model in the face of the worldwide recession.

Our quick reaction, with prudent financial planning, to the reality of the world's capital markets turmoil and the high volatility of commodity prices enabled us to minimise our cash requirements with a strong emphasis on liquidity, self financing and capital spending discipline.

In 2008 we have quietly performed our strategic plan.

The highlights are:

- Exercise of the option to acquire the remaining 50% of Sodem S.A. ("SODEMSA") and control of EDEMSA
- Adjustment of EDEMSA electricity tariffs in February 2008 by an increase on average of 20%
- Presentation of technical, financial and economic studies for the EDEMSA five year tariff review
- Secretary of Energy resolution allowing HASA to sell and collect revenues at spot market prices
- Negotiations with financial creditors to extend maturities and minimize cash flow requirements in the short term
- Completion of airborne geophysical and ground magnetic/gravimetric surveys on the San Jorge basin licences
- Drilling of the first exploration well in the south east of the Confluencia block
- Swabbing of the Meseta del Humo well, located in the Buen Pasto block, confirming a reservoir presence

For 2009 we are analysing expansion projects for power generation, continuing with our oil and gas exploration working programs and looking to enter into production through the exercise of an option to acquire an interest in a producing license.

Electricity distribution and power generation

EDEMSA

2008 ended with a loss of AR$8.5 million (US$2.7 million) compared to a profit of AR$296.6 million in 2007. This loss is not directly comparable with the profit for 2007, since 2007 includes the effect of the financial debt restructuring that resulted in a gain of AR$275 million and the gain from reversing the allowance covering tax assets in the amount of AR$26 million.

Sales for the year increased by 25% over sales for 2007. This increase was due to three factors; a 2.5% increase in the energy demand; the pass through of an increase in the cost of electric power and the rate adjustment effective from 1 February 2008.

Although gross profit increased to AR$100 million (US$32 million) from AR$51 million in 2007 operating expenses continue to increase resulting in an operating profit of AR$25 million (US$8 million) compared to an operating profit of AR$7 million in 2007.

Despite the improved operating profit, tariffs are still inadequate and operating profit has been lower than expected due to the ongoing increase in costs of supplies and services required by EDEMSA. The return on equity and the return on assets are below the levels needed to sustain investment in the infrastructure to maintain and improve the service to customers, which shows the urgent need to complete the review of tariffs for the third review period.

Whilst the financial debt restructuring completed in March 2007 has enabled us to maintain interest at low levels, the weakening of the AR$ against the US$ resulted in a non-cash adverse foreign exchange difference of AR$22 million (US$7 million). It is becoming increasingly difficult to enter into forward contacts to hedge this risk due to the lack of available contracts and the associated high cost. The company continues to evaluate all options available to it to minimise this currency risk and has recently secured approval to issue up to an equivalent of US$80 million of debt instruments denominated in AR$ or other foreign currencies at the Board's discretion, which would give the company more flexibility to manage this currency risk. The face value of the notes outstanding as at 31 December 2008 was US$90 million (2007: US$91 million).

On 31 July 2007 a preliminary study was submitted in order to determine the rates applicable for the third tariff review period. The final report was submitted on 1 February 2008 within the time frames prescribed by local legislation. A further report was subsequently submitted, as requested by the regulators, on 31 July 2008. EDEMSA expects the next tariff review for the third pricing period to take effect from 1 February 2009 but at the date of this announcement the provincial government law decree has not yet been issued. The Board remains confident that the new tariff regime will be forthcoming and will update the market as appropriate.

HASA

HASA recorded a profit for the year of AR$1.2 million (US$0.4 million) compared to a profit in 2007 of AR$0.9 million. Sales decreased to AR$10 million (US$3.2 million) from AR$14 million in 2007.

On 27 November 2008 the historic peak demand of energy for a working day in Argentina was passed, recording a level of 394GWh when the peak capacity generated was 18.4GW.

Inflows from high rainfalls recorded during the months of May, July, August, September and October, helped to reverse the effects of a very dry period. This resulted in water flow 16% above the historical average and allowed 1,725.66 Hm^3 to accumulate in the reservoir.

The power generated in the year was 141GWh, 22% below the historical annual average and 24% lower than the power generated in 2007; this was due to low rainfalls and low water levels. The maximum power generated in 2008 was recorded in the month of December with 17GWh, compared to a minimum in June of 8GWh, with a monthly average for 2008 of 12GWh. However, recent rainfalls have increased the water level, which is 5% higher than at the equivalent time last year.

Furthermore, changes to the regulatory framework for hydroelectric generators with an installed capacity of less than or equal to 150MW now allow these generators to sell all their energy to the spot market with priority of payment. As HASA has installed capacity of 60MW, this resolution allows HASA to sell the energy it generates to the spot market with 100% settlement without deduction for FONINVEMEM, a fund established to facilitate the increase of electric power supply in the Argentine wholesale electric power market. As the price in the spot market is nearly twice the price HASA had agreed with co-operatives, HASA resolved to terminate the co-operative agreements with effect from 31 October 2008 to enable HASA to sell its entire production on the spot market. During the year 101GWh of energy generated was sold to the co-operatives and 40GWh on the spot market.

The change in regulations and recent rainfalls should significantly improve HASA's performance in 2009.

Oil and gas interests*

El Bloque Prospect - Well Kil.ch.EB.x-1001 - Confluencia Exploration Area - Chubut Province

During October 2008, the first exploration well, Kil.ch.EB.x-1001, was drilled in the South East region of the Confluencia licence block 295 km from Comodoro Rivadavia City to appraise the hydrocarbon bearing potential of the anticline structure called "El Bloque", attributed to the Chubutuianos and Neocomian (Lower Cretaceous) cycles.

The primary objective of this exploration well was to investigate two levels of potential reservoirs:

- the continental clastic levels of the Lower Bajo Barreal formation and the upper Castillo formation (Chubutiano cycle); and
- the Basal Conglomerate of the Matasiete formation and the tidal and deltaic sediments of the Pozo Cerro Guadal formation (Neocomian cycle).

The exploration well, Kil.ch.EB.x-1001, was successfully drilled by San Antonio Internacional, a subsidiary of Pride International Inc. and reached a final total depth of 6,573 feet and was cased with 5½ inch production casing. The well is located at approximately the same level as El Bloque 1 and probably lies at the edge of the closure area of the El Bloque structure. The drilling operations were completed within the planned time and within budget, with the following results:

- traces of hydrocarbons were detected; and
- gas peaks were observed (3,000 to 5,000 units).

However the petrophysical interpretation was not conclusive; the porosity interpretation was affected by the large caliper; the salinity of the water formation is 3.5 grams of salt per litre (Castillo Formation), which means that the resistivity differs very little from the oil resistivity, making it difficult to define a reliable water saturation; and an abundance of tuffaceous sedimentary rock with high resistivity was found from a depth of 1250 meters.

Further analysis and geochemical survey work will be conducted in 2009-2010, which will extend to the South West and West of the Kil.ch.EB.x–1001 well and will provide information to determine the shape of the structure. If the geochemical studies confirm the need to conduct 3D seismic work, this will be carried out regionally in 2010. The results of this work will also be used to target the location of further wells and define the completion works for the Kil.ch.EB.x–1001 well.

Airborne Geophysical Survey

An airborne survey was performed, between September 2007 and October 2008, by Carson Helicopters, Inc. over the six blocks located in the Chubut Province. The flights covered 34,281km lines of data over a grid with North to South lines distanced 1km crossed and transversed by East to West lines distanced 4km apart. The preliminary results are promising with anomalies of 1 to 2 miligal.

Pampa Salamanca Norte Airborne Survey

In Pampa Salamanca Norte the survey showed clearly a structural low that can be interpreted as Neocomian graben, with the possibility of an area of petroleum generation. The shows of oil in wells Kinkelin 1001 and 1002 support this hypothesis.

Ground Magnetic and Gravimetric Surveys at the Laguna El Loro Block - Rio Negro Province

During November and December 2008, Quantec Geoscience Argentina S.A. conducted a gravimetric and ground magnetic survey at Laguna El Loro. The objectives of the geophysical surveys were to detect depth to basement and to establish the presence of possible fault structures in the survey area. The magnetic survey was conducted in order to establish the presence of basaltic material in the survey area, detect structural offsets and assist in the detection of depth to basement. The survey grid consisted of a survey block 28km from East to West and 28 km from North to South. A total of 465 gravimetric and 466 magnetic survey points were surveyed on centers located on a 1km by 1km grid pattern.

Geochemical Survey - Chubut Province

A regional soil gas geochemical survey was performed by Exploration Technologies, Inc. towards the end of 2007 over six blocks (Rio Senguerr, Confluencia, San Bernardo, Buen Pasto, Sierra Cuadrada and Pampa Salamanca Norte) that lie within the Northern and Western areas of the San Jorge Basin. 1196 soil gas samples were collected from a depth of four feet, which were then analyzed by dual detector gas chromatographic runs to characterize both hydrocarbon and non-hydrocarbon constituents of the soil gases. Large magnitude soil gas anomalies were identified within Rio Senguerr, Confluencia (North of the Rio Mayo) and Pampa Salamanca Norte respectively, suggesting a high potential for productive oil reservoirs to exist within the areas surveyed. The magnitudes and compositional signatures shown by the soil gas anomalies indicate the presence of mixed oil and gas sources. Our experience of soil gas surveys has shown that geochemistry can provide an inexpensive tool which can objectively determine the location of hydrocarbon seepages from buried source rocks, thus confirming the presence of potential oil and gas reservoirs.

Meseta del Humo Prospect - Well Meseta del Humo x1 - Buen Pasto Exploration Area - Chubut Province

In 1972 YPF drilled an exploration well, referred to as Meseta del Humo x1, located in the Buen Pasto Block in the North West flank of the San Jorge Basin. The well was drilled to a depth of 1,576 meters to investigate the Castillo, Matasiete and Pozo D129 formations in the structure named Meseta del Humo. A drill stem test was conducted in the Matasiete formation in an 8 meter interval from 720 meters to 728 meters, which recovered mud drilling fluid with traces of heavy oil.

In October 2008, the UTE technical team organised a swabbing operation for MH.es-1 well (Meseta del Humo), after finding abnormal pressure on the wellhead. As a result of this test 480 litres of crude oil were recovered and analyzed. The results showed rheological characteristics of viscous oil.

A further inspection was carried out in March 2009 and it was noted that the wellhead pressure had built up to 116 pounds per square inch, with oil found under the safety valve; evidence of reservoir response.

Taking into account these results and the petrophysical studies carried out, recompletion works are planned to define the well productivity potential.

Reinterpretation of available data has enabled us to delineate a potential area where the source rock could be oil-generating. The structure of Meseta del Humo is close to a depocenter and confirms the existence of a petroleum system. This study together with the findings above mentioned, improves the likelihood of the prospectivity of the structure, pending further local geochemical survey, seismic reprocessing and well evaluation to better define the area and the associated resources.

Well El Bloque 1

A previous well, referred to as El Bloque 1, was drilled in 1997 by YPF, 5km West of the Kil.ch.EB.x-1001 well and good quality reservoirs were found in the Castillo formation. The well yielded on tests, from the interval 1,343 metres to 1,345 metres, 320 barrels per day of water with 6% oil and, from the interval 1,238 metres to 1,240 metres, 240 barrels per day of water with 10% oil. El Bloque 1 had the best test results of the nine wells drilled in the Confluencia exploration area.

A petrophysical interpretation was commissioned with a local consultant group that has extensive experience of the area, EXE Energía S.A.. Although the formation water is of low salinity, similar to the Kil.ch.EB.x-1001 well, new intervals were found that could be oil producing.

In order to convert El Bloque 1 into a viable production well, our consultant has recommended that hydraulic fracturing stimulation treatment be carried out. This is a technique successfully used in the San Jorge Basin to improve initial productivity.

In November 2008, the wellhead of El Bloque 1 was restored to evaluate the feasibility of mobilising a work-over unit. The cement plug was removed and the casing was extended. Further analysis will focus on re-testing perforated intervals and perforating or intervening new intervals in order to establish the well production capacity.

Other interests

The Group has also maintained its interest in certain non-Argentine assets acquired at the time of the reverse acquisition. These are primarily investments in early stage gas and mineral exploration assets located in North America, Europe and Mauritania.

Luis Alvarez Poli
Chief Executive Officer
29 June 2009

Qualified Person Review
Mr. Juan Carlos Esteban has reviewed the information contained in the report on the Group's oil and gas interests. Mr. Juan Carlos Esteban, an employee of the group, is a petroleum engineer with over 20 years of experience and is a member of the SPE (Society of Petroleum Engineers).

THE BOARD

Neil Bleasdale (Chairman)

Neil Bleasdale joined the board on 2 October 2007. Neil is 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 Chairman of Chatham S.A., non-executive director of Supercanal Holding S.A. and non-executive director and alternate director of a number of other Argentine companies.

Luis Alvarez Poli (Chief Executive Officer)

Luis Alvarez Poli joined the board on 2 October 2007 and also represents the Group on the directive committee of the oil joint venture. 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 15 years of experience in capital markets, investor relations and financial restructuring. He was previously a financial director and manager in, among others, Transportadora de Gas del Sur and Petrobras (formerly Perez Companc) and has also worked for Banco Macro in the capital markets department.

Nigel Duxbury (Finance Director)

Nigel Duxbury joined the board in July 2004. 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.

Marcelo Comba (Non-Executive Director)

Marcelo Comba joined the board on 2 October 2007. 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. In 2004 he also became President of HASA.

Nicolas Mallo Huergo (Non-Executive Director)

Nicolas Mallo Huergo joined the board on 2 October 2007. Nicolas graduated from the Universidad Católica Argentina in 1993 with a law degree, and obtained a Master in Law (LLM.) with honours at Northwestern University School of Law, Chicago, USA, in 1999. He has been and is a director of a number of local and foreign companies. Previously, he practised as a lawyer in the firm Marval, O'Farrell & Mairal.

Keith Wills (Non-Executive Director)

Keith Wills joined the board in June 2006. Keith was a stockbroker for 30 years. He was Head of the European Retail Team at Goldman Sachs where he spent 15 years of his career and became Managing Director. Since leaving Goldman Sachs in 2004 he has worked as an independent consultant.

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Andes Energia plc (the "Company" and collectively with its subsidiaries the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is a Latin American energy group, with electricity distribution, hydro-electric power and oil and gas interests in Argentina. The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2008 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. The information that fulfils this requirement can be found in the Chairman's Statement and Chief Executive's Review, which are incorporated into this report by reference. These sections also include details of expected future developments.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to US$10,683,712 (2007: US$78,126,136 profit).

The directors do not recommend the payment of a dividend (2007: US$nil).

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.

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

Financial KPIs

Financial KPIs include:

Sales
Sales provide a measure of Group activity that is influenced by various factors including tariff increases, the cost of supplies and energy losses.

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 one-off items such as negative goodwill.

Capital expenditure
This provides a measure of the capital commitment required to maintain operations.

EBITDA
This provides a measure of the cash generated by operations.

ROE
This provides a measure of the profitability of the Group.

Non-Financial KPIs

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

Gross capacity
Gross capacity is the total generation capacity owned by Group companies and is affected by acquisitions, expansion programmes and disposals.

Energy losses
This measures the efficiency of the energy distributed. It includes the technical and commercial loss.

FINANCIAL RISK MANAGEMENT

The Company's exposure to financial risk is set out in note 32 to the accounts.

SUPPLIER PAYMENT POLICY

It is the Group's policy to agree and clearly communicate the terms of payment as part of the commercial arrangement negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. Trade creditor days for the Group have been calculated at 88 days (2007: 70 days). This represents the ratio expressed in days between the amounts invoiced to the Group in the year by its suppliers and the amounts due at the year-end to trade creditors falling due for payment within one year.

COUNTRY OF INCORPORATION

The Company was incorporated in England and Wales.

COUNTRY OF OPERATION

The Group's main activities are based in Argentina.

THE DIRECTORS

The directors who served during the year were as follows:

Neil Bleasdale – Chairman
Luis Alvarez Poli – Chief Executive Officer
Nigel Duxbury - Finance Director
Marcelo Comba – Non-executive Director
Nicolas Mallo Huergo – Non-executive Director
Keith Wills – Non-Executive Director

In addition Michael Stevens, former Chairman, served as a director during the year and resigned on 18 October 2008.

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 available 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 s234ZA of the Companies Act 1985.

AUDITORS

Nexia Smith & Williamson have expressed their willingness to continue in office as auditors and a resolution to appoint them will be proposed at the Annual General Meeting.

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

Nigel Duxbury
Secretary
29 June 2009

DIRECTORS' REMUNERATION REPORT

The purpose of the Remuneration Committee is to fix the remuneration of the executive directors and make recommendations to the Board on an overall remuneration policy for executive directors and other senior executives in order to retain, attract and motivate high-quality executives capable of achieving the Group's objectives.

SERVICE CONTRACTS

All service agreements for directors are terminable on 3 months notice.

SHARE OPTIONS

The Group believes that share ownership by executive directors and senior executives strengthens the links between their personal interest and those of investors and the Board intends to consider the adoption of a share option scheme in due course.

DIRECTORS' REMUNERATION

The directors' remuneration information is set out in note 7 to the financial statements.

By order of the Board

Keith Wills
Chairman of the Remuneration Committee
29 June 2009

Andes Energia plc

CORPORATE GOVERNANCE

THE COMBINED CODE

The Company's shares are traded on AIM and as such the Company is not formally required to comply with the provisions of the Combined Code on Corporate Governance, nor is it required to disclose its specific policies in relation to corporate governance. However, the Board is committed to high standards of corporate governance and as the Company grows the Board will review their compliance with the Code from time to time and will adopt such of the provisions as they consider to be appropriate to the size of the Company.

THE WORKINGS OF THE BOARD AND ITS COMMITTEES

The Board of Directors

The Board meets frequently to consider all aspects of the Group's activities. The Board consists of the Chairman, Chief Executive Officer, Non-executive directors and the Finance Director. All directors have access to the advice and services of the Company's professional advisors.

Remuneration Committee

The Remuneration Committee comprises Keith Wills, Marcelo Comba and Nicolas Mallo Huergo and is chaired by Keith Wills. Its terms of reference are discussed in the remuneration report.

Audit Committee

The Audit Committee comprises Keith Wills, Nicolas Mallo Huergo and Marcelo Comba and is chaired by Keith Wills. It is responsible for ensuring that the financial performance of the Group is properly reported on and monitored and for reviewing the auditors' reports relating to accounts and internal control systems.

Nomination Committee

The Nominations Committee comprises Marcelo Comba and Keith Wills and is chaired by Marcelo Comba. It is responsible for the selection and appointment of Board members.

Relations with Shareholders

Communications with shareholders are given a high priority by the Board which takes responsibility for ensuring that a satisfactory dialogue takes place. Representatives from the Board plan to meet with the Company's institutional shareholders following the announcement of its final results and at other appropriate times. The Group has developed a website containing investor information to improve communications with individual investors and other interested parties.

Internal control

The directors acknowledge their responsibility for the Group's systems of internal control and for reviewing its effectiveness.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The directors are required to prepare financial statements for each financial period, which present fairly the financial position of the Company and of the Group and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company and the Group have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

Nexia Smith & Williamson

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ANDES ENERGIA PLC

We have audited the group and parent company accounts (the "accounts") of Andes Energia plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Equity and the related notes 1 to 33. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985 are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Chief Executive's Review that is cross referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Chairman's Statement, Chief Executive's Review, Directors' Report and Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with IFRSs as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985, of the state of the group's and parent company's affairs as at 31 December 2008 and of the group's loss for the year then ended; and
- the accounts have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors' Report is consistent with the accounts.

Nexia Smith & Williamson

Nexia Smith & Williamson
Chartered Accountants
Registered Auditors
29 June 2009

25 Moorgate
London
EC2R 6AY

Andes Energia plc

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008	2007
		US$	US$
Revenue	3	138,087,122	111,303,946
Cost of sales		(105,837,484)	(95,441,770)
Gross profit		32,249,638	15,862,176
Other operating income		420,367	1,322,306
Distribution costs		(11,628,516)	(8,825,841)
Administrative expenses before exceptional expense		(20,091,895)	(7,891,138)
Exceptional expenses	6	-	(16,163,584)
Total administrative expenses		(20,091,895)	(24,054,722)
Operating profit/(loss)	5	949,594	(15,696,081)
Analysed as			
Operating profit before exceptional expenses		949,594	467,503
Exceptional expenses	6	-	(16,163,584)
Operating profit/(loss)		949,594	(15,696,081)
Finance income	9	1,203,496	89,848,953
Finance costs	8	(14,675,946)	(4,570,943)
(Loss)/profit before taxation		(12,522,856)	69,581,929
Taxation	10	1,839,144	8,544,207
(Loss)/profit for the year		(10,683,712)	78,126,136
Attributable to:			
Equity holders of the parent		(9,620,280)	7,083,993
Minority interests		(1,063,432)	71,042,143
		(10,683,712)	78,126,136
(Loss)/earnings per ordinary share	11	**US$**	**US$**
Basic		(0.08)	0.15
Diluted		(0.08)	0.14
Adjusted basic		(0.08)	0.48

Andes Energia Plc

CONSOLIDATED BALANCE SHEET 31 DECEMBER 2008

	Note	2008 US$	2007 US$
Non-current assets			
Intangible assets	13	90,559,507	109,837,883
Property, plant and equipment	14	150,710,046	165,503,182
Investments	15	10,452,546	4,576,208
Available for sale financial assets	16	300,543	599,571
Trade and other receivables	18	121,466	-
Deferred income tax assets	19	36,612,211	38,272,684
Total non-current assets		288,756,319	318,789,528
Current assets			
Inventories	20	4,678,243	3,792,216
Available for sale financial assets	16	724,793	2,347,154
Trade and other receivables	18	32,088,564	34,194,011
Cash and cash equivalents	21	2,547,841	23,347,231
Total current assets		40,039,441	63,680,612
Current liabilities			
Trade and other payables	22	38,522,363	30,085,155
Financial liabilities	23	10,289,176	6,565,197
Provisions	24	8,690,809	7,381,332
Current tax liabilities		43,491	125,546
Total current liabilities		57,545,839	44,157,230
Non-current liabilities			
Trade and other payables	22	1,511,958	1,766,705
Financial liabilities	23	74,244,243	66,118,704
Deferred income tax liabilities	19	28,391,542	33,043,915
Total non-current liabilities		104,147,743	100,929,324
Net assets		167,102,178	237,383,586
Capital and reserves			
Called up share capital	25	23,418,920	23,418,920
Share premium account		28,692,270	28,949,260
Profit and loss account		(47,332,067)	(42,308,581)
Merger reserve	29	66,195,556	66,195,556
Reverse acquisition reserve	29	42,045,342	42,045,342
Translation reserve	29	(17,516,645)	-
Fair value reserve	29	76,178	217,624
Equity attributable to equity holders of the parent		95,579,554	118,518,121
Minority interest	28	71,522,624	118,865,465
Total equity		167,102,178	237,383,586

The accounts were approved by the Board of Directors and authorised for issue on 29 June 2009 and were signed on its behalf by:

Nigel Duxbury
Director

Andes Energia Plc

COMPANY BALANCE SHEET

31 DECEMBER 2008

	Note	2008 US$	2007 US$
Non-current assets			
Property, plant and equipment	14	2,475	6,714
Investments	17	90,102,679	89,983,121
Total non-current assets		90,105,154	89,989,835
Current assets			
Available for sale financial assets	16	1,378,618	2,347,154
Trade and other receivables	18	1,274,968	8,694,864
Cash and cash equivalents	21	(22,771)	20,953,262
Total current assets		2,630,815	31,995,280
Current liabilities			
Trade and other payables	22	756,907	1,423,685
Financial liabilities	23	5,000,000	3,697,950
Current tax liability		43,491	59,987
Total current liabilities		5,800,398	5,181,622
Non-current liabilities			
Financial liabilities	23	7,948,439	-
Total non-current liabilities		7,948,439	-
Net assets		78,987,132	116,803,493
Capital and reserves			
Called up share capital	25	23,418,920	23,418,920
Share premium account		28,692,270	28,949,259
Profit and loss account		(8,809,079)	(1,760,242)
Merger reserve	29	66,195,556	66,195,556
Translation reserve	29	(30,510,535)	-
Total equity		78,987,132	116,803,493

The accounts were approved by the Board of Directors and authorised for issue on 29 June 2009 and were signed on its behalf by:

Nigel Duxbury
Director

Andes Energia plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

Capital and reserves	Share capital	Share premium	Profit and loss	Other reserves	Minority interest	Total
	US$	US$	US$	US$	US$	US$
At 1 January 2007	76,438,000	-	(49,666,792)	359,756	26,098,697	53,229,661
Profit for the year	-	-	7,083,993	-	71,042,143	78,126,136
Total recognised income and expenses for the year	-	-	7,083,993	-	71,042,143	78,126,136
Issue of ordinary shares	18,615,890	90,310,029	-	-	-	108,925,919
Share issue costs	-	(1,180,139)	-	-	-	(1,180,139)
Reverse acquisition	(71,634,970)	(60,180,630)	170,968	108,098,766	21,724,625	(1,821,241)
Fair value of share based payments	-	-	103,250	-	-	103,250
At 31 December 2007	23,418,920	28,949,260	(42,308,581)	108,458,522	118,865,465	237,383,586
Loss for the year	-	-	(9,620,280)	-	(1,063,432)	(10,683,712)
Total recognised income and expenses for the year	-	-	(9,620,280)	-	(1,063,432)	(10,683,712)
Share issue costs	-	(256,990)	-	-	-	(256,990)
Fair value of share based payments	-	-	458,490	-	-	458,490
Exercise of option to acquire minority interest	-	-	4,138,304	-	(38,046,716)	(33,908,412)
Fair value adjustments	-	-	-	(141,446)	(133,427)	(274,873)
Translation differences	-	-	-	(17,516,645)	(8,099,266)	(25,615,911)
At 31 December 2008	23,418,920	28,692,270	(47,332,067)	90,800,431	71,522,624	167,102,178

Other reserves	Merger reserve	Reverse acquisition reserve	Translation reserve	Fair value reserve	Total other reserves
	US$	US$	US$	US$	US$
At 1 January 2007	-	-	-	359,756	359,756
Profit for the year	-	-	-	-	-
Total recognised income and expenses for the year	-	-	-	-	-
Issue of ordinary shares	-	-	-	-	-
Share issue costs	-	-	-	-	
Reverse acquisition	66,195,556	42,045,342	-	(142,132)	108,098,766
Fair value of share based payments	-	-	-	-	-
At 31 December 2007	66,195,556	42,045,342	-	217,624	108,458,522
Loss for the year	-	-	-	-	-
Total recognised income and expenses for the year	-	-	-	-	-
Share issue costs	-	-	-	-	-
Fair value of share based payments	-	-	-	-	-
Exercise of option to acquire minority interest	-	-	-	-	-
Fair value adjustments	-	-	-	(141,446)	(141,446)
Translation differences	-	-	(17,516,645)	-	(17,516,645)
At 31 December 2008	66,195,556	42,045,342	(17,516,645)	76,178	90,800,431

Andes Energia plc

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

Capital and reserves	Share capital US$	Share premium US$	Profit and loss US$	Other Reserves US$	Total US$
At 1 January 2007	4,803,030	6,014,926	63,570	-	10,881,526
Loss for the year	-	-	(1,927,062)	-	(1,927,062)
Total recognised income and expenses for the year	-	-	(1,927,062)	-	(1,927,062)
Issue of ordinary shares	18,615,890	24,114,472	-	66,195,556	108,925,918
Share issue costs	-	(1,180,139)	-	-	(1,180,139)
Fair value of share based payments	-	-	103,250	-	103,250
At 31 December 2007	23,418,920	28,949,259	(1,760,242)	66,195,556	116,803,493
Loss for the year	-	-	(7,507,327)	-	(7,507,327)
Total recognised income and expenses for the year	-	-	(7,507,327)	-	(7,507,327)
Share issue costs	-	(256,990)	-	-	(256,990)
Fair value of share based payments	-	-	458,490	-	458,490
Translation differences	-	1	-	(30,510,535)	(30,510,534)
At 31 December 2008	23,418,920	28,692,270	(8,809,079)	35,685,021	78,987,132

Other reserves	Merger reserve US$	Translation reserve US$	Total other reserves US$
At 1 January 2007	-	-	-
Loss for the year	-	-	-
Total recognised income and expenses for the year	-	-	-
Issue of ordinary shares	66,195,556	-	66,195,556
Share issue costs	-	-	-
Fair value of share based payments	-	-	-
At 31 December 2007	66,195,556	-	66,195,556
Loss for the year	-	-	-
Total recognised income and expenses for the year	-	-	-
Share issue costs	-	-	-
Fair value of share based payments	-	-	-
Translation differences	-	(30,510,535)	(30,510,535)
At 31 December 2008	66,195,556	(30,510,535)	35,685,021

Andes Energia plc

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008	2007
		US$	US$
(Loss)/profit for the year before taxation		(12,522,856)	69,581,929
Adjustments for:			
Depreciation		8,720,842	8,505,847
Movement in debt		13,077,587	(84,205,842)
Revaluation of investments		101,362	-
Profit on sale of property, plant and equipment		1,475	343,696
Increase in inventories		(9,011,621)	(5,255,853)
Increase in trade and other receivables		(10,875,326)	(2,731,522)
Increase in trade and other payables		10,777,973	1,667,667
Increase in provisions for liabilities and charges		4,518,354	1,921,659
Profit on disposal of investments		(34,091)	-
Movement in tax provisions		(248,283)	-
Impairment write down		317,449	16,255,487
Share based payments		458,490	103,250
Tax		-	232,621
Net cash generated from operating activities		5,281,355	6,418,939
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,716,132)	(6,296,322)
Purchase of exploration assets		(345,174)	(480,000)
Purchase of investments and minority interests		(32,465,984)	(697,098)
Proceeds from available for sale shares		458,725	42,025
Proceeds from grants		809,214	-
Acquisition of subsidiary		-	(2,523,232)
Net cash used in investing activities		(35,259,351)	(9,954,627)
Cash flows from financing activities			
Repayments of borrowings		(2,681,160)	(8,735,105)
Funds from borrowing		14,059,253	-
Proceeds from issue of shares		-	31,271,112
Share issue costs		(256,990)	(1,180,139)
Net cash generated from financing activities		11,121,103	21,355,868
Net (decrease)/increase in cash and cash equivalents		(18,856,893)	17,820,180
Cash and cash equivalents at the beginning of the year		23,347,231	5,527,051
Effect of foreign exchange rate changes		(1,942,497)	-
Cash and cash equivalents at the end of the year	21	2,547,841	23,347,231

Andes Energia plc

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 US$	2007 US$
Loss for the year before taxation		(7,507,327)	(1,927,062)
Adjustments for:			
Depreciation		3,069	4,502
Revaluation of investments		101,362	-
Increase/(decrease) in trade and other receivables		221,657	(4,808,301)
(Decrease)/increase in trade and other payables		(353,099)	1,113,448
Increase in provisions for liabilities and charges		168,851	-
Profit on disposal of investments		(34,091)	-
Share based payments		458,490	103,250
Net cash generated from operating activities		(6,941,088)	(5,514,163)
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(5,498)
Purchase of investments		(25,666,591)	(13,773,118)
Proceeds from sale of investments		458,725	1,614,280
Loans to subsidiaries		(1,089,348)	-
Net cash used in investing activities		(26,297,214)	(12,164,336)
Cash flows from financing activities			
Funds from borrowings		13,979,548	730,934
Proceeds on issue of shares		-	31,271,112
Share issue costs		(256,990)	(1,180,139)
Net cash generated from financing activities		13,722,558	30,821,907
Net (decrease)/increase in cash and cash equivalents		(19,515,744)	13,143,408
Cash and cash equivalents at the beginning of the year		20,953,262	7,809,854
Effect of foreign exchange rate changes		(1,460,289)	-
Cash and cash equivalents at the end of the year	21	(22,771)	20,953,262

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was established to pursue opportunities that were considered to have potential for the generation of sustainable growth and profitability in both the short and medium terms.

2. ACCOUNTING POLICIES

2.1 Introduction and reverse acquisition

Under IFRS 3 "Business Combinations" the acquisition of SODEMSA in 2007, through its two intermediate holding companies Inversora Andina de Electricidad S.A. and Mendinvert S.A., by the Company was accounted for as a reverse acquisition. Although the consolidated financial statements have been prepared in the name of the legal parent, the Company, they are in substance a continuation of the consolidated financial statements of the SODEMSA group. The following accounting treatment has been applied in respect of the reverse acquisition:

(a) The assets and liabilities of the SODEMSA group are recognised and measured in the consolidated financial statements at the pre-combination carrying amounts, without restatement for fair value;
(b) The retained losses and other equity balances reflect the retained losses and other equity balances of the SODEMSA group immediately before the business combination and the results of the period from 1 January 2007 to the date of the business combination on 2 October 2007, are those of the SODEMSA group. However, the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, the Company, including the equity instruments issued under the business combination.

2.2 Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (including International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRJC") interpretations as adopted by the European Union).

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below.

The preparation of the financial statements in conformity with generally accepted accounting practice required management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

2.3 Critical accounting estimates and judgements

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.

Impairment of intangibles

Determining whether intangibles are impaired requires an estimation of their value in use, which requires the Group to estimate future cash flows expected to arise and a suitable discount rate to calculate the present value.

Share based payments

In determining the fair value of equity settled share based payments and the related charge to the income statement, the Group makes assumption about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on future estimates, including the timing with which options will be exercised and the future volatility in the price of the Company's shares.

Bad debt and inventory provisions

A full line by line by review of trade debtors is carried out at the end of each month. Whilst every attempt is made to ensure that the bad debt and inventory provisions are as accurate as possible, there remains a risk that the provisions do not match the level of debts, which ultimately prove to be uncollectable and the inventory is not sold at its carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.3 Critical accounting estimates and judgements (continued)

Restoration and legal claims

Provisions for environmental restoration and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events; 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 balance sheet 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. There remains a risk that the provisions do not match the level of claims, which ultimately prove to be made.

2.4 New standards and interpretations

At the date of authorisation of these financial statements, the following Standards and interpretations, which have not been applied in these financial statements were in issue but not yet effective (and in some cases have not been adopted by the EU):

IFRS 1 (amended)	Cost of an investment in a subsidiary, jointly controlled entity or associate;
IFRS 2 (amended)	Share based payments – Vesting conditions and cancellations;
IFRS 3 (revised)	Business combinations;
IFRS 8	Operating segments;
IAS 1 (revised 2007)	Presentation of financial statements;
IAS 23 (revised 2007)	Borrowing Costs;
IAS 27 (revised 2008)	Consolidated and separate financial statements;
IAS 32 (amended)/IAS1 (amended)	Puttable financial instruments and obligations arising on liquidation;
IAS 39 (amended)	Financial instruments;
IFRC 9	Embedded derivatives;
IFRC 15	Agreements for the construction of real estate;
IFRC 16	Hedges of a net investment in a foreign operation;
IFRC 17	Distribution of non-cash assets to owners
IFRC 18	Transfer of assets from customers

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

2.5 Basis of consolidation

The Group financial statements have been prepared on a reverse acquisition basis (see 2.1) and incorporate the financial statements of SODEMSA and entities controlled by SODEMSA and the Company prepared to 31 December each year. Control is achieved where the acquirer has the power to govern the financial and operating policies of an investee entity so to obtain benefits from its activities.

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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amounts of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent the minority has a binding obligation and is able to make an additional investment to cover the losses.

2. ACCOUNTING POLICIES (continued)

2.6 Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for the control of the acquiree, plus any cost directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. Goodwill arising on acquisition is reviewed for impairment at least annually. Any impairment is immediately recognised in profit or loss and is not subsequently reversed.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2.7 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts recoverable for goods and services provided in the normal course of business, net of discounts, VAT and other sale related taxes.

Revenue arising from the provision of services is recognised when and to the extent that the Group obtains the right to consideration in exchange of the performance of its contractual obligations.

Electricity distribution
Revenue for electricity distribution service is recognized in the period the services are provided.

The purchase price of the commodity (electricity) is invoiced to the customers without margin. The margin is only recognised for distribution service.

Electricity generation
Revenue is recognized on delivery of energy to clients, in each case, when title and risks are transferred to the customer.

2.8 Finance Income

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

2.9 Finance Costs

Finance costs of debt are allocated to periods over the term of the related debt at the effective rate on the carrying amount.

2.10 Exceptional items

Items of income and expense that are material by size and/or nature and are non-recurring are classified as exceptional items on the face of the income statement. The separate reporting of these items helps give an indication of the Group's underlying performance.

2. ACCOUNTING POLICIES (continued)

2.11 Foreign 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 financial statements.

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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet 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 profit and loss for the period. For the purposes of preparing consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are classified as equity and transferred to the Group's translation reserve.

The financial statements are presented in US$ and the average rate used was US$1.86 to £1 and the closing rate used was US$1.45 to £1 (2007: average and closing rate US$2 to £1).

2.12 Government Grants

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

Government subsidies received in relation to the purchase of fixed assets are deducted from the cost of such assets. These assets are depreciated over their estimated useful lives on the basis of their net acquisition cost.

2.13 Employee Benefits

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2.14 Taxation

The Group has recorded the income tax charge based on the balance sheet liability method, thus acknowledging the temporary differences between accounting and taxable assets and liabilities. In 2007 EDEMSA completed the restructuring of its debt as a result of which the ability to recover deferred tax assets was re-evaluated.

For the purpose of determining the amount of deferred assets and liabilities, a tax rate has been applied to temporary differences, which is expected to be in force at the time of their reversion or use, taking into account the legal provisions in force as of the date of these financial statements.

Deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.14 Taxation (continued)

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 fiscal 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 computed as a partial payment of income tax for any of the ten following fiscal years.

The credit of minimum notional income tax has been included under "Deferred tax". The Group has considered it will not be able to recover part of the credit for this tax and consequently, it has not been recorded.

2.15 Share-based payments

Warrants are measured at fair value at the date of grant. The fair value determined at the date of grant of the warrant is expensed on a straight-line basis over the vesting period. The fair value is calculated using the binomial option pricing model.

2.16 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the parent'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).

Exploration assets are jointly controlled assets and in accordance with IAS 31 are recognised at cost. Expenditure relating to the acquisition, exploration, appraisal and development of oil and gas interests is capitalised. The capitalised costs are tested for impairment only if there are indications that the carrying amount of the asset may exceed the recoverable amount.

Concession assets acquired are stated at fair value at the date of acquisition. Amortisation is charged on a straight-line basis over the term of the concession.

2.17 Property, plant and equipment

Property, plant and equipment are shown at cost less subsequent depreciation, except for land. Costs include expenditures that are directly attributable to the acquisition of the items.

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:

Network and transformer stations and other works	32 to 50 years
Buildings	30 to 50 years
Machinery and equipment	up to 25 years
Transformers	35 to 40 years
Vehicles, furniture and fixtures	3 to 5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Work in progress is not depreciated.

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

2. ACCOUNTING POLICIES (continued)

2.18 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.

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). EDEMSA, HASA, Andes Oil & Gas S.A. and Andes Oil S.A. are considered different cash-generating units for this purpose.

2.19 Investments

The Group classifies its investments in the following categories: investments including loans and receivables and investment trusts and available-for-sale financial assets including listed and unlisted securities and other investments held for trading. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are held with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method.

Investment Trusts

Assets held in investments trusts are valued in proportion to the Group's interest in the equity of the Trust.

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership

Investments held at fair value through profit or loss are investments that are irrevocably designated at initial recognition as held at fair value through profit or loss stated at fair value, with any resultant gain or loss recognised in profit or loss.

2.20 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost formula method.

2.21 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision for impairment account, and the amount of the loss is recognised in the income statement within distribution costs.

2. ACCOUNTING POLICIES (continued)

2.21 Trade receivables (continued)

When a trade receivable is uncollectable, it is written off against the provision for impairment. Subsequent recoveries of amounts previously written off are credited against distribution costs in the income statement.

2.22 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.

2.23 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

2.24 Financial Liabilities

Bonds

Bonds are recognized at fair value based on the present value of management's best estimate of the expenditure required, taking into account all the requirements established in the agreement with bond holders. 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. The Group has discounted the probable cash flows of bonds at an annual rate of 10.2%.

Other Borrowings

Other borrowings are stated at management's best estimate of the debt fair value.

2.25 Provisions

Provisions for environmental restoration and legal 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 balance sheet 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.

3. REVENUE

All revenues relate to the rendering of services.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

	Revenue		Segment profit	
	2008	2007	2008	2007
Analysis of revenue and profit:	US$	US$	US$	US$
Electricity distribution	134,883,349	110,700,763	7,920,823	2,188,968
Electricity generation	3,203,773	603,183	292,729	(655,619)
	138,087,122	111,303,946	8,213,552	1,533,349
Central administration costs			(7,263,958)	(1,065,846)
Finance income			1,203,496	89,848,953
Finance costs			(14,675,946)	(4,570,943)
Exceptional items			-	(16,163,584)
(Loss)/profit before tax (continuing operations)			(12,522,856)	69,581,929

	2008	2007
Analysis of total assets:	US$	US$
Electricity distribution	273,160,720	283,461,366
Electricity generation	18,260,956	26,314,781
Oil and gas interests	29,882,775	40,626,893
Total segment assets	321,304,451	350,403,040
Unallocated assets	7,491,309	32,067,100
Consolidated total assets	328,795,760	382,470,140

	2008	2007
Analysis of total liabilities:	US$	US$
Electricity distribution	141,889,769	134,404,449
Electricity generation	4,818,047	5,484,418
Oil and gas interests	8,432	19,679
Total segment liabilities	146,716,248	139,908,546
Unallocated liabilities	14,977,334	5,178,008
Consolidated total liabilities	161,693,582	145,086,554

	2008	2007
Analysis of total capital expenditure:	US$	US$
Electricity distribution capital expenditure	12,004,318	11,467,339
Electricity generation capital expenditure	21,911	13,782
Oil and gas interests	345,174	-
Total segment capital expenditure	12,371,403	11,481,121
Other capital expenditure	4,701	5,497
Consolidated total capital expenditure	12,376,104	11,486,618

NOTES TO THE FINANCIAL STATEMENTS

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	2008	2007
Analysis of total depreciation:	**US$**	**US$**
Electricity distribution depreciation	8,616,586	8,475,928
Electricity generation depreciation	100,718	28,435
Total segment depreciation	8,717,304	8,504,363
Other depreciation	3,538	1,484
Consolidated total depreciation	8,720,842	8,505,847

5. OPERATING PROFIT/(LOSS)

	2008	2007
	US$	**US$**
This is stated after charging:		
Impairment losses	317,449	91,903
Depreciation	8,720,842	8,505,847
Loss on foreign exchange	4,160,242	730,841
An analysis of auditors' remuneration is as follows:		
Audit services	116,334	153,742
Total audit fees	116,334	153,742
Other services relating to taxation	9,300	10,000
Other services relating to reporting accountant's work	-	136,416
Total non-audit fees	9,300	146,416

6. EXCEPTIONAL EXPENSE

	2008	2007
	US$	**US$**
Impairment of goodwill	-	16,163,584
	-	16,163,584

The goodwill arose on the reverse acquisition in 2007 referred to in note 27. The directors believe that due to the nature of goodwill arising on a reverse takeover, which will not directly generate cash flows in the legal parent, the recoverable amount of the net assets acquired is less than the carrying value and have therefore recognised an impairment loss in the income statement.

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS

a) Staff costs

The average number of persons including executive directors was:

	2008 No.	2007 No.
Selling	162	169
Technical	352	333
Administration	152	137
	666	639

Staff costs for the above persons were:

	2008 US$	2007 US$
Wages and salaries	17,864,338	11,658,131
Social security costs	3,173,092	2,293,502
Share based payments	301,173	53,250
	21,338,603	14,004,883

b) Directors' emoluments

The directors' emoluments were as follows:

	2008 US$	2007 US$
Aggregate emoluments	835,651	1,130,819
	835,651	1,130,819

	2008 US$	2007 US$
Emoluments of the highest paid director	368,085	433,839
	368,085	433,839

8. FINANCE COSTS

	2008 US$	2007 US$
Interest costs	14,675,946	4,570,943
	14,675,946	4,570,943

9. FINANCE INCOME

	2008 US$	2007 US$
Effect of debt restructuring	-	88,569,685
Interest receivable and similar income	1,203,496	1,279,268
	1,203,496	89,848,953

On 28 March 2007, EDEMSA's management successfully concluded the process of the financial debt restructuring which is described in more detail in note 23.

10. TAX CREDIT ON (LOSS)/PROFIT

	2008 US$	2007 US$
Current tax	291,800	(209,154)
Deferred taxation	(2,130,944)	(8,335,053)
Tax credit	(1,839,144)	(8,544,207)
(Loss)/profit before tax	(12,522,856)	69,581,929
Tax (credit)/charge on (loss)/profit at standard rate of 35%	(4,383,000)	24,353,675
Effects of:		
Expenses not deductible for tax purposes	1,299,041	157,078
Rate difference	-	45,776
Recovery of deferred tax position	-	(29,602,091)
Recovery of minimum notional tax	(8,723)	(12,373,005)
Unrelieved tax losses	1,253,538	3,217,106
Consolidation adjustment with no tax effect	-	5,657,254
Current tax credit	(1,839,144)	(8,544,207)

The tax rate used for the 2008 and 2007 reconciliations above is the corporate tax rate of 35% payable by corporate entities in Argentina on taxable profits under tax law in that jurisdiction.

11. (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share is presented on four bases: basic (loss)/earnings per share; diluted (loss)/earnings per share; adjusted basic (loss)/earnings per share; and adjusted diluted basic/(loss) earnings per share. Basic (loss)/earnings per share is in respect of all activities and diluted (loss)/earnings per share takes into account the dilution effects which would arise on conversion or vesting of warrants in issue. Adjusted basic (loss)/earnings per share and adjusted diluted basic/(loss) earnings per share excludes exceptional items to enable comparison of the underlying (losses)/earnings of the business with prior periods.

	2008	2007
	Cents	**Cents**
Basic (loss)/earnings per share	(8.22)	14.72
Diluted (loss)/earnings per share	(8.22)	13.67
Adjusted basic (loss)/earnings per share	(8.22)	48.30
Adjusted diluted (loss)/earnings per share	(8.22)	44.86
(Loss)/profit for the financial year attributable to equity holders	(9,620,280)	7,083,993
Adjustments:		
Exceptional items	-	16,163,584
Adjusted profit for the financial year attributable to equity holders	(9,620,280)	23,247,577
	No.	**No.**
Weighted average number of shares	117,094,598	48,133,737
Effect of dilutive warrants	-	3,693,146
Diluted weighted average number of shares	117,094,598	51,826,883
	No.	**No.**
Potential number of dilutive warrants	31,300,000	31,300,000
	31,300,000	31,300,000

12. LOSS FOR THE YEAR

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company's loss for the year amounted to US$7,507,327 (2007: US$1,927,062 loss).

13. INTANGIBLE ASSETS

GROUP	Goodwill US$	Exploration US$	Concession US$	Total US$
Cost				
At 1 January 2007	50,550,028	-	-	50,550,028
Additions	-	-	-	-
Disposals	-	-	-	-
Acquisitions	22,599,378	40,587,214	12,356,750	75,543,342
At 31 December 2007	73,149,406	40,587,214	12,356,750	126,093,370
Additions	-	345,174	-	345,174
Disposals	-	-	-	-
Acquisitions	-	-	-	-
Foreign exchange movements	(11,343,093)	(11,189,498)	(1,253,583)	(23,786,174)
At 31 December 2008	61,806,313	29,742,890	11,103,167	102,652,370
Amortisation				
At 1 January 2007	-	-	-	-
Acquisitions	-	-	-	-
Impairment losses	(16,163,584)	-	(91,903)	(16,255,487)
Charge for the year	-	-	-	-
Disposals	-	-	-	-
At 31 December 2007	(16,163,584)	-	(91,903)	(16,255,487)
Acquisitions	-	-	-	-
Impairment losses	-	-	(317,449)	(317,449)
Charge for the year	-	-	-	-
Disposals	-	-	-	-
Foreign exchange movements	4,444,986	-	35,087	4,480,073
At 31 December 2008	(11,718,598)	-	(374,265)	(12,092,863)
Net Book Value				
At 31 December 2008	50,087,715	29,742,890	10,728,902	90,559,507
At 31 December 2007	56,985,822	40,587,214	12,264,847	109,837,883

Goodwill

The goodwill of US$50,550,028 arose on the acquisition of the electricity business in the Province of Mendoza in 1998. The recoverable amount of this asset is determined based on value-in-use calculations. 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 estimated growth rates. The cash flows include estimated assumptions for tariff increases, gross 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 are pre-tax and reflect specific risks relating to the industry.

Goodwill of US$6,435,794 arose on the acquisition of the Group's interest in HASA and is discussed in more detail in note 27. The recoverable amount is determined based on value-in-use calculations. These calculations use the net present value of projected EBITDA and NOPAT (net operating profit after taxes) based on historic performance and calculate a fair value over the remaining term of the concession.

13. INTANGIBLE ASSETS (continued)

Exploration assets

Patagonia Oil & Gas S.A. ("Patagonia") and a subsidiary of the Group are parties to a consortium agreement setting out the terms under which they would participate in public bids in Argentina and South America for permits for exploration and exploitation of hydrocarbons in certain areas. Each party to the consortium agreement has 50% voting rights and equal authority with respect to the administration and governance of the consortium. In economic terms, the Group has a 20% carried working interest and a 3% direct working interest in oil and gas assets acquired by the consortium. Until a licence block is declared commercial, Patagonia is obligated to contribute all funds required to comply with the consortium's obligations under awarded licences, save to the extent of the 3% working interest held by the Group. Such contributions are then recouped out of any proceeds before distribution of profit shares to the two partners.

The Group is also party to a royalty agreement with Andes Oil S.A., under which it will earn a 20% royalty on the value of the marketed hydrocarbons produced in each of the licence blocks after deduction of the Government's royalty and the carried participation of the operator.

Three exploration licences have been awarded to date covering a total of seven blocks. Exploration licences run for an initial period of three years followed by a second exploration period of two years and a final exploration period of one year. At the end of each exploration phase, 50% of the remaining area must be relinquished or converted into an exploitation or evaluation concession.

Exploitation concessions are granted for a period of 25 years although an extension of 10 years may be granted under terms and conditions to be established at the time of the extension.

In addition the Group also has a 20% interest in 2 licence blocks in the province of Neuquen.

Concession assets

The concession assets were acquired as part of the acquisition of HASA and were recognised at fair value at the date of acquisition. The fair value of the assets acquired was determined based on value-in-use calculations.

Under the contracts by which the Group's electricity generation and distribution assets were acquired and are regulated, there are restrictions on use and also obligations to maintain relevant assets with the intention of protecting the services they provide.

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT

GROUP	Network and transformer stations and other works	Buildings and land	Machinery and equipment	Transformers	Work in progress and others	Total
	US$	US$	US$	US$	US$	US$
Cost						
At 1 January 2007	242,711,668	15,312,291	13,296,442	21,570,026	20,976,692	313,867,119
Acquisitions	-	-	5,028	-	2,274,611	2,279,639
Transfers	4,912,151	521,895	891,368	1,121,749	(7,447,163)	-
Grants	-	-	-	-	(1,405,990)	(1,405,990)
Additions	10,228	-	20,290	1,014	11,455,086	11,486,618
Disposals	(127,402)	-	-	(73,510)	(24,334)	(225,246)
At 31 December 2007	247,506,645	15,834,186	14,213,128	22,619,279	25,828,902	326,002,140
Acquisitions	-	-	-	-	-	-
Transfers	4,488,810	-	1,331,165	2,428,555	(8,248,530)	-
Grants	-	-	-	-	(1,134,374)	(1,134,374)
Additions	-	-	131,436	-	11,899,494	12,030,930
Disposals	-	-	-	(718)	(757)	(1,475)
Foreign exchange movements	(25,473,679)	(1,606,367)	(1,562,442)	(2,491,751)	(2,825,480)	(33,959,719)
At 31 December 2008	226,521,776	14,227,819	14,113,287	22,555,365	25,519,255	302,937,502
Depreciation						
At 1 January 2007	(122,998,079)	(2,476,810)	(7,665,387)	(9,194,397)	(8,754,441)	(151,089,114)
Acquisitions	-	-	(3,156)	-	(900,841)	(903,997)
Charge for the year	(5,936,266)	(316,804)	(665,915)	(580,588)	(1,006,274)	(8,505,847)
Disposals	-	-	-	-	-	-
At 31 December 2007	(128,934,345)	(2,793,614)	(8,334,458)	(9,774,985)	(10,661,556)	(160,498,958)
Acquisitions	-	-	-	-	-	-
Charge for the year	(5,900,474)	(310,088)	(751,425)	(642,951)	(1,115,904)	(8,720,842)
Disposals	-	-	-	-	-	-
Foreign exchange movements	13,559,175	308,577	907,599	1,043,847	1,173,146	16,992,344
At 31 December 2008	(121,275,644)	(2,795,125)	(8,178,284)	(9,374,089)	(10,604,314)	(152,227,456)
Net Book Value						
At 31 December 2008	105,246,132	11,432,694	5,935,003	13,181,276	14,914,941	150,710,046
At 31 December 2007	118,572,300	13,040,572	5,878,670	12,844,294	15,167,346	165,503,182

NOTES TO THE FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY	Machinery and equipment	Work in progress and others	Total
Cost	US$	US$	US$
At 1 January 2007	5,028	9,398	14,426
Acquisitions	-	-	-
Transfers	-	-	-
Grants	-	-	-
Additions	5,498	-	5,498
Disposals	-	-	-
At 31 December 2007	10,526	9,398	19,924
Acquisitions	-	-	-
Transfers	-	-	-
Grants	-	-	-
Additions	-	-	-
Disposals	-	-	-
Foreign exchange movements	(2,895)	(2,584)	(5,479)
At 31 December 2008	7,631	6,814	14,445
Depreciation			
At 1 January 2007	(1,896)	(6,812)	(8,708)
Acquisitions	-	-	-
Charge for the year	(1,916)	(2,586)	(4,502)
Disposals	-	-	-
At 31 December 2007	(3,812)	(9,398)	(13,210)
Acquisitions	-	-	-
Charge for the year	(3,069)	-	(3,069)
Disposals	-	-	-
Foreign exchange movements	1,725	2,584	4,309
At 31 December 2008	(5,156)	(6,814)	(11,970)
Net Book Value			
At 31 December 2008	2,475	-	2,475
At 31 December 2007	6,714	-	6,714

15. INVESTMENTS

	The Group		The Company	
	2008	2007	2008	2007
	US$	US$	US$	US$
Non-current assets				
Loans to other entities	4,193,190	4,576,208	-	-
Investment trusts	6,259,356	-	-	-
	10,452,546	4,576,208	-	

Loans to other entities

The energy and capacity that HASA does not sell in the Argentine term market is sold in the Argentine wholesale market through transactions administrated by the Compañia Administradora del Mercado Mayorista Eléctrico S.A. ("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"). Participating creditor agents were required to invest in such fund the amounts owed to them. Furthermore, participating agents are entitled to share in the benefits of the construction of two new electricity generating companies. The loan detailed above represents the amount invested in the fund and is carried at amortised cost.

Investment trust

On 17 November 2008, EDEMSA set up an Administration and Guarantee Trust called "Fideicomiso Cuyo". Under the agreement, Prever Fideicomiso S.A. is the trustee and EDEMSA the trustor, beneficiary and ultimate beneficiary.

The trust has been set up to administer assets assigned by the trustor to the trust and the trustee will make investments to increase the value of the assets assigned. During the year, EDEMSA assigned assets that were invested by the trust with a carrying value of AR$21,594,778 at the year-end. The assets held by the trust at the year end include securities issued by EDEMSA; Class D notes with a face value of US$700,000 and Class D certificates with a face value of US$16,367,734.

16. AVAILABLE FOR SALE FINANCIAL ASSETS

	The Group		The Company	
	2008	2007	2008	2007
	US$	US$	US$	US$
Non-current assets				
Unlisted equity securities	8,463	9,418	-	-
Other investments	292,080	-	-	-
Listed government bonds	-	590,153	-	-
	300,543	599,571	-	-
Current assets				
Loans to other entities	-	1,051,367	-	1,051,367
Unlisted equity securities	529,395	1,295,787	529,395	1,295,787
Loans to subsidiaries at cost	-	-	849,223	-
Other investments	195,398	-	-	-
	724,793	2,347,154	1,378,618	2,347,154

16. AVAILABLE FOR SALE FINANCIAL ASSETS (continued)

Loans to other entities

Loans to other entities are carried at amortised cost

Unlisted equity securities

Unlisted equity securities represent investments in equity securities that are not quoted on a recognised stock exchange and are stated at management's best estimate of fair value.

Loans to subsidiaries

Loans to subsidiaries are carried at amortised cost.

Other investments

Other investments are carried at amortised cost.

Listed government bonds

Listed government bonds are stated at fair value at the mid market price quoted at the year end date.

17. INVESTMENTS IN SUBSIDIARIES

	2008 US$	2007 US$
Non-current assets		
As at 1 January	89,983,121	-
Additions	31,895,686	89,983,121
Foreign exchange movements	(31,776,128)	-
As at 31 December	90,102,679	89,983,121

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENTS IN SUBSIDIARIES (continued)

At 31 December 2008 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 principal subsidiary undertakings all have share capital consisting solely of ordinary shares. All interests held are indirect apart from the interest in Andes Energia Argentina S.A., which is direct and the interests in MSO Andes Energia Argentina S.A., Andes Electricidad S.A., Andes Oil S.A. and Andes Oil and Gas S.A., which are partly direct and partly indirect.

	Country of incorporation	Area of operation	Ownership interest %	Activity
Andes Energia Argentina S.A.	Argentina	Argentina	100	Holding
MSO Andes Energia Argentina S.A.	Argentina	Argentina	100	Services
Andes Electricidad S.A.	Argentina	Argentina	100	Holding
Andes Oil S.A.	Argentina	Argentina	100	Oil and gas
Andes Oil and Gas S.A.	Argentina	Argentina	100	Oil and gas
Inversora Andina de Electricidad S.A.	Argentina	Argentina	100	Holding
Mendinvert S.A.	Argentina	Argentina	100	Holding
Sodem S.A.	Argentina	Argentina	100	Holding
Empresa Distribuidora de Electricidad de Mendoza S.A.	Argentina	Argentina	51	Electricity distribution
Hidroelectrica del Sur S.A.	Argentina	Argentina	80	Holding
Hidroelectrica Ameghino S.A.	Argentina	Argentina	47	Electricity generation

On 21 February 2008 the Company exercised the option referred to in note 27 and completed the acquisition of the remaining 50% indirect interest in SODEMSA for a consideration of US$33,637,333 plus costs of US$269,079 at a rate of US$2 to £1. The final terms include the possibility, in the event of higher than anticipated future tariff increases, of a small-earn out payment, which, if it crystallises, may be satisfied in cash or through the issue of new Andes shares at the Company's option. As a consequence, Andes now owns the entire issued share capital of SODEMSA, which has a 51% controlling interest in EDEMSA.

The Company is deemed to control HASA by virtue of its controlling interest of 80% in Hidroelectrica del Sur S.A. ("HDS"), which in turn has a controlling interest of 59% in HASA.

NOTES TO THE FINANCIAL STATEMENTS

18. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	2008	2007
	US$	US$	US$	US$
Non-current				
Trade receivables	121,466	-	-	-
	121,466	-	-	-
Current				
Trade receivables	12,720,736	12,132,398	-	-
Less: provision for impairment	(4,715,147)	(4,913,688)	-	-
	8,005,589	7,218,710	-	-
Prepayments and accrued income	11,751,960	9,128,429	11,388	110,238
Advances under option agreements	1,254,485	8,035,936	1,254,485	8,035,936
Advance to suppliers	620,008	292,818	2,030	-
Other taxes and social security	3,832,640	4,117,084	5,264	548,690
Grants	1,781,948	1,650,635	-	-
Other debtors	4,841,934	3,750,399	1,801	-
	32,088,564	34,194,011	1,274,968	8,694,864

Trade receivables constitute the only financial assets that fall within the scope of IAS 39.

Trade receivables are non-interest bearing and generally have a 40 to 60 day term. Due to their short maturities, the fair value of trade receivables approximates to their book value.

A provision for impairment of trade receivables is established when there is no objective evidence that the Group will be able to collect all amounts due according to the original terms. The Group considers factors such as default or delinquency in payment, significant financial difficulties of the debtor and the probability that the debtor will enter bankruptcy in deciding whether the trade receivable is impaired.

The directors consider that the carrying amount of other receivables approximates to their fair value.

	The Group		The Company	
	2008	2007	2008	2007
	US$	US$	US$	US$
Provision for impairment of trade receivables				
As at 1 January	4,415,198	4,658,092	-	-
Impairment losses recognised on receivables	560,935	464,235	-	-
Amounts written off as uncollectable	(260,986)	(208,639)	-	-
Amounts recovered during the year	-	-	-	-
Impairment losses reversed	-	-	-	-
As at 31 December	4,715,147	4,913,688	-	-

As at 31 December 2008, trade receivables of US$4,715,147 were impaired (2007: US$4,913,688). As at 31 December 2008 trade receivables of US$3,644,341 were past due but not impaired (2007: US$2,542,383). The ageing analysis of these trade receivables is as follows:

	The Group		The Company	
	2008	2007	2008	2007
	US$	US$	US$	US$
Ageing of past due but not impaired				
Up to 3 months past due	2,224,349	953,391	-	-
3 to 6 months past due	1,419,992	499,988	-	-
Over 6 months past due	-	1,089,004	-	-
	3,644,341	2,542,383	-	-

19. DEFERRED TAX

GROUP Deferred tax asset	Provision for bad debts US$	Notional income tax US$	Provision charges US$	Withholding taxes US$	Other US$	Carry forward US$	Total US$
At 1 January 2007	1,986,009	-	1,553,651	2,980,767	1,708,092	8,709,677	16,938,196
Adjustments in respect of prior periods	-	-	-	(2,980,767)	327,152	-	(2,653,615)
Arising on acquisition	-	-	172,016	-	-	-	172,016
(Charged)/credited to the profit and loss account	129,688	12,373,005	864,820	-	(128,146)	8,825,865	22,065,232
Minimal notional tax paid	-	1,750,855	-	-	-	-	1,750,855
At 31 December 2007	2,115,697	14,123,860	2,590,487	-	1,907,098	17,535,542	38,272,684
Adjustments in respect of prior periods	-	-	-	-	-	-	-
Arising on acquisition	-	-	-	-	-	-	-
(Charged)/credited to the profit and loss account	205,840	-	1,829,633	-	407,932	(1,727,387)	716,018
Minimal notional tax paid	-	1,702,533	-	-	-	-	1,702,533
Foreign exchange movement	(231,342)	(1,571,032)	(411,295)	-	(226,581)	(1,638,774)	(4,079,024)
At 31 December 2008	2,090,195	14,255,361	4,008,825	-	2,088,449	14,169,381	36,612,211

Deferred tax liability	Fair value of property, plant and equipment US$	Write off from intangibles US$	Borrowings US$	Total US$
At 1 January 2007	20,479,321	122,111	-	20,601,432
Adjustments in respect of prior periods	-	-	(2,980,767)	(2,980,767)
Arising on acquisition	1,693,071	-	-	1,693,071
Charged/(credited) to the profit and loss account	(942,608)	3,365,123	11,307,664	13,730,179
At 31 December 2007	21,229,784	3,487,234	8,326,897	33,043,915
Adjustments in respect of prior periods	-	-	-	-
Arising on acquisition	-	-	-	-
Charged/(credited) to the profit and loss account	(876,586)	661,854	(1,200,194)	(1,414,926)
Foreign exchange movement	(2,082,603)	(407,493)	(747,351)	(3,237,447)
At 31 December 2008	18,270,595	3,741,595	6,379,352	28,391,542

No deferred tax asset has been recognised for the Company in respect of timing differences relating to tax losses and accelerated capital allowances, as there is insufficient evidence that the potential asset will be recovered. The amount of the asset not recognised is approximately US$418,296 (2007: US$165,770).

NOTES TO THE FINANCIAL STATEMENTS

20. INVENTORIES

	2008 US$	2007 US$
Raw materials and consumables	4,678,243	3,792,216
	4,678,243	3,792,216

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008 US$	2007 US$	2008 US$	2007 US$
Cash at bank and in hand	2,547,841	2,199,971	(22,771)	(193,998)
Short term bank deposits	-	21,147,260	-	21,147,260
	2,547,841	23,347,231	(22,771)	20,953,262

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

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2008 US$	2007 US$	2008 US$	2007 US$
Current				
Trade payables	7,789,714	5,545,008	231,624	419,079
Social security and other taxes	7,743,848	5,480,447	7,089	116,244
Royalties payable	3,800,260	3,666,799	-	-
Accrued expenses	15,829,374	12,954,050	518,194	888,362
Government payables related to compensation funds	1,349,520	984,640	-	-
Other creditors	2,009,647	1,454,211	-	-
Loans from subsidiaries	-	-	-	-
	38,522,363	30,085,155	756,907	1,423,685

	The Group		The Company	
	2008 US$	2007 US$	2008 US$	2007 US$
Non-current				
Social security and other taxes	1,511,958	1,766,705	-	-
	1,511,958	1,766,705	-	-

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

23. FINANCIAL LIABILITIES

	The Group		The Company	
	2008	2007	2008	2007
	US$	US$	US$	US$
Current				
Bonds	4,959,972	2,550,893	-	-
Bank borrowings	-	-	-	-
Other borrowings	5,329,204	4,014,304	5,000,000	3,697,950
Accrued financial interest	-	-	-	-
	10,289,176	6,565,197	5,000,000	3,697,950

	The Group		The Company	
	2008	2007	2008	2007
	US$	US$	US$	US$
Non-current				
Bonds	66,295,804	66,118,704	-	-
Other borrowings	7,948,439	-	7,948,439	-
	74,244,243	66,118,704	7,948,439	-

Bonds

The bonds represent the amounts owed to EDEMSA's bond holders following the successful restructuring of EDEMSA's debt on 28 March 2007. The previous debt has been de-recognised and the new notes have been recognized at fair value based on the present value of management's best estimate of the expenditure required, taking into account all the requirements established in the agreement with bond holders. 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. EDEMSA has discounted the probable cash flows of the new debt applying a 10.2% annual rate in US$.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

As at 31 December 2008 the following EDEMSA debt securities were in issue:

(i) Class A simple, non-convertible notes with a face value of US$ 1.00 each, due in 2018, for a total amount of US$ 58,650,000.
(ii) Class B simple, non-convertible notes with a face value of US$ 1.00 each, due in 2018, for a total amount of US$ 17,814,969.
(iii) Class D simple, non-convertible notes with a face value of US$ 1.00 each, due in 2018, for a total amount of US$ 14,544,706 and 14,544,706 Class D Certificates, due in 2027.

The basic terms of the securities are as follows:

(i) The notes are direct, unconditional and general obligations of EDEMSA and will be treated, at all times, pari passu with other outstanding present or future non-priority, general obligation notes of EDEMSA, except for notes with priorities according to effective legal regulations. The company may redeem the notes at any time in certain cases.
(ii) The notes provide for the payment of principal on arrears in quarterly installments on 31 March, 30 June, 30 September and 31 December, each year, beginning on 31 March 2007. The annual principal amortization schedule steps up.
(iii) The notes establish that interest will be paid quarterly in arrears on the principal payment dates. The first interest payment date was 31 March 2007.
(iv) The class A and class B notes provide that interest will accrue on the outstanding principal as from the date of issue at a step-up annual fixed rate established in accordance with the following: a 1% interest rate during the first two years as from the date of issue, a 2% interest rate in the third and fourth years and a 4% interest rate as from that year (i.e. from the fifth year onwards).

23. FINANCIAL LIABILITIES (continued)

Bonds (continued)

(v) The class D notes provide that interest will accrue on outstanding principal as from 1 January 2009 at a step-up annual fixed rate established in accordance with the following: no interest will accrue during the first two years as from the date of issue, a 1% interest rate in the third and fourth years and a 3% interest rate as from the fifth year.
(vi)The class D notes include an additional payment with excess cash flows semi-annually from 30 April 2008 to 31 October 2027. This right is represented in the Class D certificates.

Under the agreement with bondholders, EDEMSA must comply with certain covenants including:

(i) Debt/EBITDA ratios
(ii) Capital expenditures restrictions
(iii) Working capital restrictions

The terms and conditions of the notes also include standard commitments for these transactions related to the following:

- Restrictions on liens
- Restrictions on new indebtedness
- Restrictions on transactions with shareholders and related companies
- Restrictions on restricted payments
- Delivery of financial statements
- Restrictions on mergers and consolidations

As of the end of this period, all the above commitments have been fulfilled.

The bonds were fair valued at the time of the debt restructuring and are subsequently carried at amortised cost. The carrying amount of the bonds equates approximately to their fair value. Other borrowings are carried at amortised cost with a fair value of US$8,754,481 (2007: US$4,014,304) using discounted cash flow analysis using a cost of capital for similar types of borrowings.

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

	The Group		The Company	
	2008	2007	2008	2007
	US$	US$	US$	US$
Maturity profile				
Within 1 year	10,715,456	2,637,675	5,468,750	3,697,950
Between 1 and 5 years	44,033,540	38,813,000	14,074,018	-
After 5 years	63,053,601	70,172,000	-	-
	117,802,597	111,622,675	19,542,768	3,697,950
Interest payments	(24,450,577)	(20,613,000)	(6,594,329)	-
	93,352,020	91,009,675	12,948,439	3,697,950

Other borrowings

During 2002, as a result of the economic crisis in Argentina, HDS restructured its debt. All creditors apart from one agreed to the restructure. HDS and this creditor are renegotiating the final amount and payment schedule and HDS has recorded the debt as of 31 December 2008 in other borrowings, at management's best estimate of the debt fair value.

Loan facilities

At the year end the Company had a US$5,000,000 senior secured loan facility repayable within 1 year. Since the year end the Company has successfully refinanced this debt and will now pay a quarterly coupon at an interest rate of 12.75% per annum, with the principal due for repayment by March 2013.

The Company is in the process of formalising a US$ 8,000,000 unsecured loan facility, which the Company expects to carry interest at 12% per annum with principal repayment after 4 years.

NOTES TO THE FINANCIAL STATEMENTS

24. PROVISIONS

	Restoration US$	Legal Claims US$	Total US$
At 1 January 2007	166,792	6,634,271	6,801,063
Additional provisions	-	1,457,543	1,457,543
Used during the year	(166,792)	(710,482)	(877,274)
At 31 December 2007	-	7,381,332	7,381,332
Additional provisions	-	3,739,021	3,739,021
Used during the year	-	(1,498,907)	(1,498,907)
Foreign exchange movements	-	(930,637)	(930,637)
At 31 December 2008	-	8,690,809	8,690,809

Provisions for environmental restoration and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; 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 balance sheet 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.

25. CALLED UP SHARE CAPITAL

	2008 Number of shares	2008 US$	2007 Number of shares	2007 US$
Authorised				
Ordinary shares of 10 pence	500,000,000	100,000,000	500,000,000	100,000,000
Allotted, called up and fully paid				
Ordinary shares of 10 pence	117,094,598	23,418,920	117,094,598	23,418,920

Pursuant to the acquisition on 2 October 2007 referred to in note 27 below, deferred consideration of up to an additional 252,962,962 ordinary shares is payable over the next few years based on certified oil and gas reserves. As at 31 December 2008 no deferred consideration has been recognised in the financial statements as no oil and gas reserves have been certified.

NOTES TO THE FINANCIAL STATEMENTS

26. WARRANTS

The Group has constituted warrant instruments to create and issue warrants to subscribe for ordinary shares. Details of warrants granted are as follows:

At start of year No.	Granted during year No.	Exercised during year No.	At end of year No.	Exercise price	Exercise date from	Exercise date to
1,750,000	-	-	1,750,000	54 pence	July 2005	July 2014
12,000,000	-	-	12,000,000	54 pence	October 2008	October 2012
12,000,000	-	-	12,000,000	54 pence	October 2008	October 2012
3,550,000	-	-	3,550,000	54 pence	October 2008	October 2014
2,000,000	-	-	2,000,000	54 pence	October 2008	October 2010
31,300,000	-	-	31,300,000			

The weighted average remaining contractual life of the warrants is 4.95 years.

All warrants, apart from the 5,550,000 granted to management and advisers, are outside the scope of IFRS2 "Share-Based Payments".

For those warrants outside the scope of IFRS2 "Share-Based Payments" the table below summarises the number of warrants and the associated weighted average exercise price (WAEP) outstanding during the year.

	2008 No.	2008 WAEP	2007 No.	2007 WAEP
Outstanding at 1 January	25,750,000	54 pence	1,796,296	54 pence
Granted during the year	-	54 pence	24,000,000	54 pence
Exercised during the year	-	54 pence	(46,296)	54 pence
Outstanding at 31 December	25,750,000		25,750,000	
Exercisable at 31 December	25,750,000		1,750,000	

For those warrants within the scope of IFRS 2 "Share Based Payments" the table below summarises the number of warrants and the associated weighted average exercise price (WAEP) outstanding during the year.

	2008 No.	2008 WAEP	2007 No.	2007 WAEP
Outstanding at 1 January	5,550,000	54 pence	-	54 pence
Granted during the year	-	54 pence	5,550,000	54 pence
Exercised during the year	-	54 pence	-	54 pence
Outstanding at 31 December	5,550,000		5,550,000	
Exercisable at 31 December	5,550,000		-	

26. WARRANTS (continued)

The fair values of warrants, which fall under the scope of IFRS 2, were calculated using the binomial option pricing model. The estimated fair values of options, which fall under IFRS 2 and the inputs used in the binomial option model to calculate those fair values are as follows:

Date of grant	Number	Estimated fair value	Share price	Exercise price	Expected volatility percentage	Expected life years	Risk free rate percentage	Expected dividends percentage
7 September 2007	3,550,000	21 pence	54 pence	54 pence	35%	7	5.10%	0%
7 September 2007	2,000,000	15 pence	54 pence	54 pence	35%	3	5.21%	0%

The Group recognised expense of US$458,490 related to equity settled share-based payment transaction during the year.

27. ACQUISITIONS

The Company

On 2 October 2007 the Company acquired a 50% interest in SODEMSA and an option over the remaining 50% and in accordance with IFRS 3 "Business Combinations" this transaction has been accounted for as a reverse acquisition.

The Company has been consolidated from the date of the reverse acquisition using the fair value of its assets and liabilities at that date. Using the purchase method of accounting, notional consideration for the acquisition of US$26,033,559, equivalent to the assumed market value of the Company at the date of the reverse, resulted in goodwill on acquisition as follows:

Net assets acquired	Book value	Fair value adjustments	Fair value
	US$	US$	US$
Property, plant and equipment	2,100	-	2,100
Investments	2,275,070	-	2,275,070
Trade and other receivables	1,853,050	-	1,853,050
Cash and cash equivalents	7,086,842	-	7,086,842
Trade and other payables	(1,287,099)	-	(1,287,099)
Deferred tax liabilities	(59,988)	-	(59,988)
	9,869,975	-	9,869,975
Goodwill			16,163,584
Notional consideration			26,033,559

On 21 February 2008 the Company completed the acquisition of the remaining 50% indirect interest in SODEMSA for a consideration of US$33,637,333 plus costs of US$269,079 at a rate of exchange of US$2 to £1. The final terms include the possibility, in the event of higher than anticipated future tariff increases, of a small earn out payment, which, if it crystallises, may be satisfied in cash or through the issue of new Andes shares at the Company's option. As a consequence, Andes now owns the entire issued share capital of SODEMSA, which has a 51% controlling interest in EDEMSA.

In this context, under IFRS, there are two general approaches recognised for accounting for the buy-out of minority interests. These are known as the "economic entity" method and the "parent company" method. Under the parent company method the acquisition of a minority is treated as giving rise to an additional economic interest held by the group or by the parent company equity shareholders. This will result in accounting for additional goodwill as a result of a difference between the consideration and the minority interest acquired. The acquisition of the minority interest has been accounted for under the economic entity method with the purchase viewed as a transaction with a shareholder with the "goodwill" arising being debited to retained profits through reserves.

NOTES TO THE FINANCIAL STATEMENT

27. ACQUISITIONS (continued)

Hidroelectrica del Sur S.A.

On 15 October 2007 the Group acquired 80% of HDS, which controls 59% of HASA, for a consideration of US$13,200,000, which was satisfied by the payment of US$6,000,000 in cash and US$7,200,000 by the issue of 6,666,667 ordinary shares in the Company at 54 pence each. This transaction has been accounted for by the purchase method of accounting.

Net assets acquired	**Book value**	**Fair value adjustments**	**Fair value**
	US$	US$	US$
Intangible assets	13,550,309	(1,193,559)	12,356,750
Property, plant and equipment	1,373,542	-	1,373,542
Investments	71,935	4,666,615	4,738,550
Trade and other receivables	8,554,657	(7,194,222)	1,360,435
Cash and cash equivalents	543,105	-	543,105
Trade and other payables	(503,481)	(25,871)	(529,352)
Borrowings	(391,935)	-	(391,935)
Social security and other taxes	(4,490,723)	-	(4,490,723)
Deferred tax liabilities	(1,415,161)	1,311,406	(103,755)
	17,292,248	(2,435,631)	14,856,617
Minority interest			(8,029,645)
Transaction costs			(62,766)
Goodwill			6,435,794
Total consideration			13,200,000

Net cash outflow on acquisition	**US$**
Total purchase consideration	13,200,000
Less: Non-cash consideration	(7,200,000)
Consideration paid in cash	6,000,000
Less: Cash and cash equivalent balances acquired	(543,105)
	5,456,895

The goodwill is attributable to the profitability of the business.

The concession agreement was executed on 31 October 1994 by and between the Federal Government (the "Grantor") and HASA. Pursuant to the concession agreement the Federal Government granted the concession of the Florentino Ameghino hydroelectric complex to HASA, in order to operate and use the hydroelectric resources and the facilities of the hydroelectric complex for the generation and sale of electricity for a 50 year term. The concession automatically terminates upon expiration of the term.

Pursuant to the concession agreement, the hydroelectric complex assets were assigned by the Federal Government to HASA in 1994. Upon expiration of the concession term these "state-owned assets" shall be transferred by law to the Federal Government, without payment or consideration to the concession operator.

28. MINORITY INTEREST

	2008 US$	2007 US$
At 1 January	118,865,465	26,098,697
Reverse acquisition	-	21,724,625
Exercise of option to acquire minority interest	(38,046,716)	-
(Loss)/profit attributable to minority interests	(1,063,432)	71,042,143
Foreign exchange movements	(8,099,266)	-
Fair value adjustments	(133,427)	-
At 31 December	71,522,624	118,865,465

29. RESERVES

Merger reserve

The merger reserve is a non-distributable capital reserve arising from the issue and allotment of shares at a price higher than the nominal value of the shares and issued to satisfy purchase consideration.

Reverse acquisition reserve

The reverse acquisition reserve is a non-distributable capital reserve arising on consolidation as a result of the business combination with SODEMSA.

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 balance sheet date and income and expense items at the average exchange rates for the period.

Fair Value Reserve

The fair value reserve is a reserve arising from the valuation of certain assets and liabilities at fair value.

30. CAPITAL COMMITMENTS

	2008 US$	2007 US$
Commitments for the acquisition of property, plant and equipment	1,412,784	3,841,098

The Group has a 3% working interest in certain oil and gas assets acquired by the consortium referred to in note 13. Where the consortium has been awarded an exploration permit in respect of a licence block the Group is obligated to contribute 3% of all monetary funds required to comply with and fulfil its contractual obligations imposed under the permit.

The Group has a 20% working interest in 2 licence blocks in the Neuquen basin. The Group is obligated to contribute 20% of all monetary funds required to comply with, and fulfil all contractual obligations imposed under the permit.

31. CONTINGENCIES

(a) Contingent asset

On 3 July 2006, EDEMSA was notified by the Argentine fiscal bureau of the disallowance of a portion of value added tax credits used in prior years. The assessment is based on an objection by that authority that the credits used by EDEMSA derived from drawbacks on exports acquired from third parties.

On 7 August 2006, an appeal was lodged before the General Director of the Argentine fiscal bureau against the administrative resolutions that disallowed the above-mentioned credits.

NOTES TO THE FINANCIAL STATEMENTS

31. CONTINGENCIES (continued)

(a) Contingent asset (continued)

At the date of these financial statements, the Group has charged to profit and loss a payment made to the tax authority as a result of that claim for AR$2,667,163. The Group has received from the tax bureau a demand to pay interest of AR$2,734,301 on the amount claimed and an appeal has been lodged to avoid payment of the interest.

In the opinion of the EDEMSA's tax advisors, the criterion used by the Argentine fiscal bureau is not in line with tax regulations. The directors of EDEMSA believe it will recover this amount from the Argentine fiscal bureau and have taken the necessary steps to enforce its rights in the face of the Tax Authority's claim. Notwithstanding, EDEMSA has accrued the interest requested by the fiscal authority.

(b) Contingent liability

The Company 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 Company 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 Company 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.

Apart from the above there are no other contingencies, other than those which have been specifically provided for in the financial statements.

32. FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, foreign exchange risk, liquidity risk and cash flow and fair value interest rate risk. At 31 December 2008 the Group had not entered into any derivative transactions nor does it trade financial instruments as a matter of policy.

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. A general tariff review was due to be implemented on 1 August 2008 and although this was deferred to 1 February 2009 the official decree has still not been published. The Board remains confident that the new tariff regime will be forthcoming. If the tariff review is 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. The Group has not entered into any derivative arrangements in this connection. 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 and equity securities price risk on quoted equity investments.

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:

32. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

	2008	2007
	US$	US$
Investments	10,452,546	4,576,208
Available for sale financial assets	1,025,336	2,946,725
Trade and other receivables	32,210,030	34,194,011
Cash and cash equivalents	2,547,841	23,347,231
	46,235,753	65,064,175

Foreign exchange risk

The Group is exposed to foreign exchange risk with respect to the AR$/US$. Foreign exchange risk arises from recognised liabilities, mainly bonds. The bonds are denominated in US$, whilst the revenue and expenses of the operating unit are denominated in AR$. The Group continually monitors its position and since the year-end has entered into hedge arrangements with a local bank to cover the payments due for the next 2 quarters and continues to evaluate the availability of longer term hedging for this risk. The Group continues to evaluate all options available to it to minimise this currency risk and has recently secured approval to issue up to an equivalent of US$80 million of debt instruments denominated in AR$ or other foreign currencies at the Board's discretion, which would give the company more flexibility to manage this currency risk. The face value of notes outstanding as at 31 December 2008 was US$90 million (2007: US$91 million). AR$/US$ exchange rate fluctuations impact the results for any period relating to any unhedged amount of the outstanding debt. In 2008, the effect of exchange rate fluctuation was AR$22 million (US$7 million). If the AR$ had weakened a further 5% against the US$ with all other variables held constant, the exchange loss for 2008 would have been AR$12 million (US$4 million) higher.

Capital and liquidity risk

The Group manages its capital to ensure that it remains sufficiently funded to support its business strategy and maximise shareholder value. The Group's funding needs are met through a combination of debt and equity. The Group monitors its net debt position on an ongoing basis. The Group includes within net debt, interest bearing loans and borrowings less cash and cash equivalents. Capital includes share capital, share premium and other reserves and accumulated losses.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises primarily from its bonds. The Bonds only accrue interest at fixed rates. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group does not use derivative instruments to hedge this risk.

33. RELATED PARTY TRANSACTIONS

Directors

During the year the Group paid EP&F Capital plc US$56,191 (2007: US$75,528) in respect of office facilities. Nigel Duxbury is director of EP&F Capital plc. At the period end US$43,805 (2007: US$23,851) was outstanding.

Key Management Compensation

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

	2008	2007
	US$	US$
Salaries and other short term benefits	835,651	1,130,819
Share based payments	106,578	28,650
	942,229	1,159,469

Andes Energia plc

OFFICERS AND ADVISERS

DIRECTORS
Neil Bleasdale (Chairman)
Luis Alvarez Poli (Chief Executive)
Nigel Duxbury (Finance Director)
Marcelo Comba (Non-Executive)
Nicolas Mallo Huergo (Non-Executive)
Keith Wills (Non-Executive)

SECRETARY
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