Grant Thornton

Independent Auditors' Report and financial statements

Kosovo Energy Corporation J.S.C

As at and for the year ended 31 December 2015

Contents

Grant Thornton

Independent Auditors' Report

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To the Shareholders and Management of Kosovo Energy Corporation JSC

We have audited the accompanying financial statements of Kosovo Energy Corporation JSC ("the Company"), which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Emphasis of Matters

We draw attention to the following:

i. As discussed in Note 2.3, the accompanying financial statements have been prepared on the assumption that the Company will continue as a going concern. The Company incurred a positive net result for the year ended December 31, 2015 of EUR 6,688 thousand, resulting in reduction of accumulated losses to EUR 474,910 as of December 31, 2015. Despite the fact that the Company has reported an operational profit for a number of years, the Company is still dependent of long term financing by the Government of Republic of Kosova as discussed in Note 12. Furthermore the Company's future viability is also dependent on the determination of tariffs that it will sell the produced energy to the distributor.

ii. Further to paragraph i above, we note that electricity price is regulated by the Energy Regulatory Office. An impairment analysis on the carrying values of property, plant and equipment is not carried out by the Company due to unpredictable future income stream. However management of the Company believes there is no significant risk of impairment given the regulated prices and the support of the Government of Republic of Kosova.

iii. As explained in Note 5 to the accompanying financial statements, included in the land, buildings and equipment are certain assets, which are under the control of the Company but for which the Company does not possess the appropriate ownership documentation. The Company is in process of obtaining property deeds, however the timing and the outcome of the process cannot be determined with any reasonable accuracy, at this stage.

iv. As disclosed in Note 14 to the accompanying financial statements the Company's activities give rise to the need of significant future costs related to environmental damage and decommissioning of its long term assets. As at December 31, 2015, the balance of provision related to these environmental costs amounts EUR 33,058 thousand (2014: EUR 33,216 thousand). In addition, the Company has disclosed in Note 26, estimated decommission costs which are not recognized as a liability in the Company's financial statements since it is not responsible by the current legislation to carry out the decommissioning of its assets. The ultimate settlement amount of these provisions is dependent upon periodic assessments of environmental impacts and future changes of the legislation in relation to decommissioning liabilities. The actual amounts may materially differ from these estimates.

v. As disclosed in Note 26 to the accompanying financial statements, the Company's financial statements for the years ended December 31, 2009 to 2015 are subject to inspection by local tax authorities. The Company's management used its best estimate and judgment to comply with the tax laws including the use of results of previous tax inspections. However until the completion of the tax authorities' inspection, tax expenses, liabilities and prepayments as disclosed in these financial statements may not be considered finalized. A provision for additional taxes and penalties, if any, that may be levied, cannot be determined with any reasonable accuracy, at this stage.

Our opinion is not modified in respect of the matters as detailed in paragraphs i to v above.

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Grant Thornton LLC

Prishtina, Kosovo
April 22 2016

KOSOVO ENERGY CORPORATION J.S.C.
Statement of financial position as at December 31, 2015

	Notes	2015 (in EUR 000)	2014 (in EUR 000)
ASSETS			
Non-current assets			
Property, plant and equipment	5	331,306	350,274
Intangible assets	6	32	50
		331,338	**350,324**
Current assets			
Inventories	7	18,950	21,190
Trade and other receivables, net	8	21,902	24,627
Income tax receivables		3,203	3,162
Cash on hand and at banks	9	41,121	28,451
		85,176	**77,430**
TOTAL ASSETS		**416,514**	**427,754**
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	10	25	25
Reserves	11	565,735	565,054
Accumulated (losses)		(474,910)	(481,598)
Total Shareholder's equity		**90,850**	**83,481**
Liabilities			
Non-current liabilities			
Borrowings – noncurrent portion	12	189,395	191,952
Deferred grants	13	45,499	52,563
Provisions	14	53,235	53,546
Deferred tax liability	25	11,810	12,491
		299,939	**310,552**
Current Liabilities			
Borrowings – current portion	12	3,065	-
Trade and other payables	15	14,081	24,650
Income tax payables		1,356	2,596
Accrued expenses	16	7,223	6,475
		25,725	**33,721**
Total liabilities		**325,664**	**344,273**
TOTAL EQUITY AND LIABILITIES		**416,514**	**427,754**

These financial statements have been approved for issue on behalf of the Management and signed on its behalf on April 21, 2016.

Mr. Arben Gjukaj
Managing Director

Mr. Salih Bytyqi
Chief Financial Officer

The accompanying notes from 1 to 31 form an integral part of these financial statements.

	Notes	2015 (in EUR 000)	2014 (in EUR 000)
Sales	17	144,545	128,630
Income from grants	18	7,224	7,913
Other income	19	3,160	27,810
		154,929	**164,353**
OPERATING EXPENSES			
Depreciation and amortization	5,6	(39,597)	(41,912)
Staff costs	20	(49,425)	(47,127)
Electricity and other utilities	21	(13,033)	(14,074)
Maintenance costs		(2,344)	(3,289)
Materials and supplies		(9,082)	(8,418)
Lignite royalty fee	16	(24,725)	(21,816)
Release of/Provision for write down of inventories	7	851	(840)
Loss from impairment of receivables	8	(243)	(3,619)
Change in provisions	14	311	1,406
Other operating expenses	22	(7,625)	(7,245)
		(144,912)	**(146,532)**
Profit from operations		**10,017**	**17,821**
Finance expense/(Income), net	23	(1,973)	121
Profit before taxation		**8,044**	**17,942**
Taxation	24	(1,356)	(2,596)
Net Profit for the year		**6,688**	**15,346**
Other comprehensive income for the year			
Items that will not be subsequently reclassified to profit and loss			
- Deferred tax effect on revaluation of property, plant and equipment	25	681	4,661
Total comprehensive income for the year		**7,369**	**20,007**

The accompanying notes from 1 to 31 form an integral part of these financial statements.

	Share capital	Reserves	Accumulated (losses)	Total
	Euro 000	Euro 000	Euro 000	Euro 000
Balance as at January 1, 2015	25	565,054	(481,598)	83,481
Transactions with owners	-	-	-	-
Profit for the year	-	-	6,688	6,688
Other comprehensive income	-	681	-	681
Total comprehensive income	-	681	6,688	7,369
Balance as at December 31, 2015	25	565,735	(474,910)	90,850
Balance as at January 1, 2014	25	560,393	(496,944)	63,474
Transactions with owners	-	-	-	-
Profit for the year	-	-	15,346	15,346
Other comprehensive income	-	4,661	-	4,661
Total comprehensive income	-	4,661	15,346	20,007
Balance as at December 31, 2014	25	565,054	(481,598)	83,481

The accompanying notes from 1 to 31 form an integral part of these financial statements.

	Note	2015 (in EUR 000)	2014 (in EUR 000)
Cash flows from operating activities			
Profit before tax		8,044	17,942
Adjustments for non-cash items:			
Depreciation and amortization	5,6	39,597	41,912
Amortization of grants	18	(7,224)	(7,913)
Interest income	23	(35)	(153)
Interest Expenses	23	2,008	32
Income from released interest payable	19	-	(19,986)
Provision for doubtful debts	8	243	3,619
Provision for environmental and pension costs	14	(311)	(1,408)
Provision for write down/back of inventories	7	(851)	640
Loss on damaged equipment	5,22	-	681
Property, plant and equipment written off	5,22	484	59
Profit before changes in operating assets and liabilities		**41,955**	**35,425**
Decrease/(Increase) in inventories		3,091	106
Decrease/(Increase)in trade and other receivables		2,482	(2,109)
Increase/(Decrease) in trade and other payables and accrued expenses		(9,821)	(2,887)
Cash generated from operating activities		**37,707**	**30,535**
Interest Received		35	153
Interest Paid		(1,500)	(32)
Income tax paid		(2,637)	-
Net Cash flows from Operating Activities		**33,605**	**30,656**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(21,095)	(29,447)
Cash used in investing activities		**(21,095)**	**(29,447)**
Cash flows from financing activities:			
Grants received during the year	13	160	422
Cash generated from financing activities		**160**	**422**
Net increase/(decrease) in cash equivalents		**12,670**	**1,631**
Cash and equivalents at the beginning of the year		28,451	26,820
Cash and equivalents at the end of the year	9	**41,121**	**28,451**

The accompanying notes from 1 to 31 form an integral part of these financial statements

1. BACKGROUND INFORMATION

Kosovo Energy Corporation J.S.C. ("the Company" or "KEK") is shareholding Company incorporated in Kosovo and registered with the Kosovo Business Registration under Reg.No. 70325399 dated December 27, 2005. The Company was transformed into a Joint Stock Company (J.S.C.) under United Nation Interim Administration Mission in Kosovo ("UNMIK") regulation No. 2001/6. The address of its registered head office is: Mother Teresa Street No. 36, 10 000 Prishtina, Kosovo.

The Company's initial registered capital amounts to Euro 25 thousand. The Company's books have been opened as of January 1, 2005 based on the Financial Due Diligence Report as at January 1, 2005 by an independent evaluator.

The Company is 100% subsidiary of Kosovo Energy Corporation Holding J.S.C, where in accordance with Law No. 03/L-087 dated June 13, 2008 on "Law on Publicly Owned Enterprises", Kosovo Energy Corporation J.S.C. "KEK SH.A.", is owned by the Republic of Kosovo.

The Company's principal activities are generation and distribution of electricity, mining activities as extraction of lignite used in its thermal power plants.

The Company's current operational structure consists of the corporate headquarters and the following divisions:

- Lignite Production Division;
- Electricity Production Division - Kosova B;
- Electricity Production Division - Kosova A;

The License of Kosovo Energy Corporation - Generation Division (KEK JSC) - TPP Kosovo A for electricity generation is extended for the period from 4th of October 2015 until 4th of October 2016 (license number ERO / LI_05 / 13_A.) from the Energy Regulatory Office.

The License of Kosovo Energy Corporation - Generation Division (KEK JSC) - TPP Kosovo B for electricity generation is given for the period from 4th of October 2006 until 4th of October 2026 (license number ZRRE_LI_05/13_B) from the Energy Regulatory Office (ERO).

Whereas on 23 December 2014 the License of Kosovo Energy Corporation (KEK JSC), Generation Division "TPP Kosova B", with license number ZRRE/LI_05/13_B, is hereby modified into "Electricity and Thermal Energy Cogeneration License" by the Energy Regulatory Office(ERO) with all the all other provisions of the previous license remain in force.

Kosovo Energy Corporation (KEK JSC), during December 2014 started the project for Thermal Energy Cogeneration where the thermal energy is sold to Termokos J.S.C. in order to ensure of heating supply in Prishtina.

The Government of Kosovo decided and begun the privatization process for KEK Distribution Network and Supply Divisions. Hence, as of May 8th, 2013, the supply network and distribution divisions were no longer operated by KEK.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB").

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of preparation

These financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities, as explained in the accounting policies below. Historical cost is generally based on the consideration given in exchange for an asset.

2.3 Going concern assumption

These financial statements have been prepared on a going concern basis.

In making this assumption, management has taken in consideration the fact that the Company's accumulated losses are still significant and as at December 31, 2015 amount to EUR 475 million (2014: EUR 481 million). However, the Company has generated profits in recent years and subsequent to the unbundling of its Distribution and Supply divisions, it is no longer relying on Government grants to support its operations.

On the other hand, the Company is still relying on long term Government loans which as discussed in Note 12 were reprogramed and the interest accrued was forgiven by the Government. Nevertheless the Company's future viability is also dependent on the determination of tariffs that it will sell the produced energy to the private distributor of the Company.

2.4 Functional Currency

The Company's functional and reporting currency is Euro (EUR), where in accordance with the regulations of the European Monetary Union and instructions issued by the Central Bank of Kosovo, the EUR was adopted as the single legal currency in the territory of Kosovo from January 1, 2002.

2.5 Foreign currency transactions

Transactions denominated in currencies other than EUR are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in currencies other than EUR are included in the profit or loss using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in currencies other than EUR are translated into EUR at the mid-market exchange rate at the date of the statement of financial position. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the profit or loss as foreign exchange translation gains less losses.

2.6 Property, plant and equipment

Items of property plant and equipment as at January 1, 2005 are stated at deemed cost less accumulated depreciation and impairment, whereas items of property plant and equipment purchased subsequent to January 1, 2005 are stated at cost less accumulated depreciation and impairment, if any.

Deemed cost represents the initial values of the assets assessed by the Company with the help of an independent consultant at the time of conversion from a Corporation to a Joint Stock Company as at January 1, 2005.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (continued)

Land and forest is carried at deemed cost and is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Land in mines	6 - 50 years
Buildings	10 - 50 years
Industrial Heavy Equipment	10 - 15 years
Vehicles	6 - 7 years
Furniture, fittings and equipment	5 - 7 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position. 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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the profit or loss.

2.7 Intangible assets

Intangible assets comprise of licensed computer software. These are initially stated at cost and subsequently at their cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recorded when these assets are available for use using straight line method whereby the cost of an intangible asset is written off over its estimated useful life.

The Company has recorded the deemed cost of assets, on January 1, 2005, on gross amount basis, where historical costs and impairment are stated separately and effects of any write offs during the periods are reflected accordingly.

2.8 Impairment of non - financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial instruments

The Company classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. 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 at every reporting date.

Initial recognition and derecognition

Regular-way purchases and sales of financial assets are recognized on trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the profit or loss.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

a) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into the "financial assets at fair value through profit and loss" category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. Financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit or loss in the period in which they arise. The Company has no assets classified in this category.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through profit and loss or available for sale. Loans and receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms.

Trade receivables are classified in this category. They are recognized initially at fair value and subsequently measured at recoverable amounts, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company 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 reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial Instruments (continued)

b) Loans and receivables

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the profit or loss.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Company's management has the positive intention and ability to hold to maturity. These assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debt securities held to maturity is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets and are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognized in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the profit or loss as net realized gains/losses on financial assets. Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit or loss. Dividends on available-for-sale equity instruments are recognized in the profit or loss when the Company's right to receive payments is established. Both are included in the investment income line. The Company has no assets classified in this category.

Fair Values

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis etc.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Inventories

Materials, spare parts and consumables, principally relate to power plant, transmission and distribution network maintenance, and are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method and includes expenditures incurred in acquiring the inventories and bringing them to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Materials and spare parts are expensed or capitalized to plant, as appropriate, when installed. A provision for slow moving and obsolete inventories (excluding coal and fuel) is recognized in the profit or loss, based on the management best estimate.

Lignite: The Company extracts its coal, which is used in the production process for the generation of electricity at its thermal power plants, from the two mines it operates. Lignite stocks are stated at cost, which comprises direct costs of extraction and an appropriate portion of those overheads that have been incurred in extracting it.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and with banks. For cash flow purposes cash and cash equivalents represent cash on hand and unrestricted deposits at banks with a maturity period of three months or less.

2.12 Borrowings

Borrowings represent the loans obtained from financial and government institutions and are measured at their fair value at the time of initial recognition, being the fair value of the consideration received net of the transaction costs incurred. Subsequent to initial recognition borrowings are recognized at amortized cost using the effective interest rate method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognized as part of the cost of that asset. All other borrowing costs are recognized as an expense in the period in which it incurs.

2.13 Trade and other payables

Liabilities for trade and other amounts payable are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received whether billed to the Company or not.

2.14 Retirement benefit costs

The Company makes no provision and has no obligation for employees pensions over and above the contributions paid into the Kosovo Pension Saving Trust (KPST).

2.15 Taxation

Taxation has been provided for in the financial statements in accordance with Kosovo tax regulations in force from 01 September 2015, Law no.05/L -029 "On Corporate Income Tax". The income tax charge in the profit or loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates in force at the date of the statement of financial position. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and are accounted for using the balance sheet method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity like previously revalued PPE treated as deemed cost on transition to IFRS, in which case the deferred tax is also dealt with in equity. Subsequent measurement to the deferred tax liability is also accounted in equity as other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2.16 Revenue recognition

Revenue from sale of electricity is recognized when electricity is supplied to customers. Billings for electricity sale are made every month within the first few days of the month following the month in which the supply of electricity was performed.

2.17 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to the profit or loss on a systematic and rational basis over the useful lives of the related assets.

Additionally the company receives government grants for purchase of electricity when needed. The company defers such grants until the purchase electricity has been delivered and invoiced to the subscribers, which normally occurs within the year.

2.18 Provisions

A provision is recognized when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation.

2.19 Related parties

Related parties are those where one of the parties is controlled by the other or has significant influence in making financial or business decisions of the other party.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Commitments and contingencies

Contingent liabilities are not recognized in the financial statements. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. The amount of a contingent loss is recognized as a provision if it is probable that future events will confirm that, a liability incurred as at the date of the statement of financial position and a reasonable estimate of the amount of the resulting loss can be made.

2.21. Events after reporting date

Post-year-end events that provide additional information about a Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3 Critical judgments in applying the Company's accounting policies

There are no critical judgements, apart from those involving estimations (see 3.1 below), that the management have made in the process of applying the Company's accounting policies and that have the significant effect on the amounts recognised in these financial statements.

3.1 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying of the assets and liabilities within the next financial year.

Impairment and useful lives of property, plant and equipment

As described in note 2.6 above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Any change in continued use of properties or other factor may impact the useful lives of assets and accordingly may significantly change the carrying amount of those assets.

The carrying amount of property, plant and equipment is dependent upon the decisions of the independent energy regulator of Kosovo on determination of energy tariffs. Future changes in the level of tariffs may have significant impact on the carrying amount of the Company's assets.

Provision of receivables and inventories

In normal course of business, the Company makes estimation for recovery and realisation of receivables and inventories respectively. Based on this assessment, management records an appropriate provision for impairment of receivables and write-down of inventories. Actual results may differ from estimation.

Assessment of legal cases:

In normal course of business, the Company makes estimation for settlement amounts of legal cases as guided by the legal counsel of the Company. On the basis of this estimation, the Company accordingly records the provisions, if any, or discloses the contingent liability. Actual results may differ from estimation.

Assessment for environmental, decommissioning and other related matters

Currently there is no binding legal requirement for environmental, decommissioning and other related provisions in Kosovo. The Company regularly performs its internal assessments for such provisions and recognizes them depending on the nature and circumstances around those provisions. Depending on the nature and size of the operations of the Company in future and further on any possible change in legal framework in Kosovo, actual results may differ from the assessments of the Company.

4. Changes in accounting policies and disclosures

a) New and revised standards that are effective for annual periods beginning on or after 1 January 2015

Defined Benefit Plans: Employee Contributions' (Amendments to IAS 19) came into mandatory effect for the first time in 2015 but the Company had the chance to early adopt these Amendments in 2014. The amendments to IFRSs that became mandatorily effective in 2015 have no impact on the Company's financial results or position. Accordingly, the Company has not made changes to its accounting policies in 2015.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Company. Information on those expected to be relevant to the Company's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Companies accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Company's financial statements.

IFRS 9 'Financial Instruments' (2014)

The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The Company's management has yet to assess the impact of IFRS 9 on these financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for reporting periods beginning on or after 1 January 2017. The Company's management has assessed the impact of IFRS 15 on these financial statements

Amendments to IFRS 11 Joint Arrangements

These amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance.

The amendments are effective for reporting periods beginning on or after 1 January 2016. The Company's management has assessed the impact of IFRS 11 on these financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

	Land and forest (in EUR 000)	Land in mines (in EUR 000)	Buildings (in EUR 000)	Equipment (in EUR 000)	Construction in progress (in EUR 000)	Total (in EUR 000)
Cost/Deemed costs:						
As at January 1, 2014	**11,437**	**39,646**	**35,089**	**506,410**	**15,338**	**607,920**
Additions	-	101	1,990	22,817	4,539	29,447
Written off	-	-	(27)	(292)	-	(319)
Internal transfers	52	137	308	9,228	(9,725)	-
Removal of damaged assets	-	-	-	(1,316)	-	(1,316)
As at December 31, 2014	**11,489**	**39,884**	**37,360**	**536,847**	**10,152**	**635,732**
As at January 1, 2015	**11,489**	**39,884**	**37,360**	**536,847**	**10,152**	**635,732**
Additions	-	-	530	17,800	2,765	21,095
Written off	-	-	(1,010)	(775)	-	(1,785)
Internal transfers	-	14	403	1,558	(1,975)	-
As at December 31, 2015	**11,489**	**39,898**	**37,283**	**555,430**	**10,942**	**655,042**

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and forest (in EUR 000)	Land in mines (in EUR 000)	Buildings (in EUR 000)	Equipment (in EUR 000)	Construction in progress (in EUR 000)	Total (in EUR 000)
Accumulated depreciation:						
As at January 1, 2014	-	11,768	17,388	215,302	-	244,458
Charge for the year	-	592	1,791	39,512	-	41,895
Removed on written off assets	-	-	(13)	(247)	-	(260)
Removed on damaged assets	-	-	-	(635)	-	(635)
As at December 31, 2014	-	12,360	19,166	253,932	-	285,458
As at January 1, 2015	-	12,360	19,166	253,932	-	285,458
Charge for the year	-	794	1,430	37,355	-	39,579
Removed on written off assets	-	-	(654)	(647)	-	(1,301)
Removed on damaged assets	-	-	-	-	-	-
As at December 31, 2015	-	13,154	19,942	290,640	-	323,736
Net book value:						
As at December 31, 2014	11,489	27,524	18,194	282,915	10,152	350,274
As at December 31, 2015	11,489	26,744	17,341	264,790	10,942	331,306

As at December 31, 2015 and 2014, the Company's equipment and mining assets are collateralized against borrowings from loan from Ministry of Finance (see Note 12).

Included in the 'land', 'buildings' and 'equipment' are certain properties, which are under the control of the Company but for which the Company does not possess the appropriate ownership documentation. The Company is in process of resolving matter and to complete the documentation with the assistance of Government of Kosovo.

5.1 Accidental damage
On June 6, 2014 the electrolysis unit of power plant Kosovo A ("TCA"), suffered from accidental material damage that caused unit A4 and A5 of the plant to drop from system, while unit A3 was disconnected according to the procedures manual. Unit A4 and A5 was sent to immediate capital overhaul. The Company has made assessment of the damage incurred, based on which damaged assets were removed from the accounts. Their net carrying value amount EUR 681 thousand and was charged against current profit and loss (see Note 22).

5.2 Property, plant and equipment written off
During 2015 the Company wrote off against current profit and loss, items of property, plant and equipment net carrying value of which amount EUR 484 thousand (2014: EUR 59 thousand) (see Note 22).

6. INTANGIBLE ASSETS

The intangible assets in the statement of financial position are analyzed as follows:

	Software (In EUR 000)
Cost/deemed cost:	
Balance as at January 1, 2014	245
Additions during the year	-
Transfers	-
Write off	(13)
Balance as at December 31, 2014	**232**
Additions during the year	-
Transfers	-
Write off	-
Balance as at December 31, 2015	**232**
Accumulated amortization:	
Balance as at January 1, 2014	178
Amortization for the year	17
Write off	(13)
Balance as at December 31, 2014	**182**
Amortization for the year	18
Write off	-
Balance as at December 31, 2015	**200**
Net book value as at December 31, 2014	**50**
Net book value as at December 31, 2015	**32**

7. INVENTORIES

The inventories in the statement of financial position are analyzed as follows:

	2015 (in EUR 000)	2014 (in EUR 000)
Materials and consumables	31,161	32,054
Lignite	3,743	6,149
Fuel	1,741	1,388
Spare parts	10,781	10,984
Others	10,378	10,320
	57,804	**60,895**
Provision for obsolete inventories	(38,854)	(39,705)
	18,950	**21,190**

Movements in inventory provision account are presented as follows

	2015 (in EUR 000)	2014 (in EUR 000)
Balance at 1 January	(39,705)	(39,065)
Release/(Charge) for the Period	851	(640)
Balance at 31 December	**(38,854)**	**(39,705)**

8. TRADE AND OTHER RECEIVABLES

The trade receivables in the statement of financial position are analyzed as follows:

	2015 (in EUR 000)	2014 (in EUR 000)
Trade receivables:		
Local customers	46,262	44,093
Foreign customers	3,974	3,744
	50,236	**47,837**
Provision for bad debts	(31,467)	(32,147)
	18,769	**15,690**
Other receivables:		
Advances to suppliers	1,948	6,432
Other receivables	2,706	3,103
	4,654	**9,535**
Provision for other receivables and advances	(1,521)	(598)
Total other receivables	**3,133**	**8,937**
Total	**21,902**	**24,627**

8 TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements in Provision for bad debts and other receivables are shown as follows:

	2015 (in EUR 000)	2014 (in EUR 000)
Balance at 1 January	(32,745)	(23,158)
Reclassified from provisions (see Note 14)	-	(5,968)
Charge for the Period	(243)	(3,619)
Balance at 31 December	**(32,988)**	**(32,745)**

Subsequent to the transfer of the Distribution and Supply divisions, KEK entered into an agreement with KEDS to assign to KEDS the collection of outstanding receivables and KEK has written off all the amounts receivable from individual and commercial clients, which were already fully provided for. The Gross amount of these receivables on the date of transfer was Eur 416 million and the balance as at December 31, 2015 is 403 million (2014: EUR 404 million).

Provisions are created for the following bad debts:

	2015 (in EUR 000)	2014 (in EUR 000)
Keds JSC	21,177	20,748
Trepca	5,605	5,605
Ferronikel	748	748
Provision for EPS Serbia and Kesh - Albania – Exports	3,743	3,743
Termokos	-	945
Costumers	194	358
	31,467	**32,147**
Rima Engineering	198	198
Wibrem	193	193
Alstom	295	-
Other Costumers	835	207
	1,521	**598**
Balance at 31 December	**32,988**	**32,745**

9. CASH ON HAND AND AT BANKS

	2015 (in EUR 000)	2014 (in EUR 000)
Current accounts with banks	41,118	28,450
Cash on hand	3	1
	41,121	**28,451**

Current accounts with banks bear interest in the range of 0.022% per annum (2014: 0.43% to 0.57% per annum). The fair value of cash at banks and on hand is Euro 41,121 thousand (2014: Euro 28,451 thousand).

10. SHARE CAPITAL

As at December 31, 2015 and according to the Business Registration issued by the Kosovo Business Registration Agency under Business Reg. No. 70325399, total subscribed capital amounts to EUR 25 thousand (2014: same). It comprises of 25,000 ordinary shares at 1 (one) EUR per share. The Company's sole shareholder is Government of Kosovo.

11. RESERVES

Reserves, which at 31 December 2015 amount to EUR 565,735 thousand (2014: EUR 565,054 thousand) have been initially accounted for in the Company's books as difference between the registered share capital and the value of the Company's net assets as determined by independent valuation at the date of its incorporation as JSC (January 1, 2005). These reserves are removed on the disposal of the related assets. Further these reserves are not available for distribution to shareholder.

Reserves also include the deferred tax effect (release of deferred tax liability) initially created based on the revaluation of property, plant and equipment upon transition to IFRS (see Note 25).

12. BORROWINGS

The Company has received long-term & short term loans from the Government of Republic of Kosova, as follows:

	2015 (in EUR 000)	2014 (in EUR 000)
Non–current portion		
Interest bearing loan from Ministry of Finance	189,395	191,952
	189,395	**191,952**
Current portion		
Interest bearing loan from Ministry of Finance	2,557	-
Accrued Interest	508	-
	3,065	**-**
Total borrowings	**192,460**	**191,952**

Government loans:

On 08 April 2015, the Government of Republic of Kosova represented by the Ministry of Finance has decided to redesign the KEK loans and rearrange them in two loans. With the same agreement and the decision of the Government of Republic of Kosova dated 24 March 2015, the accrued interest up to 31 of December 2014 was forgiven. Income released based on this decision amounts EUR 19,986 thousand and is recognized in the current profit and loss (see Note 19).

The first loan in amount of EUR 166,387 thousand is for Mines and the principal and interest are repayable in 18 years in 36 equal installments except for the first interest payment of EUR 1,500 thousand which is payable on 15 October 2015.The principal and interest are payable starting from 15 October 2017 and carries interest at the rate of 2.5% p.a at maximum. The loan is secured against pledge of company's' property plant and equipment (see Note 5).

The second loan in amount of EUR 25,565 thousand is for generation and the principal and interest are repayable in 9 years in 18 equal installments starting from 15 April 2016 and carries interest at the rate of 2.5% p.a at maximum. The loan is secured against pledge of company's' property plant and equipment (see Note 5).

12 BORROWINGS (CONTINUED)

The repayment plan of the loans is as follows:

	Total (in EUR 000)
Within 12 months	3,065
2017	6,716
2018	10,876
2019	10,876
After 2019	160,927
	192,460

13. DEFERRED GRANTS

The Company has received various grants from the Government of Republic of Kosova as follows:

	2015 (in EUR 000)	2014 (in EUR 000)
As at January 1,	**52,563**	**60,054**
Grants received during the year	160	422
Amortized during the year (Note 18)	(7,224)	(7,913)
Balance as at December 31,	**45,499**	**52,563**

Legal provision:

As at December 31, 2015, the Company has reassessed the possible impact of court cases. The Company believes that the amount of EUR 18,331 thousand (December 31, 2014: EUR 18,372 thousand) is a best estimate for any probable outflow of cash.

Staff pension provision:

Staff provision relates to certain number of ex-employees with whom the Company had service contracts specifying the post-employment benefits owing to certain conditions. The Company recorded this provision based on the recent decision by the Constitutional Court, whereby the Court referred to the Supreme Court to revisit its previous decision in the light of constitutional rights of employees. In prior years, the Company stopped making such contracts and ultimately stopped making such payments. During 2007 based on the Supreme Court's decision in favour of the Company, the Company removed the provision from its books.

15. TRADE AND OTHER PAYABLES

Trade payables are non-inter8est bearing liabilities with domestic and foreign suppliers and are normally settled on a period ranging from 30 days to 180 days.

	2015 (in EUR 000)	2014 (in EUR 000)
Trade Creditors		
Creditor		
Local suppliers	6,560	12,576
Foreign suppliers	2,524	3,493
	9,084	**16,069**
Other current payables		
Salaries to employees	4,053	4,059
Customers advances	298	867
VAT	612	3,476
Other payables	34	179
	4,997	**8,581**
	14,081	**24,650**

16. ACCRUED EXPENSES

Accrued expenses as shown in the statement of financial position are further analyzed as follows:

	2015 (in EUR 000)	2014 (in EUR 000)
Lignite royalty fee	6,953	6,164
Other accrued expenses	270	311
	7,223	**6,475**

Lignite royalty fee represents royalties paid in connection with the mining activities of the Company for extraction of lignite used in the power plants. The royalty tax is Euro 3\ton in 2015 (2014: Euro 3\ton).

Total royalty fee charged in current profit and loss for the year ended 31 December 2015 amounts to EUR 24,725 thousand (2014: EUR 21,616 thousand).

17. SALES

The Company's sales are composed as follows:

	Year ended 31 December 2015 (in EUR 000)	Year ended 31 December 2014 (in EUR 000)
Sale of electricity		
Domestic and industrial customers	137,976	122,359
Households	-	1,479
Export of electricity	1,654	602
	139,630	**124,440**
Other sales		
Sales of coal	3,574	2,744
Other	1,341	1,446
	4,915	**4,190**
	144,545	**128,630**

Domestic and industrial customers in 2015 and 2014 represent energy sold to KEDS after the unbundling of the distribution and supply division on May 8, 2013. The sales of electricity represent actual billed energy to the clients.

18. INCOME FROM GRANTS

Income from grants as presented in the Statement of Comprehensive income is analyzed as follows:

	Year ended 31 December 2015 (in EUR 000)	Year ended 31 December 2014 (in EUR 000)
Amortization of deferred grants related to property, plant and equipment (Note 13)	7,224	7,913
	7,224	**7,913**

19. OTHER INCOME

Other income as presented in the Statement of Comprehensive income is analyzed as follows:

	Year ended 31 December 2015 (in EUR 000)	Year ended 31 December 2014 (in EUR 000)
Collection of client receivables from KEDS	1,224	3,255
Decrease in environmental provisions	158	1,784
Income from rent	40	58
Income from released interest payable (Note 12)	-	19,986
Other income	1,738	2,727
	3,160	**27,810**

With the agreement signed between the Ministry of Finance of the Republic of Kosovo and the Company for reprograming the loans(see Note 12) the accrued interest up to 31 December 2014 was forgiven and the Company has accounted the amount of EUR 19,986 thousand as other income (Note 12).

20. STAFF COSTS

Staff costs presented in the Statement of Comprehensive income is analyzed as follows:

	Year ended 31 December 2015 (in EUR 000)	Year ended 31 December 2014 (in EUR 000)
Salaries, net	40,100	37,947
Pension contributions and personal income taxes	7,644	7,107
Other mandatory allowances	1,681	2,073
	49,425	**47,127**

21. ELECTRICITY AND OTHER UTILITIES

	Year ended 31 December 2015 (in EUR 000)	Year ended 31 December 2014 (in EUR 000)
Fuel	7,233	6,754
Transmission of electricity	4,420	2,417
Gas and water	736	654
Exchange of electricity	644	971
Electricity purchases	-	3,278
	13,033	**14,074**

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2015 (in EUR 000)	Year ended 31 December 2014 (in EUR 000)
Insurance expenses	2,063	1,642
Non-production expenses	1,061	762
Licenses	725	557
Transport services	127	180
Loss from write of off property, plant and equipment (Note 5)	484	59
Loss on damaged property, plant and equipment (Note 5)	-	681
Other	3,165	3,364
	7,625	**7,245**

23. FINANCIAL INCOME/EXPENSES NET

	Year ended 31 December 2015 (in EUR 000)	Year ended 31 December 2014 (in EUR 000)
Interest income	35	153
Interest (expense) on borrowings and delayed payments	(2,008)	(32)
Financial income/(charges), net	**(1,973)**	**121**

24. TAXATION

	Year ended 31 December 2015 (in EUR 000)	Year ended 31 December 2014 (in EUR 000)
Profit before taxation	8,044	17,942
Adjustments for tax purposes:		
Depreciation	5,518	7,596
Loss expenses capitalized	-	*(77)*
Other expenses	-	226
Loss on damaged assets	-	681
Profit before utilization of tax (losses)	**13,562**	**26,368**
Tax (losses) brought forward	-	(407)
Taxable Profit	**13,562**	**25,961**
Income tax expense for the year	**1,356**	**2,596**

According to the Corporate Income Law no.05/L -029 entered into force commencing on 01 September 2015, the Company is required to pay income tax at a rate of 10% on the taxable profit, as calculated in the annual Income Tax Return Statement. In accordance with new Law, tax losses may be carried forward to be set off during the next six years following the year in which the tax loss was incurred.

The Company's financial statements for the years ended December 31, 2009, 2010, 2011, 2012, 2013, 2014 and 2015 are subject to inspection by local tax authorities. Financial statements of the Company for 2005 to 2008 were already inspected by tax authorities, where 2008 report is yet to be issued. The Company's management used its best estimate and judgment to comply with the tax laws including the use of results of previous tax inspections. Owing to use of judgment in complying with certain requirements of tax laws and depending on the tax authorities' assessment, income tax expense for the year ended December 31, 2015 may differ significantly compared to the one reported in these financial statements.

25. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax liabilities relate to items of property plant and equipment revalued as at January 1, 2005 and stated at deemed cost less accumulated depreciation and impairment.

25 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

Deferred tax liability has been calculated as follows:

	Year ended 31 December 2015 (in EUR 000)	Year ended 31 December 2014 (in EUR 000)
Accounting carrying amount	308,907	329,365
Tax carrying amount	(190,805)	(204,459)
Taxable temporary difference	**118,102**	**124,906**
Deferred tax liability at 10%	**11,810**	**12,491**

Total deferred tax liability released through other comprehensive income for the year ended 31 December 2015 amounts EUR 681 thousand (2014: EUR 4,661 thousand).

During 2014, the Company utilized the carried forward losses from 2013 in amount of EUR 407 thousand.

26. COMMITMENTS AND CONTINGENCIES

Commitments:
As at December 31, 2014, the Company has capital commitments of EUR 15,372 thousand (2014: EUR 14,672 thousand). The Company has no operational lease commitments as at year end.

Litigations:
As of the date of these financial statements the Company is involved in 794 lawsuits (2014: 772 cases). Other than provision recognized in these financial statements, the Company believes that there will be no additional provision required against the cases pending in court. Movement in provision for legal cases is as follows:

	Amount of Provision	Number of Cases
31 December 2014	**18,372,527**	**772**
New claims for the period	1,554,318	129
Claims closed during the period	(1,595,452)	(107)
31 December 2015	**18,331,393**	**794**

Tax Litigations
The Company's financial statements for the years ended December 31, 2009 to 2015 are subject to inspection by local tax authorities. During 2015, tax authorities started the tax inspection of financial statements for financial years 2009 and 2010. However no report is issued as at the date of this report.

Financial statements of the Company for 2005 to 2008 were already inspected by tax authorities, where 2008 report is has never been issued. The Company's management used its best estimate and judgment to comply with the tax laws including the use of results of previous tax inspections. Owing to use of judgment in complying with certain requirements of tax laws and depending on the tax authorities' assessment, tax expenses, liabilities and prepayments as at December 31, 2015 and 2014 may differ significantly compared to the one reported in these financial statements.

26. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Bank guarantees:

As at December 31, 2015, outstanding guarantees issued in favor of the Company were amounting to EUR 267 thousand (as at December 31, 2014: EUR 453 thousand).

Decommissioning and clean-up costs:

The Government of Kosovo is committed to decommission TPP 'Kosova A', due to its age and environmental pollution, but also for the fact that Kosovo is a party to the ENCT and must comply with European Directive 2001/80/EC, on the limitation of emissions of certain pollutants into the air from large combustion plants.

Based on the Energy Strategy of the Republic of Kosovo for the period 2009-2018 is foreseen that the Power generation from TPP Kosova A, operating with A3, A4 and A5 units and in line with the European Directive for Large Combustion Plants, the units of TPP Kosova A could be operated until the end of 2017. In relation to this activity, the Government of the Republic of Kosovo issued its Decision No. 22/109, which establishes three working groups for the preparation for decommissioning of TPP Kosova A and other facilities at its location.

Whereas based on the Draft Energy Strategy of the republic of Kosovo for the period 2013-2022 is foreseen that time of decommissioning of TPP Kosova A, is closely linked with the entry into operation of TPP Kosova e Re, in order not to create a shortage of electricity in local capacities. It should also be noted that the dismantling of all units of TPP Kosova A will start immediately after the decommissioning of its active units.

In addition to recognised environment provisions disclosed in Note 14, the Company acknowledges that there are a number of environmental concerns and liabilities arising from the Operations of the Company that require significant cost to rectify. Based on a decommissioning study dated March 15th 2010, such costs are estimated as follows:

	(in EUR million)
Demolition, cleaning and revitalization of the area with a number of supporting facilities serving for five units of Kosova A	28.4
Social issues: which include retraining of workers, socialization, early retirement and other forms of rehabilitations of workers.	5.0
Decommissioning of Gasification and Nitrogen	17.5
'KosovaThengjilli' (Kosova Coal), decommissioning and rehabilitation of the environment in the area of TC Kosova A	5.0
Total estimated	55.9

These costs may not be the ultimate outcome of the cost of settling these obligations and further studies are required and are planned to ascertain the potential liabilities.

The Company however has no current legal liability to settle these obligations as such obligations are not clearly foreseen by the legislation in force. Consequently, it has not recognised a provision in its financial statements.

As of the reporting date there are no new decisions or information available to us which would indicate different approach to the TPP Kosova A units.

27. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of financial assets and financial liabilities in each category are as follows:

	2015 (in EUR '000)	2014 (in EUR '000)
Financial assets		
Loans and receivables (amortized cost)		
Trade and other receivables (Note 8)	21,475	18,793
Cash and cash equivalents (Note 9)	41,121	28,451
	62,596	**47,244**
Financial liabilities		
Other liabilities (amortized cost)		
Trade and other payables	13,783	23,783
Borrowings	192,460	191,952
	206,243	**215,735**

28. FINANCIAL RISK MANAGEMENT

A:- Capital Risk Management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to shareholder through the optimization of the debt and equity balance.

The capital structure of the company consists of borrowings and the equity attributable to equity holder, comprising capital, reserves and retained losses.

Gearing ratio

Management reviews the capital structure on continuously basis. As part of this review, management considers the cost of capital and the risk associated with each class of capital. The gearing ratio at the year-end was as follow:

	2015 (in EUR '000)	2014 (in EUR '000)
Debt	192,460	191,952
Equity	90,850	83,481
Debt to equity ratio	**212%**	**230%**

B:- Credit risk

The Company is subject to credit risk through its selling activities. In this respect, the credit risk for the Company stems from the possibility that different counterparties might default on their contractual obligations. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. Trade receivables are therefore monitored on monthly basis and customers warned promptly.

28. FINANCIAL RISK MANAGEMENT (Continued)

The Company analyzes its receivables based on their origin and nature and not based on their age. Subsequent to the transfer of the Distribution and Supply operations, KEK has significantly reduced its exposure of credit risk.

At 31 December the Company has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The amounts at 31 December, analyzed by the length of time past due, are:

Past due not impaired receivables	2015 (in EUR '000)	2014 (in EUR '000)
Not more than 3 months	845	519
3 – 6 months	412	447
6 – 12 months	298	223
More than 1 year	219	403
	1,774	1,592

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

C:- Market risk

The Company's activities expose it primarily to the financial risk of changes in interest rates, as below in 27(e) and commodity risk in 27(d). The market risk is not concentrated to currency risk, as majority of the transactions of the Company are in local currency.

D:- Commodity risk

Commodity Risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. The Company imports electricity to cover the deficit in the energy balance of Kosovo, thereby exposing the Company to commodity risk.

However, starting from May 2013, KEK is no longer importing energy. Hence, its exposure to commodity risk is limited to export of energy that is not significant for the Company's operations currently.

E:-Interest rate risk

Interest rate risk is comprised of the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and the risk that the maturities of interest bearing assets differ from the maturities of the interest bearing liabilities used to fund those assets (re-pricing risk). The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

Management believes that other than borrowings the Company is not exposed to interest rate risk on its financial instruments. As at December 31, 2015 and 2014, all borrowings are obtained from the Government of Kosovo, who is the 100% shareholder of the Company, with variables interest rates. Given below is the analysis of both financial assets and financial liabilities.

28. FINANCIAL RISK MANAGEMENT (Continued)

	2015 (in EUR '000)	2014 (in EUR '000)
Assets		
Non – interest bearing		
Trade and other receivables	21,475	18,793
Cash and cash equivalents	3	1
	21,478	18,794
Fixed rate interest		
Cash and cash equivalents	41,118	28,450
Liabilities		
Non – interest bearing		
Trade and other payables	13,783	23,783
Variable rate interest		
Borrowings	191,952	191,952

The Company's financial liabilities are with variable interest rate which at maximum can rise up to 2.5% p.a.
The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 2.5% (2014: +/- 2.5%).

	Profit for the year		Equity	
	+ 2.5%	- 2.5%	+ 2.5%	- 2.5%
31 December 2015	4,799	(4,799)	-	-
31 December 2014	4,799	(4,799)	-	-

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

F:-Liquidity risk

Liquidity risk reflects the Company's inability in raising funds to meet commitments. Management closely monitors the Company's liquidity and cash flow position. This includes maintenance of statement of financial position liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customer. As at 31 December 2015 and 2014, the Company's liabilities have contractual maturities (including interest payments where applicable) as summarized below:

As at December 31, 2015	Within 1 Month (in Eur 000)	From 1 to 3 months (in Eur 000)	From 3 to 12 months (in Eur 000)	From 1 year to 5 years (in Eur 000)	Over 5 years (in Eur 000)	Total (in Eur 000)
Trade and other payables	4,053	9,730	-	-	-	**13,783**
Provisions	-	356	359	16,277	36,243	**53,235**
Borrowings (Note 12)	-	-	3,065	28,468	160,927	**192,460**
Accrued expenses	6,953	270	-	-	-	**7,223**
Total liabilities	**11,006**	**10,356**	**3,424**	**44,745**	**197,170**	**266,701**

As at December 31, 2014	Within 1 Month (in Eur 000)	From 1 to 3 months (in Eur 000)	From 3 to 12 months (in Eur 000)	From 1 year to 5 years (in Eur 000)	Over 5 years (in Eur 000)	Total (in Eur 000)
Trade and other payables	4,059	19,724	-	-	-	**23,783**
Provisions	-	356	670	16,277	36,243	**53,546**
Borrowings (Note 12)	-	-	-	31,025	160,927	**191,952**
Accrued expenses	6,164	311	-	-	-	**6,475**
Total liabilities	**10,223**	**20,391**	**670**	**47,302**	**197,170**	**275,756**

G:- Fair value of financial instruments

The fair values of current assets and current liabilities approximate their carrying values due to their short-term nature. The fair value of borrowings as well approximates the fair value because although they are variable interest bearings loans the lender has punctually waived all interests from the company.

In Euro 000	**Carrying amounts**		**Fair values**	
Financial assets	**31-Dec-15**	**31-Dec-14**	**31-Dec-15**	**31-Dec-14**
Trade and other receivables	21,475	18,793	21,475	18,793
Cash and Banks	41,121	28,451	41,121	28,451
Total	**62,596**	**47,244**	**62,596**	**47,244**

In Euro 000	**Carrying amount**		**Fair Value**	
Financial Liabilities	**31-Dec-15**	**31-Dec-14**	**31-Dec-15**	**31-Dec-14**
Trade and other accounts payable	13,783	23,783	13,783	23,783
Borrowings	192,460	191,952	192,460	191,952
Total	**206,243**	**215,735**	**206,243**	**215,735**

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

29. PRODUCTION AND LOSSES OF ELECTRICITY

The Company has two power plants; Kosova A and Kosova B for electricity production purposes. These plants have total operating capacity of 860 MW, and operated at 78.60% of the plants' capacity during 2015 (2014: 68.79%). The production of energy in both plants for 2015 was 5,360,988 MW/h (2014: 4,691,991 MW/h).

	2015	2014
Kosova A	(in MW/h)	(in MW/h)
Unit A3	925,999	984,471
Unit A4	773,348	349,999
Unit A5	357,334	249,417
	2,056,681	**1,583,887**
Kosova B		
Unit B1	1,986,124	1,599,407
Unit B2	1,935,890	2,050,671
	3,922,014	**3,650,078**
Total	**5,978,695**	**5,233,965**
Internal Consumption	(491,155)	(426,567)
Internal Consumption - Kostt	(126,551)	(115,407)
	(617,706)	**(541,974)**
Net energy produced	**5,360,989**	**4,691,991**

During 2014 an accidental explosion occurred in the electrolysis unit of power plant Kosovo A ("TCA"), which affected the power generation capacity of the company. As a result of the explosion unit A5 and A4 of the plant dropped from system, while unit A3 was disconnected according to the procedures manual. Both units were reinstated during the year 2015.

The production of lignite in 2015 was 8,240,994 ton (2014:7,204,211 ton).

Electricity losses:

After the unbundling of the distribution and supply divisions, KEK is no longer exposed to energy losses in the network.

30. RELATED PARTY TRANSACTIONS

In the ordinary course of business, KEK entered into transactions during the financial reporting periods with customers who are Government entities and individuals who are associated with or work for Government entities. The Company has also a related party relationship with its directors and executive officers. The monetary transactions with related parties are disclosed below:

Account	Description of transaction	Year ended December31 2015	Year ended December 31 2014
Borrowings	Ministry of Finance	192,460	191,952
Interest expense	Ministry of Finance	2,000	-
Compensation (salaries)	Executive and non-executive officers	143	142

31. SUBSEQUENT EVENTS

After 31 December 2015 – the reporting date until the approval of these financial statements, there are no adjusting events reflected in the financial statements or events that are materially significant for disclosure in these financial statements.