ENERGY CORPORATION OF KOSOVO

Financial Statements

31 December 2003

Contents

GENERAL INFORMATION

Directors
-Charles Carron Brown-Managing Director
-Ali Hamiti-Operating Director

Members of the Management Board
-Charles Carron Brown-Managing Director
-Ali Hamiti-Operating Director
-Visar Kelmendi-Divisional Financial Manager
-Gazmend Begolo-Divisional Energy Generating Manager
-Muhedin Haxhiu-Divisional Coal Production Manager
-Anton Gojani-Divisional Corporate Service Manager
-Fatime Ahmeti-Divisional Distribution Manager
-Adil Spahiu-Divisional Dispatch & Transmission Manager
-Paloke Berishaj-Divisional HR Manager
-Filanza Hoxha-Divisional Supply Manager
-Shahe Berisha-Divisional Restructuring Manager

Members of Supervisory Board
-Charles Carron Brown-Chairman
-Alis Sadriu-Member

Registered office

Solicitors (In-house)
-Anton Gojani-Head of Legal Administrative Executive Office

Bankers
-Banka e Pagesave te Kosovo (BPK)
Garibaldi Nr.33,Prishtine;
-Raiffeisen Bank Kosova
Luan Haradinaj pa nr.Prishtine
-Banka Kreditore
Tirana Nr.29,Prishtine
-Banka Ekonomike
Regjep Krasniqi Nr.84 Prishtine;
-Banka Private e Biznesit
Bajram Kelmendi Nr.6 ,Prishtine;
-Procredit Banka
Scenderbeu Nr.1 Prishtine;
-Kasabanka
Eqrem Qabeji Nr.1 Prishtina

Auditors
Ernst & Young (Skopje), Ltd.
Marsal Tito 19 Str,
1000, Skopje

INDEPENDENT AUDITORS' REPORT

To the Kosovo Trust Agency and the Management of KEK

We have audited the financial statements of Energy Corporation of Kosovo (“KEK”) on pages 4 to 27, which comprise the balance sheet as of 31 December 2003 and the statement of income, cash flows statement, and the statement of changes in equity for the year then ended, and the related notes. These financial statements are the responsibility of the management of KEK. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in paragraphs a. to f. below, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

a. The financial statements for the year ended 31 December 2002 were audited by other auditors who were unable to express an opinion as to whether those financial statements gave a true and fair view of the Company’s financial position as of 31 December 2002 and results of the operations, changes in equity and cash flows for the year then ended. Furthermore, as disclosed in note 3 to the accompanying financial statements, the comparative figures were restated in order to correct for fundamental errors included in those financial statements issued on 31 March 2003. As the scope of our audit work was limited to the audit of the financial statements for the year ended 31 December 2003, and did not extent to the audit of the previous year’s financial statements we do not express an opinion on the restated comparative figures presented for the year 2002 in these financial statements.

b. We did not observe the counting of the physical inventories as at 31 December 2003 since that date was prior to our appointment as auditors. Owing to the nature of KEK’s records we were unable to satisfy ourselves as to the inventory quantities as at 31 December 2003 by other audit procedures.

   Furthermore, as described in note 3b to the accompanying financial statements, KEK makes provisions based on management's estimates to reflect the decrease in the value of inventories of materials and spare parts due to obsolescence. Owing to the nature of KEK's records we were unable without an independent valuation to determine the reasonableness of KEK's provision for obsolete inventories of materials and spare parts.

c. As disclosed in note 3a to the accompanying financial statements, KEK determined the impairment loss in respect of its property, plant and equipment based on management estimation. The basis used is not in accordance with International Accounting Standard (IAS) 36 “ Impairment of assets”, which requires the calculation of the recoverable amount of the property, plant and equipment, being the higher of the net selling price and the value in use. KEK could not prepare the necessary calculations to comply with the requirements of the IAS 36 and therefore we are not able to determine whether the amount of impairment loss as estimated by the management of KEK reflects fairly the impairment loss as would have been determined by applying the provisions of IAS 36.

d. As disclosed in note 2f to the accompanying financial statements, the land was valued as of 31 December 2002 by using an overall rate of Euro 2.5 per square meter irrespective of the location and the actual use of the land. We were unable to corroborate the basis of the overall rate used for the revaluation of land and therefore we are unable to determine whether land is properly stated at market value.

e. As disclosed in note 12 to the accompanying financial statements the actuarial report for the determination of the pension fund liabilities as at 31 December 2003 were based on unaudited and in some cases incomplete data provided by KEK. Furthermore, due to the lack of the appropriate statistics for Kosovo, the actuarial report assumes mortality and morbidity rates based on available data for the population in other countries, which may not be appropriate for the Kosovo population. As no audit of the financial statements of the pension fund has been carried out and the scope of our audit did not extend to the audit of the pension fund we were unable to determine the accuracy of the estimate for the pension fund liabilities.

In our opinion, except for the effects of such adjustments on the financial statements, if any, as would have been determined had we been able to satisfy ourselves about the matters referred in the preceding paragraphs a. to g., the financial statements present fairly in all material respects, the financial position of the Company as at 31 December 2003 and the results of the Company's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without further qualifying our opinion, we draw attention to the following:

a. The status of Kosovo as a region impacts all aspects of KEK' operations. The regulatory, legal and tax framework of Kosovo are in the early stages of development. The prospects of future economic stability in Kosovo are largely dependent upon the effectiveness of economic measures undertaken by the authorities, together with legal, regulatory and political developments, which are beyond KEK's control. KEK's assets and operations could be at risk if there are any significant adverse changes in the political and business environment. Due to the economic volatility described above, KEK is unable to reasonably predict, with a high degree of reliability, what potential effect the outcome of any future event might have on the financial position of KEK. These financial statements do not include any adjustments, which may be necessary as a result of these events.

b. As disclosed in note 1 to the accompanying financial statements the ownership of KEK is yet unclear. Furthermore, as described in note 6 to these financial statements, ownership issues exist regarding the infrastructure inherited at the commencement of the UN administration of Kosovo. As assets were part of the former Yugoslav Electricity Company there may be ownership claims from that entity that have yet to be resolved.

c. As described in note 15 to the accompanying financial statements, there are no records available to determine the current amount or status of the possible outstanding long-term liabilities that existed prior to the commencement of the UN administration of Kosovo. The nature and extent of any liability, as well as the future obligation for any such liability, is a matter of determination in the future as part of broader consideration.

d. As disclosed in note 2b to the accompanying financial statements, these financial statements have been prepared on the assumption that KEK will continue as a going concern. KEK is currently heavily dependent on grant income to enable it to continue in operation. These financial statements assume that sufficient donor support will be received from the international community to enable KEK to pay its debts as they fall due and do not reflect the adjustments, which would be required to the value of assets and maturity of liabilities if this were not the case.

e. As further discussed in note 5 to the accompanying financial statements, although KEK's books and records have been audited by the tax authorities for various periods, no formal determination of any additional taxes or penalties has been issued by the tax authorities. Therefore, KEK's tax liabilities may not be considered finalized. A provision for additional taxes and penalties, if any, that may be levied cannot, at this stage, is determined with any reasonable accuracy.

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INCOME STATEMENT
For the year ended 31 December 2003

	Note	*2003* *EUR'000*	*2002* *EUR'000*
Revenues			
Energy revenue	4a	105.571	127.744
Grants	4b	52.238	24.460
Other income	4c	3.368	2.445
		162.177	**154.649**
Expenses			
Lignite		38.009	34.651
Depreciation	4d	32.647	45.675
Staff cost	4e	24.323	28.722
Energy purchases	4f	30.172	33.613
Maintenance and insurance	4g	27.404	3.416
Raw materials and consumables		7.069	5.433
Other operating expenses	4h	4.498	7.197
Provision for doubtful accounts	4i	37.813	33.644
Provision for slow moving inventory		96	-
		202.031	**192.351**
Loss from operation		**(39.854)**	**(37.702)**
Financial income, net	4j	78	184
Non operating income		-	9.902
Loss before income taxes		**(39.776)**	**(27.616)**
Income taxes		-	-
Net loss for the year		**(39.776)**	**(27.616)**

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BALANCE SHEET
at 31 December 2002

	Note	2003 EUR'000	Restated 2002 EUR'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**363.721**	**374.748**
Current assets			
Inventories	7	7.947	9.593
Trade and other receivables	8	45.957	38.515
Cash and cash equivalents	9	4.046	4.209
		57.952	**52.317**
TOTAL ASSETS		**421.673**	**427.065**
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	10	675.485	675.485
Accumulated losses		(445.205)	(405.429)
Total equity		**230.280**	**270.056**
Non-current liabilities			
Deferred income from grants	11	133.688	112.283
Accrued Pension fund liabilities	12	20.196	19.723
		153.884	**132.006**
Current liabilities			
Trade and other liabilities	13	32.094	20.582
Accrued expenses	14	5.415	4.421
		37.509	**25.003**
TOTAL EQUITY AND LIABILITIES		**421.673**	**427.065**

General Manager

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June, 2004

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CASH FLOW STATEMENT
For the year ended 31 December 2003

	2003 *EUR'000*	*2002* *EUR'000*
Cash flow from operating activities		
Net loss before income tax	(39.776)	(27.616)
Adjustment for:		
Depreciation.	40.458	52.334
Loss on disposal of property, plant and equipment	-	1.024
Inventory written off	96	957
Provision for doubtful receivables	30.020	33.644
	30.798	**60.343**
(Decrease) in inventory	(1.646)	(7.350)
(Increase) in receivables	(34.179)	(52.250)
(Decrease)/Increase in payables due more than one year	(474)	4.800
Increase in payables due within one year	13.999	25.042
Net cash flow from operating activities	**8.498**	**30.585**
Cash flow from investing activities		
Purchase of property, plant and equipment	(30.419)	(27.175)
Net cash used in investing activities	**(30.419)**	**(27.175)**
Cash from financing activities		
Decrease/(Increase) in long-term receivables	350	(3)
Government grants received	21.403	-
Net cash used in financing activities	**21.753**	**(3)**
Net (decrease)/ increase in cash and cash equivalents	(168)	3.407
Cash and cash equivalents at 1 January	4.214	807
Cash and cash equivalents at 31 December	4.046	4.214

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STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2003

	Share/State Capital EUR'000	***Accumulated Losses EUR'000***	***Total EUR'000***
At 1 January 2002	675.485	(66.870)	608.615
Net loss as previously reported		(27.616)	(27.616)
At 31 December 2002 -as previously reported	675.485	(94.486)	580.999
Correction of fundamental errors (note3)		(310.943)	(310.943)
At 31 December 2002 -as restated	**675.485**	**(405.429)**	**270.056**
Net Loss for the year		(39.776)	(39.776
At 31 December 2003	**675.485**	**(445.205)**	**230.280**

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2003

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1. Corporate information

Korporata Energjetike e Kosoves ("KEK") was established in 1999 by the United Nations Interim Administration Mission in Kosovo (UNMIK) under Regulation No. 1999/12 and commenced its operation in June, 1999.

KEK is a publicly-owned enterprise, administered by Kosovo Trust Agency (KTA) since June 2002, when KTA was established. The legal status of KEK is not yet defined.

KEK's main objective is to facilitate efficient and sustainable operation of electricity service providers in order to ensure the sufficient power supply in Kosovo. KEK's principal activities, as the sole provider of electricity in Kosovo, are the generation, transmission and distribution of electricity. KEK also engages in mining activities for the extraction of the lignite used in its thermal power plants.

KEK's operational structure consists of the corporate headquarters and the following 5 divisions:

-Coal Production Division;
-Electricity Production Division;
-Transmission& Dispatch Division;
-Network Division and
-Supply Division.

The address of the registered office and headquarters of the Company is:
Str.Mother Teresa 36,
38000 Prishtina, Kosovo.

The Board of Directors approved the accompanying financial statements prepared under IFRS on XX June 2004.

2. Summary of significant accounting policies

a. Basis of preparation of financial statements

The financial statements of KEK have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretation Committee Interpretations approved by the IASC that remain in effect.

The financial statements of KEK have been prepared on the historical cost basis, except for the revaluation of property, plant and equipment as explained in note 2e below.

The reporting currency of KEK is the European Currency Unit (EUR). In accordance with the regulations of the European Monetary Union and instructions issued by the Banking and Payments Authority of Kosovo (BPK), the EUR was adopted as the single legal currency in

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2003

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2. Summary of significant accounting policies (continued)

a. Basis of preparation of financial statements (continued)

the territory of Kosovo from 1 January 2002 and, consequently, the German Mark (DEM) denominated amounts (the original reporting currency for the year ended 31 December 2001) were converted into EUR as at 1 January 2002 using the fixed exchange rate of EUR 1 = DEM 1.95583.

b. Going concern basis of accounting

These financial statements have been prepared on the assumption that KEK will continue as a going concern. KEK is currently heavily dependent on grant income to enable it to continue in operation. These financial statements assume that sufficient donor support will be received from the international community to enable KEK to pay its debts as they fall due and do not reflect the adjustments, which would be required to the value of assets and maturity of liabilities if this were not the case.

c. Changes in accounting policy

KEK adopted the alternative treatment of IAS 16 for the measurement of property, plant and equipment, resulting in a change in accounting policy. Property, plant and equipment at 31 December 2002 are carried at revalued amount, as explained in note 2e below.

Prior to the adoption of the alternative treatment of IAS 16, KEK recorded property, plant and equipment at cost upon their acquisition less accumulated depreciation and accumulated impairment losses.

d. Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

e. Reclassifications

Certain reclassifications have been made as necessary to prior year balances to conform to current year presentation.

f. Property, plant and equipment

The Company adopted the alternative treatment allowed by IAS 16 for the measurement, of its entire property, plant and equipment. According to the alternative treatment of measurement, property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2003

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2. Summary of significant accounting policies (continued)

f. Property, plant and equipment (continued)

KEK engaged independent professionally qualified valuers for the purpose of the revaluation of property, plant and equipment. The effective valuation date was 31 December 2002.

The valuation method used for all categories of property, plant and equipment, except land, was that of the depreciable replacement cost. Land was valued at estimated market value based on an overall rate of Euro 2.5 per square meter.

Revaluations will be made with sufficient regularity such that the carrying amount would not differ materially from that which would be determined using fair value at the balance sheet date.

The surplus arising on revaluation is taken to a revaluation reserve.

The carrying values of property, plant and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

Subsequent expenditures are capitalised when they appreciably extend the life, increase the earning capacity or improve the efficiency of property, plant and equipment. Repairs and maintenance are charged to expenses as incurred.

Depreciation is charged by applying straight-line basis on the assets using the following rates. No depreciation is provided on construction in progress until the constructed assets are put into use.

Buildings	2%-5%
Production equipment and machinery	7%-10%
Motor vesicles	15%
Office equipment	15%
Computers	20%

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2003

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2. Summary of significant accounting policies (continued)

g. Financial instruments

Financial assets and liabilities carried on the balance sheet include cash, cash equivalents, receivables, and liabilities. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies included in this note. Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the related contractual arrangement. Interest, gains and losses relating to financial instruments classified as assets or liabilities, are reported as income or expense, respectively. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

(i) Fair value of financial instruments: The carrying amounts reflected in the accompanying balance sheets for cash and cash equivalents, receivables, and current liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

(ii) Credit risk: KEK has no significant concentrations of credit risk with any single counter party. The maximum exposure to credit risk is represented by the carrying amount of each asset in the balance sheet.

(iv) Market risk: KEK has not entered into any hedging transactions to cover its exposure to price movements arising from the purchases of energy.

g. Inventories

Materials and spare parts – Materials and spare parts principally relate to power plant, transmission and distribution network maintenance and are stated at the lower of cost or net realizable value, the cost being determined using the weighted average method. These materials are recorded in inventory when purchased and then are expensed or capitalized to plant, as appropriate, when installed. A provision for slow moving materials and spare parts is accounted for in the financial statements.

Lignite – KEK 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. Consumption of lignite is separately reflected in operating expenses in the accompanying financial statements.

h. Trade receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any un-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2003

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2. Summary of significant accounting policies (continued)

i. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, short term deposits with an original maturity of three months or less. For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

j. Revenue

Revenues from sale of electricity comprise the invoiced value of electricity supplied. Billings for electricity sales are made every month within the first ten (10) days of the month following the month in which the consumption of electricity was performed.

k. Post-retirement benefits and severance payment

Post-retirement benefits

Supplementary Employer Pension- means a pension provided to employees by the Employer.For the management of these pension assets Pension Fund is established as not-for-profit legal entity in the form of trust. Its operates through Charter signed by highest governing body. A defined Benefit Pension Fund is required to obtain Actuarial Valuation on every 5 years. Actuarial Valuation must include a funding schedule illustrating the prospective funding of all vested rights and all accrued services of participants within a timing period no less than 20 years.

Early separation and Severance payment

KEK is obliged to pay a severance payment to employees made on early separation as a result of reorganization or other business plan or when the employee has reached the age of 60 years. The severance payment to the employees range from one month's salary up to five months' salaries depending on the years of service of the employees. KEK has not provided for the employees' accrued entitlement for severance payment on early separation, as this amount would not have a material effect on the financial statements.

l. Income tax

Deferred taxation is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, if any.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be

2. Summary of significant accounting policies (continued)

l. Income tax (continued)

available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

m. Foreign exchange transactions

Foreign exchange transactions are recorded at the rate ruling at the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Resulting exchange differences are taken to the income statement.

n. Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and it is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

o. Provisions and Contingencies

Provisions are recognized when KEK has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the present value of the expenditure expected to be required to settle the obligation. Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility if an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an outflow of economic benefits is probable.

NOTES TO THE FINANCIAL STATEMENTS
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3. Restatement of fundamental errors

The comparative balance sheet figures for the year ended 31 December 2002 have been restated in order to reflect the corrections of errors contained in last year's financial statements. It has not been possible to split the effect of these adjustments between 2002 and prior years and therefore the total restatements have been adjusted to equity.

	EUR'000
Impairment of property, plant and equipment (see a. below)	(253.324)
Allowance for slow moving inventory (see b. below)	(27.698)
Double counting of inventory (Note 7)	(12.082)
Provision for Pension Fund (Note 12)	(14.922)
Presumptive tax not provided	(4.543)
Recognition of lignite inventory	1.913
Royalties on lignite extraction not accounted for	(905)
Prior year expenses not recorded	(2.062)
Other	2.680
	(310.943)

a. Impairment of property, plant and equipment

KEK experiences significant energy losses, which give an indicating the impairment of its property, plant and equipment. In view of these conditions KEK has estimated the impairment loss of its property, plant and equipment as at 31 December 2002 by benchmarking with other electricity companies in neighbouring countries. KEK did not have the necessary data and information available to carry out the calculations, as required by International Accounting Standard 36 “Impairment of assets”, of the recoverable amount, being the higher of the net selling price or the value in use. Management believes that the method of estimation used is a fair approximation of the impairment loss.

b. Allowance for slow moving and obsolete inventory

KEK did not make a provision in respect of slow moving and obsolete inventory in last year’s financial statements, in order to present inventories at the lower of cost or net realizable value in accordance with International Accounting Standard 2 “Inventories”. This provision has been estimated on average at 80% of the value of the inventories at 31 December 2002. (see note 7).

NOTES TO THE FINANCIAL STATEMENTS
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4. Revenues and expenses

a. Energy revenues

	2003	2002
	EUR '000	EUR'000
Consumers of electricity (110KW)	2.584	
Commercial customers of electricity (35KW, 10KW and 0,4KW)	30.910	
Consumers of electricity	66.902	
	100.396	106.204
Export of electricity	1.324	16.813
Sale of coal-in home	2.023	1.729
Sale of coal-export	27	
Other energy related sales	1.801	2.998
	5.175	21.540
	105.571	**127.744**

b. Grants

	2003	2002
	EUR'000	EUR'000
Electricity imported	12.828	22.963
Repairs and maintenance TCB	23.007	-
Released from deferred income (Note 11)	5.846	1.497
Fuel	2.576	-
Other	8.981	-
	53.238	**24.460**

c. Other income

	2003	2002
	EUR'000	EUR'000
Liabilities written off	2.159	-
Other non-operating revenue	1.071	1.744
Prior year revenue	-	429
Other	138	272
	3.368	**2.445**

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2003

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4. Revenues and expenses (continued)

d. Depreciation

	2003	2002
	EUR'000	EUR'000
Total depreciation charge (Note 6)	40.459	52.337
Less: Included in Lignite production	(7.812)	(6.662)
	32.647	**45.675**

e. Staff costs

	2003	2002
	EUR'000	EUR'000
Wages and salaries	38.848	34.413
Pension Fund	-	7.200
Other benefits	639	1.303
	39.487	**42.916**
Less included in:		
Lignite production	(15.164)	(14.194)
	24.323	**28.722**

At 31 December 2003 KEK had 8.843 employees (2002: 9.821 employees).

f. Maintenance and insurance

	2003	2002
	EUR'000	EUR'000
Maintenance and repairs	27.669	3.358
Insurance	119	117
	27.788	**3.475**
Less included in:		
Lignite production	(384)	(59)
	27.404	**3.416**

NOTES TO THE FINANCIAL STATEMENTS
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4. Revenues and expenses (continued)

g. Energy purchases

	2003	2002
	EUR '000	**EUR '000**
Electricity	17.932	21.683
Fuel	13.296	13.278
Gas and water	621	447
	31.849	**35.408**
Less included in:		
Lignite production (fuel)	(1.677)	(1.795)
	30.172	**33.613**

h. Other operating expenses

	2003	2002
	EUR'000	**EUR'000**
Royalties on lignite extraction	1.526	1.116
Services	1.142	1.381
Disposal & impairment of fixed assets	129	142
Marketing expenses	417	142
Entertainment	160	157
Consulting fees	100	287
Prior year expenses	-	1.849
Litigation expenses	-	925
Other	1.024	1.198
	4.498	**7.197**

NOTES TO THE FINANCIAL STATEMENTS
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4. Revenues and expenses (continued)

i. Provision for doubtful accounts

	% provision	2003 EUR'000	2002 EUR'000
Ageing category			
Over 12 months	100	11.512	19.618
6 months to 12 months	75	12.853	3.539
3 months to 6 months	50	1.379	2.686
Less than 3 months	20	4.181	833
Receivables written off		7.888	6.968
		37.813	**33.644**

j. Financial income and expenses, net

	2003 EUR'000	2002 EUR'000
Interest income	80	184
Interest expense	(2)	-
	78	**184**

5. Income tax

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense for the years ended 31 December is as follows:

	2003 EUR'000	2002 EUR'000
(Loss) from operating activities before income tax	(39.776)	(27.616)
Tax at statutory income tax rate of 20%	7.955	4.142
Tax on expenditure not allowable for income tax purposes	(297)	(79)
Unrecognised tax losses carried forward	(7.658)	(4.063)
Income tax	**-**	**-**

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5. Income tax (continued)

From 1 April 2002, in accordance with UNMIK regulation No. 2002/3, KEK is required to pay tax at a rate of 20% on the taxable profit as calculated under this regulation. Until 31 March 2002, KEK was liable to pay a presumptive tax at the rate of 3% on their quarterly gross receipts in excess of DEM 15,000 under UNMIK regulation No. 2000/29 issued on 20 May 2000.

Tax losses may be carried forward to be set off against taxable profits of the next five years following the year in which the tax loss was incurred.

During 2002 and 2003 KEK has incurred tax losses. No provision for deferred tax on past losses or timing differences has been made due to the uncertainty as to when or if KEK will start to earn taxable profits.

The following table provides analysis of deferred income tax not provided for on timing differences at 31 December:

	2003	2002
	EUR '000	EUR '000
Deferred income tax liabilities		
Lignite inventory recorded	**(214)**	**(383)**
Deferred income tax assets		
Royalties paid on lignite	129	181
Expense wrongly capitalized in intangible asset	36	-
Adjustment from cut-off in purchases	256	-
Differences in depreciation rates applied	297	-
Depreciation of excavated land	80	-
Accrued liability for redundancy	59	-
	857	**181**
Net deferred income tax assets/(liabilities)	**643**	**(202)**

KEK's taxes liabilities are based on the tax returns filed to the tax authorities and are finalized when audited by the tax authorities.

KEK's books and records have been audited by the tax authorities on a number of occasions over last three financial years covering different types of KEK's tax obligations. These audits identified insignificant differences and therefore no formal determination was issued. KEK's directors are confident that no additional taxes, duties or fines will be levied in the event of a future tax audit on the non-finalized tax liabilities.

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6. Property, plant and equipment

	Land	*Mines*	*Buildings*	*Equipment*	*Construction in progess*	*Total*
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*	*EUR'000*
At 1 January 2003, net of accumulated amortization	**45.248**	**3.140**	**103.928**	**220.375**	**2.058**	**374.749**
Additions			4.172	22.618	3.629	30.419
Transfer				(95)	(331)	(426)
Write off			(125)	(437)	-	(562)
Depreciation charge for the year		(398)	(15.916)	(24.145)	-	(40.459)
At 31 December 2003,net of accumulated depreciation	**45.248**	**2.742**	**92.059**	**218.316**	**5.356**	**363.721**
At 1 January 2003						
Revalued amount	45.248	3.140	103.928	220.375	2.058	374.749
Accumulated depreciation						
Net carrying amount	45.248	3.140	103.928	220.375	2.058	374.749
At 31 December 2003						
Revaluated cost	45.248	3.140	107.975	242.460	5.356	404.179
Accumulated depreciation		(398)	(15.916)	(24.144)		(40.458)
Net carrying amount	45.248	2.742	92.059	218.316	5.356	363.721

Legal status of property

The land where the Group’s buildings are situated is owned by the State and KEK has the right of usage. This right is transferable with the transfer of the ownership of the corresponding buildings.

KEK is in the process of preparing a detailed listing of all its real property, as such information is not currently provided by the fixed assets register. KEK is also in the process of registering all its property in KEK’s name at the relevant land registries, so that KEK will be able to obtain ownership**.**

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6. Property, plant and equipment (continued)

KEK did not maintain a detailed register of its property, plant and equipment showing by individual item historical cost and related accumulated depreciation prior to 31 December 2002. A register that was created as of that date, following the physical count and revaluation carried out, shows the revalued amounts by item only. KEK was unable to provide the net book value of the individual assets based on historical cost and therefore it was not possible to compare the revalued amount with its corresponding net historical net book value for each item.

As further explained in note 3, KEK estimated the impairment loss through benchmarking with other electricity companies in neighbouring countries. KEK is in the process of engaging expert advice in order to apply the requirements of International Accounting Standard 36 "Impairment of assets" in order to estimate the recoverable amount of its property plant and equipment as of 31 December 2004.

7. Inventories

	2003	***2002***
	EUR'000	***EUR'000***
Raw materials and consumables	25.321	29.384
Lignite	1.070	1.913
Fuel	1.487	2.045
Spare parts	3.793	8.648
Other materials and supplies	4.070	7.383
	35.741	**49.373**
Double counted inventory error	-	(12.082)
Provision 80% for slow moving & obsolete inventory	(27.794)	(27.698)
	7.947	**9.593**

Due to the nature of its inventory records, KEK has made provision for slow moving and obsolete inventory based on management estimation by using an average overall rate of 80%, which it considers a fair estimate of the provision required. KEK is in the process of carrying an extensive exercise on a more systematic basis in order to estimate the provision on a more accurate basis for the year ending 31 December 2004.

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8. Trade and other receivables

	2003	2002
	EUR'000	**EUR'000**
Trade receivables		
Domestic trade receivables	164.689	133.597
Foreign trade receivables	3.224	137
	167.913	133.734
Less: Provision for doubtful accounts	(127.829)	(97.809)
	40.084	**35.925**
Other receivables		
Advances to suppliers	4.112	2.204
Receivables from employees	1.408	252
Prepayments	20	55
Other	335	79
	5.875	**2.591**
	45.959	**38.515**

9. Cash and cash equivalents

	2003	2002
	EUR'000	**EUR'000**
Cash in banks	3.701	3.676
Cash in hand	345	538
	4.046	**4.214**

Term deposits denominated in EUR, earn interest at fixed interest rates of up to 8% per annum, (2002: up to 1%), depending on the amount of the deposit.

10. Share capital

KEK operates as a State owned company without shares.

The initial capital was established set at EUR 675.485 thousand. The amount of the capital was calculated by taking the sum of the carrying value of the capital accounts per KEK's statutory records at the date of its establishment.

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11. Deferred income from grants

Deferred income relates to grants donated by the European Agency for Reconstruction and Kosovo Trust Agency during the years ended 31 December 2003 and 2002 for the reconstruction of the power network.

	2003	***2002***
	EUR'000	***EUR'000***
At 1 January	112.282	-
Additions during the year	27.252	12.330
Amortized during the year (Note 4b)	(5.846)	(1.497)
Grants identified with Valuation Report	-	101.449
	133.688	**112.282**

The total amount of the grants received for the years ended 31 December is analysed below:

	2003	***2002***
	EUR'000	***EUR'000***
Relating to:		
Fixed assets	27.252	113.779
Expenses	47.391	22.963
	74.643	**136.736**

12. Accrued pension fund liabilities

In accordance with UNMIK regulation No. 2001/35 and in conjunction with the Banking and Payments Authority of Kosovo (BPK), KEK was required to establish a separate pension fund for former employees. The statute document for the pension fund was drawn up and approved by the Executive Board of KEK on 1 November 2002 and the pension fund was formally licensed by BPK on 18 December 2002.

The fund is a defined benefit fund

The pension fund statute recognised the following categories of pension fund beneficiaries:

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12. Accrued pension fund liabilities (continued)

- Category A: Former employees of KEK over the age of 60 or having completed 35 years of service with KEK (monthly pension of EUR 105);
- Category B: Former KEK employees terminated by reason of a qualifying disability with an existing pension benefit entitlement (monthly pension of EUR 105);
- Category C: Beneficiaries of former KEK employees who died in the line of duty (Monthly pension of EUR 295);
- Category D: Beneficiaries of former KEK employees declared missing during the 1999 conflict (Monthly pension of EUR 153); and
- Category E: Beneficiaries of former employees who died during the 1999 conflict (EUR 100).

According to the Statute of the pension fund KEK is required to provide funds to the pension fund in accordance with a funding schedule determined by a recognised actuary. This has yet to be effected.

Based on the data available at 31 March 2004, which were not audited, an actuarial assessment of the present value of outstanding pension obligations at 31 December 2003 has been prepared.

The major assumptions used to calculate this liability are:
Annual benefit growth 0%
Discount interest rate 4.5%
Normal retirement age 60 and pension payments made for 60 months only.

The amount arising from KEK's obligation in respect of its defined benefit plan as at 31 December is as follows.

	2003	2002
	EURO' 000	EURO' 000
Estimate of pension liability		7.200
Present value of funded obligation	22.122	
Fair value of plan assets	-	-
	22.122	7.200
Prior period adjustment (See note 3)		14.922
Revised	22.122	22.122

The total pension fund liability as at 31 December is divided in long-term and short-term portion as follows:

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12. Accrued pension fund liabilities (continued)

	2003 EURO' 000	2002 EURO' 000
Long-term portion	20.196	19.722
Current portion (Note 14)	1.926	2.400
Revised	22.122	22.122

During the year ended 31 December 2003, KEK paid pensions to former employees of EUR 1,895 thousand (2002: EUR 1,509 thousand) which is shown as an expense

The actuarial assessment indicates that the liability estimated as at 31 December 2002 was materially understated. The total additional provision required at 31 Dec 2003 has been shown as a prior period adjustment as it has not been possible to split the amount between 2003 and prior years.

13. Trade and other liabilities

	2003 EUR'000	2002 EUR'000
Trade creditors		
Domestic	6.086	5.933
Foreign	2.634	-
	8.720	**5.933**
Other current liabilities		
Advances received	386	6
Salaries related liabilities	2.541	2.763
VAT payables	16.297	10.343
Presumptive tax	1.126	1.286
Payables to RTK	1.929	-
Other	1.095	251
	23.374	**14.649**
	32.094	**20.582**

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14. Accrued expenses

	2003	2002
	EUR'000	EUR'000
Accrued liabilities for Pension Fund (Note 12)	1.926	2.400
Accrued liabilities for royalties on lignite consumed	3.197	2.021
Accrued liability for Redundancy	292	-
	5.415	**4.421**

15. Contingencies and commitments

a. Long term debt

It is believed by management that long-term loans relating to the construction of the electricity infrastructure in Kosovo may be outstanding from the time of the Serbian administration, however no records are available to determine the current amount or status of these liabilities. The nature and extent of any liability, as well as the future responsibility for any such liability is a matter for determination in the future as part of broader consideration.

b. Mineral rights

KEK has applied for an exploitation license over the current mining areas and for an exploration license over a new mining area. It is likely that the granting of the exploitation license will be accompanied by conditions requiring the restoration and rehabilitation of the mine areas. Whilst some of this will be achieved using the overburden from the opening of the new mine it is possible that additional rehabilitation and removal of contaminated materials may be required. Work will be undertaken during 2004 to evaluate the extent of this problem however it represents a potential liability which has not been accounted for in these financial statements.

c. Litigation

KEK is a defendant in several legal proceedings arising from its operations. The total amount of claims as at 31 December 2002 is Euro 3.780 thousand, as further analysed below. KEK has not made any provision in respect of these claims as it is not considered that the effect on the financial statements would be material:

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15. Contingencies and commitments (continued)

c. Litigation (continued)

	EURO'000
Arising from:	
Employees dismissed	180
Employees died on duty	1.100
Employees injured during duty	1.000
Expropriation of land	1.500
	3.780

d. Income taxes

KEK's books and records have been audited by the tax authorities for income tax purposes (and VAT) in a numbers of occasions in respect of various fiscal periods. No formal determination has been issued by the tax authorities in respect of additional taxes and/or penalties were imposed. However, without a formal confirmation by the tax authorities, the tax liability of LEK may not be considered finalized and additional taxes and/or penalties might be imposed during future audits.

e. Commitments

KEK plans to develop a new coal mine, which would require the relocation of occupants of approximately 400 houses in Hade village. The amount estimated to be paid for such relocation is approximately Euro 36 million.

16. Mineral reserves

KEK has made an estimate of the reserves and resources within its historical license areas at the end of 2003. These have been confirmed by the relevant governmental authority, the Directorate of Mines and Minerals. KEK has applied for new licenses over these areas to comply with the applicable law and has applied for an exploration license over a new area of 834 hectares that extends to the north of the existing mines. This has not yet been granted but the application secures KEK's rights to the reserves in the area, which are considered to be approximately 700 million tonnes of exploitable lignite. A feasibility study will be carried out to demonstrate the economic viability of extracting these reserves and this will be used to apply for an extraction license.