

KOSOVO ENERGY CORPORATION J.S.C

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

WITH INDEPENDENT AUDITORS' REPORT THEREON

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS 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 2012**, and the statement of comprehensive income, Statement of changes in equity and Statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 auditors consider 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 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 qualified audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of **31 December 2012**, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to the following:

- i. As explained in note 6 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 ownership documentation. In order to resolve the issue, a formal process has not yet been started; however, the Company has started the discussions with the relevant authorities to complete the ownership documentation.
- ii. Further to the factors as detailed in note 29 to the financial statements, we note that electricity price is regulated. Following the significant changes in the Kosovo Energy Market the regulatory authority will announce new tariffs to regulate the activity between the various operators. Given the change in tariffs there is an uncertainty in the level of the new tariffs and how they will affect the future operations of the company and the recoverability and realization of the Company's assets.
- iii. 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, 2012, the Company has booked provisions relating to these environmental costs amounting to Eur 39 million which are disclosed in note 15 to the financial statements. In addition, the Company has disclosed in Note 27, estimated decommission costs which are not recognized as a liability by the Company because 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.
- iv. We draw attention to note 2.3 and 29 to the financial statements that disclose Management's judgments and assumptions in preparing the financial statements under going concern basis. The Company's accumulated losses as at 31 December 2012 amount to Euro 523 million. Despite the fact that the company has reported an operational profit, these factors raise doubt on the Company's ability to continue as a going concern, which is dependent upon the impact of new tariffs and availability of government assistance. Our opinion is not qualified in relation to this uncertainty.

Other Matters

The financial statements of the Company as of and for the year ended December 31, 2011 were audited by another auditor who expressed a un-modified opinion on those statements on April 30, 2012 and emphasis of matters paragraphs regarding (i) going concern assumption, (ii) absence of impairment analysis on the carrying values of property, plant and equipment, (iii) absence of ownership documentation for certain assets (iv) uncertainties regarding environmental, decommissioning and other related provisions, (v) dispute with tax authorities, (vi) dispute with KOSTT.

Ernst & Young

Ernst & Young Certified Auditors sh.p.k.

Prishtina, 31 July 2013

KOSOVO ENERGY CORPORATION J.S.C.

STATEMENT OF FINANCIAL POSITION as at December 31, 2012

	Notes	2012 (in EUR 000)	2011 (in EUR 000) *Restated	01 January 2011 (in EUR 000) *Restated
ASSETS				
Non-current assets				
Property, plant and equipment	6	366.475	408.670	384.822
Intangible assets	7	203	319	174
		366.678	408.989	384.996
Current assets				
Inventories	8	19.542	31.190	27.979
Trade and other receivables	9	41.986	37.174	57.688
Cash on hand and at banks	10	18.196	49.561	37.320
		79.724	117.925	122.987
Disposal Group	5	81.682	-	-
TOTAL ASSETS		528.084	526.914	507.983
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	11	25	25	25
Reserves	12	676.839	682.114	688.082
Accumulated losses		(523.393)	(538.752)	(555.269)
		153.471	143.387	132.838
Non-current liabilities				
Borrowings – noncurrent portion	13	161.946	171.728	146.953
Deferred grants	14	67.479	99.688	114.788
Provisions	15	58.570	56.839	58.331
		287.995	328.255	320.072
Current Liabilities				
Borrowings – current portion	13	44.328	15.225	10.000
Trade and other payables	16	39.703	38.820	43.880
Accrued expenses	17	2.587	1.227	1.193
		86.618	55.272	55.073
Liability directly associated with disposal group	5	-	-	-
TOTAL EQUITY AND LIABILITIES		528.084	526.914	507.983

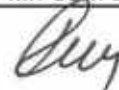
Approved for issue on behalf of the Management and signed on its behalf on June 21, 2013.

Mr. Arben Gjokaj



Managing Director

Mr. Salih Bytyqi



Chief Financial Officer

The statement of financial position is to be read in conjunction with the notes set out on pages 5 to 41, forming an integral part of the financial statements.

*Certain amounts shown here do not correspond to the 2011 financial statements and reflect adjustments made as detailed in Note 4

STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2012

	Notes	Year ended December 31, 2012 (in EUR 000)	Year ended December 31, 2011 (in EUR 000)
Sales	18	222,591	215,960
Income from grants	19	46,470	38,033
Other income	20	915	2,842
		269,976	256,835
OPERATING EXPENSES			
Depreciation and amortization	6,7	(43,210)	(37,711)
Staff costs	21	(57,115)	(56,612)
Electricity and other utilities	22	(82,817)	(86,681)
Maintenance costs		(7,381)	(7,948)
Materials and supplies		(21,529)	(14,322)
Provision for write down of inventories	8	(2,830)	(5,943)
Loss from impairment of receivables	9	(13,456)	(18,358)
Change in provisions	15	(1,731)	1,492
Other operating expenses	23	(16,412)	(14,896)
		(246,481)	(240,979)
Profit from operations		23,495	15,856
Finance Expense/(income), net	24	(8,135)	661
Profit before taxation		15,360	16,517
Taxation	25	-	-
Net Profit for the year		15,360	16,517
Other comprehensive income		-	-
Total comprehensive (loss)/ income		15,360	16,517

The statement of comprehensive income is to be read in conjunction with the notes set on pages 5 to 41 forming an integral part of the financial statements.

*Certain amounts shown here do not correspond to the 2011 financial statements and reflect adjustments made as detailed in Note 4

KOSOVO ENERGY CORPORATION J.S.C.

STATEMENT OF CHANGES IN EQUITY for the year ended December 31, 2012

	Share capital Euro 000	Reserves Euro 000	Accumulated (losses) Euro 000	Total Euro 000
Balance as at January 1, 2011	25	688,082	(575,279)	112,828
Correction of Error (note 4)	-	-	20,010	20,010
Balance as at January 1, 2011 (Restated)	25	688,082	(555,269)	132,838
Profit for the year	-	-	16,517	16,517
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	16,517	16,517
Transfer of property, plant and equipment to KOSTT (note 6 and 12)	-	(5,968)	-	(5,968)
Balance as at December 31, 2011	25	682,114	(538,752)	143,387
Balance as at January 1, 2012	25	682,114	(538,752)	143,387
Transactions with owners	-	-	15,360	15,360
Profit for the year	-	-	-	-
Other comprehensive income	-	-	15,360	15,360
Total comprehensive loss	-	(5,275)	-	(5,275)
Transfer of PPE to KOSTT (note 6 and 12)	-	(5,275)	-	(5,275)
Balance as at December 31, 2012	25	676,839	(523,392)	153,472

The Statement of Changes in Equity is to be read in conjunction with the notes set on pages 5 to 40, forming an integral part of the financial statements.

*Certain amounts shown here do not correspond to the 2011 financial statements and reflect adjustments made as detailed in Note 4

STATEMENT OF CASH FLOWS
for the year ended December 31, 2012

		2012	2011
	Note	(in EUR 000)	(in EUR 000)
Cash flows from operating activities			
Net (loss)/profit before taxation		15.359	16.517
Adjustments for non-cash items:			
Depreciation and amortization	6,7	43.210	37.711
Amortization of grants	19	(46.470)	(38.033)
Interest Income	24	(384)	(776)
Interest Expenses	24	8.519	115
Provision for doubtful debts	9	13.456	18.358
Provision for environmental and pension costs	15	1.731	(1.492)
Provision for write down/back of inventories	8	2.830	5.943
Property, plant and equipment written off	6,7	1.557	2.498
Profit before changes in operating assets and liabilities		39.808	40.841
Decrease/ (Increase) in inventories		5.457	(3.211)
Decrease in trade and other receivables		(21.097)	(3.788)
Increase /(Decrease) in trade and other payables		5.431	(5.026)
Cash generated from operating activities		29.599	28.816
Interest Received		384	776
Interest Paid		-	(115)
Net Cash flows from Operating Activities		29.983	29.477
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(85.421)	(75.262)
Purchase of intangible assets	7	(410)	-
Grants received during the year		13.682	28.024
Cash used in investing activities		(72.149)	(47.237)
Cash flows from financing activities:			
Loans received during the year		10.802	30.000
Cash generated from financing activities		10.802	30.000
Net (decrease)/increase in cash and cash equivalents		(31.365)	12.241
Cash and equivalents at the beginning of the year		49.561	37.320
Cash and equivalents at the end of the year		18.196	49.561

The Statement of Cash Flows is to be read in conjunction with the notes set on pages 5 to 41, forming an integral part of the financial statements

*Certain amounts shown here do not correspond to the 2011 financial statements and reflect adjustments made as detailed in Note 4

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

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 S.H.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;
- Network Division;
- Supply Division;

The Government of Kosovo decided and begun the privatization process for KEK Distribution Network and Supply Divisions (please review note 5)

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").

2.2 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 as at December 31, 2012 amount to Eur 523 million. In addition, as detailed in Note 14, 19 and 29 the Company has received Government assistance in relation to import of electricity to meet local demand which cannot be met by local production of electricity.

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Going concern assumption (Continued)

However, government subsidies will no longer be required as the responsibility for the import of electricity is transferred to the Network and Supply Company that is being privatized, and the Company has managed to significantly improve its economic performance in recent years.

The Company's future viability is dependent on the determination of tariffs that it will sell the produced energy to the private distributor of the Company. The Company has not required the assistance of the Government for investment in its remaining divisions of mining and generation since 2008 when the last government grants were received, although it has received a number of loans from the government which are still under a grace period of interest.

However, management believes that the Government of Kosovo will support the Company if the need arises given the strategic importance of the Company in the Country, and the assumption that the Company will operate as a going concern in the foreseeable future is not in doubt.

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.

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

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 recognised on trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised 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 recognised 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of 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 recognised 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 realised gains/losses on financial assets. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit or loss. Dividends on available-for-sale equity instruments are recognised 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 recognised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which it incurs.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

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 currently in force, Law no. 03/L-113 "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.

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

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 realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 five (5) days of the month following the month in which the consumption of electricity was performed.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 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.

2.20 Critical judgments in applying the Company's accounting policies

There are no critical judgements, apart from those involving estimations (see 2.21 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.

2.21 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Key sources of estimation uncertainty (continued)

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 disclose the contingent liability. Actual results may differ from estimation.

Assessment of Cash Generation Unit ("CGU")

The company in course of the business has considered whether the company can be split in more than one cash generation units or it can be considered as one cash generating unit. Management has concluded that the cash flows of the various units are not separately identifiable. The different divisions do not have a trial balance of their own, there are no inter-division billing arrangements; merely they allocate revenues in the unbundled financial statements for regulatory purpose to cover the cost of each division. Liabilities are merely allocated among divisions. Costs like employees, fixed assets, and direct cost can be measured for each division as cost centres, but there is no separate trial balance. So because cash flows are not fully separately identifiable, the company considers that there is only one Cash Generating Unit.

Regarding the transfer of certain assets and liabilities to the governmental entity which meet the definition of a Disposal Group and has been classified as such as analysed in Note 5, due the fact that the whole company is considered as one CGU as mentioned above, Management considers that this Disposal Group does not meet the definition of Discontinued Operation and therefore no relevant disclosures are required in the Statement of Comprehensive Income.

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 recognises 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.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2012:

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Transfers of financial assets**
- **IAS 12 Income Taxes (Amended) – Deferred Tax: Recovery of Underlying Assets**

The company has assessed the changes in the above two standards and concluded that they have not affected the company's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

Standards issued but not yet effective and not early adopted

As at 31 December 2012 certain Standards, amendments to Standards and Interpretations that are published are not yet effective and have not been applied in preparing these financial statements. The Company plans to adopt these changes in accordance with their effective date. These pronouncements are as follows:

• **IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income**

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon de-recognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the company's financial position or performance.

• **IAS 19 Employee Benefits (Amended)**

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The company is in the process of assessing the impact of this amendment on the financial position or performance of the company.

• **IAS 28 Investments in Associates and Joint Ventures (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The company is in the process of assessing the impact of this amendment on the financial position or performance of the company.

• **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The company is in the process of assessing the impact of this amendment on the financial position or performance of the company.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

Standards issued but not yet effective and not early adopted

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The company is in the process of assessing the impact of this amendment on the financial position or performance of the company.

- **IFRS 9 Financial Instruments - Classification and Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets, but will not have an impact on classification and measurements of financial liabilities. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

- **IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

- **IFRS 11 Joint Arrangements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

- **IFRS 12 Disclosures of Involvement with Other Entities**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

Standards issued but not yet effective and not early adopted

- **IFRS 13 Fair Value Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

- **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation applies to waste removal (stripping costs) incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. Management is in process of assessing the potential effects that the company will face from this change in interpretations given that the company has significant mining operations.

- The IASB has issued the Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effective date for the amendments is for annual periods beginning on or after 1 January 2013. The Company is in the process of assessing the impact of the project on the financial position or performance of the Company.

- **IAS 1 Financial Statement Presentation:** This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.

- **IAS 16 Property, Plant and Equipment:** This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

- **IAS 32 Financial Instruments: Presentation:** This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

- **IAS 34 Interim Financial Reporting:** The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

Standards issued but not yet effective and not early adopted

- **Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)**

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. The company is in the process of assessing the impact of the guidance on the financial position or performance of the Company.

- **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**

The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted. The amendments apply to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The Investment Entities amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The Company is in the process of assessing the impact of the guidance on the financial position or performance of the company.

- **IFRIC Interpretation 21: Levies**

This interpretation is effective for annual periods beginning on or after 1 January 2014. The Interpretations Committee was asked to consider how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. This Interpretation is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company is in the process of assessing the impact of the guidance on the financial position or performance of the company.

- **IAS 36 Impairment of Assets**

This amendment is effective for annual periods beginning on or after 1 January 2014. In developing IFRS 13 the IASB decided to amend IAS 36 to require the disclosure of information about the recoverable amount of impaired assets, particularly if that amount is based on fair value less costs of disposal. In particular, instead of requiring an entity to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit for which a material impairment loss was recognised or reversed during the reporting period, the amendment made to IAS 36 required an entity to disclose the recoverable amount of each cash generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or of intangible assets with indefinite useful lives. The Company is in the process of assessing the impact of the guidance on the financial position or performance of the company.

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NOTES TO THE FINANCIAL STATEMENTS
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4. CORRECTION OF ERROR

During the year under review, the Company identified that prior year's financial statements contained material errors in respect of the recognition, measurement, presentation and disclosures of elements contained in the financial statements. As a result and in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, these errors were corrected by restating the opening balance of equity and comparatives. More specifically, the amounts for the prior reporting period in which the errors occurred were restated, and, if the error occurred before the prior reporting period, the opening balances of the affected accounts for the prior reporting period were also restated, namely, 1 January 2011

Reconciliation of Equity as at 1 January 2011

	Notes	01 January 2011 (in EUR 000)	Correction of Errors (in EUR 000)	01 January 2011 Restated (in EUR 000)
ASSETS				
Non-current assets				
Property, plant and equipment		384.822	-	384.822
Intangible assets		174	-	174
		<u>384.996</u>	<u>-</u>	<u>384.996</u>
Current assets				
Inventories		27.979	-	27.979
Trade and other receivables		57.688	-	57.688
Cash on hand and at banks		37.320	-	37.320
		<u>122.987</u>	<u>-</u>	<u>122.987</u>
TOTAL ASSETS		<u>507.983</u>	<u>-</u>	<u>507.983</u>
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital		25	-	25
Reserves		688.082	-	688.082
Accumulated losses	A,B	(575.279)	20.010	(555.269)
		<u>112.828</u>	<u>20.010</u>	<u>132.838</u>
Non-current liabilities				
Borrowings – noncurrent portion		147.540	(587)	146.953
Deferred grants	A	134.211	(19.423)	114.788
Provisions		58.331	-	58.331
		<u>340.082</u>	<u>(20.010)</u>	<u>320.072</u>
Current Liabilities				
Borrowings – current portion		10.000	-	10.000
Trade and other payables		43.880	-	43.880
Accrued expenses		1.193	-	1.193
		<u>55.073</u>	<u>-</u>	<u>55.073</u>
TOTAL EQUITY AND LIABILITIES		<u>507.983</u>	<u>-</u>	<u>507.983</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

4. CORRECTION OF ERROR (CONTINUED)

Reconciliation of Equity as at 31 December 2011

	Notes	31 December 2011 (in EUR 000)	Correction of Errors Prior Periods (in EUR 000)	31 December 2011 (in EUR 000) *Restated
ASSETS				
Non-current assets				
Property, plant and equipment		408.669	-	408.669
Intangible assets		319	-	319
		<u>408.988</u>	<u>-</u>	<u>408.988</u>
Current assets				
Inventories		31.190	-	31.190
Trade and other receivables		37.175	-	37.175
Cash on hand and at banks		49.561	-	49.561
		<u>117.926</u>	<u>-</u>	<u>117.926</u>
TOTAL ASSETS		<u>526.914</u>	<u>-</u>	<u>526.914</u>
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital		25		25
Reserves		682.114		682.114
Accumulated losses	A	(558.762)	20.010	(538.752)
		<u>123.377</u>	<u>20.010</u>	<u>143.387</u>
Non-current liabilities				
Borrowings – non current portion	B	172.315	(587)	171.728
Deferred grants	A	119.111	(19.423)	99.688
Provisions		56.839	-	56.839
		<u>348.265</u>	<u>(20.010)</u>	<u>328.255</u>
Current Liabilities				
Borrowings – current portion		15.225	-	15.225
Trade and other payables		38.820	-	38.820
Accrued expenses		1.227	-	1.227
		<u>55.272</u>	<u>-</u>	<u>55.272</u>
TOTAL EQUITY AND LIABILITIES		<u>526.914</u>	<u>-</u>	<u>526.914</u>

The basis of material restatements / reclassifications of the identified errors are explained below.

A: - The Company has obtained various grants from the Government Budget for making investments in property plant and equipment. During the year end closing procedures the company noted that till 2012 the company had amortized such grants only for the value of the equipment without taking into consideration the VAT element. When such grants are awarded, they are awarded in order to settle the entire liability toward the suppliers of PPE which comprises the value of the goods and the VAT. The estimated amount of VAT that had to be amortized is Euro 19.423 thousand. The company decided to retrospectively correct the error.

B: - The Company has various borrowings from the Government of Kosovo. During the year end closing procedures while reconciling the outstanding balances of the loan principals the company noted that by error it had included a principal payment performed in prior years as interest payment. As such the principal was not reduced by the amount of Euro 587 thousand. The company decided to retrospectively correct the error.

5. DISPOSAL GROUP

On 17 November 2012 the Government of Kosovo through a bidding procedure decided to privatize the network and distribution arm of KEDC to a private consortium between Calik and Limak. For the purpose of privatization of these divisions, the government had planned to transfer these assets to another government owned entity. The relevant government decision for the transfer of certain assets and liabilities from KEK was taken before December 31, 2012 and that decision is determinative and does not depend on the final conclusion of the sale transaction to Calik and Limak. The full transfer of these assets was finalized in May 2013.

As at 31 December 2012 the network and distribution assets to be spun off have been classified as Disposal Group.

ASSETS	2012 (in EUR 000)	2011 (in EUR 000)
Property, plant and equipment	75.075	-
Intangible Assets	416	-
Inventories	6.191	-
Net, Assets directly associated with the Disposal Group	81.682	-

Classification of Assets held for distribution to owners

Upon the decision of transfer of certain assets and liabilities of KEK to another governmental company during 2012, management concluded that the assets of the network and supply divisions of KEK met the definition of a Disposal Group or assets held for distribution in accordance with IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations.

Management also concluded that the Disposal Group does not meet the definition of a Discontinued Operation because the divisions were not separate Cash Generating Units before being classified as held for distribution. A Cash Generating Unit is a component of an entity whose cash flows can be clearly distinguished for operational and financial reporting purpose while being held for use, whereas the records of KEK divisions do not account entirely and clearly for the separate cash flows of each division.

Measurement of the disposal group

In accordance with IFRS 5 when assets are classified as Disposal group, they are measured at fair value. However because the transfer of assets is between two parties that are controlled by the same entity, the Government, the fair value is not applicable to measure these assets.

In addition, in accordance to IAS 36: Impairment of Assets, that require an entity to perform and impairment test before assets are classified as a Disposal Group, Management has considered the potential impairment indicators in relation to these assets and has concluded that these assets are not impaired because the tariffs that have now been approved for the separate entities are based on the carrying amounts of the assets classified within the disposal group.

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6. 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, 2011	17.318	30.403	120.332	376.129	47.904	592.086
Additions	-	-	2.575	45.418	27.269	75.262
Written off	-	(1.047)	(2.686)	(2.814)	(2)	(6.549)
Internal transfers	23	2.955	3.594	11.157	(17.981)	(252)
Transfers to KOSTT (see Note below)	(65)	-	(3.228)	(9.995)	(1.474)	(14.762)
As at December 31, 2011	17.276	32.311	120.587	419.895	55.716	645.785
Additions	-	308	506	84.535	72	85.421
Written off	-	-	-	-	-	-
Internal transfers	-	5.833	5.183	17.257	(28.311)	(38)
Disposal	-	-	(1.298)	(1.197)	(226)	(2.721)
Asset Classified as Held for Sale	(5,423)	-	(89,858)	(44,274)	(10,364)	(149,919)
Transfers to KOSTT (see Note below)	(416)	-	(1,955)	(3,910)	(2,015)	(8,296)
As at December 31, 2012	11.437	38.452	33.165	472.306	14.872	570.232

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
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6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and forest	Land in mines	Buildings	Equipment	Construction in progress	Total
	(in EUR 000)	(in EUR 000)	(in EUR 000)	(in EUR 000)	(in EUR 000)	(in EUR 000)
Accumulated depreciation:						
As at January 1, 2011	-	10.277	58.188	138.799	-	207.264
Charge for the year	-	391	6.241	30.972	-	37.604
Removed on written off assets	-	-	(1.555)	(2.496)	-	(4.051)
Removed on transfer of assets to KOSTT (see Note below)	-	-	(803)	(2.899)	-	(3.702)
As at December 31, 2011	-	10.668	62.071	164.376	-	237.115
Charge for the year	-	528	6.188	36.364	-	43.080
Removed on written off assets	-	-	(365)	(819)	-	(1.184)
Removed Assets Classified as Held for Sale	-	-	(52.227)	(22.616)	-	(74.843)
Removed on transfer of assets to KOSTT (see Note below)	-	-	(231)	(180)	-	(411)
As at December 31, 2012	-	11.196	15.436	177.125	-	203.757
Net book value:						
As at December 31, 2011	17.276	21.643	58.516	255.519	55.716	408.670
As at December 31, 2012	11.437	27.256	17.729	295.181	14.872	366.475

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Internal transfers relate to certain assets transferred under intangible assets amounting to Euro 38 thousand (2011; Euro 252 thousand).

Included in the property, plant and equipment are certain assets as at December 31, 2012, which are rendered under operating lease terms to several organizational units separated from the Company during 2006, as well as to other entities. Assets under operating lease as of 31 December 2012 on net book value are in amount of EUR 251 thousand.

As at December 31, 2012, the Company's equipment and mining assets are collateralized against borrowings from loan from Ministry of Finance and Economy (see Note 13).

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 ownership documentation. The Company is in process of resolving matter and to complete the documentation with the assistance of Government of Kosovo.

On August 9, 2011 the Government of the Republic of Kosovo has taken the decision for the transfer of certain property, plant and equipment from KEK to Kosovo System and Market Operator JSC (KOSTT). The assets were transferred with the cost values of EUR 8,296 thousand (2011; Euro 14.762 thousand), accumulated depreciation of EUR 412 thousand (2011; Euro 3.702 thousand) and net book values of EUR 7,885 thousand (2011; Euro 11.060 thousand).

The corresponding credits were in deferred grants amounting to EUR 2,609 thousand and Reserves EUR 5,275 thousands (2011; Grants Euro 5.092 thousand and Reserves Euro 5.968 thousand) (refer to note 12 and 14).

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NOTES TO THE FINANCIAL STATEMENTS
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7. 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, 2011	483
Internal Transfers	252
Balance as at December 31, 2011	735
Additions during the year	410
Transfers	38
Disposal	(31)
Asset Classified as Disposal Group (Note 5)	(416)
Balance as at December 31, 2012	736
Accumulated amortization:	
Balance as at January 1, 2011	309
Amortization for the year	107
Balance as at December 31, 2011	416
Amortization for the year	130
Disposal	(13)
Balance as at December 31, 2012	533
Net book value as at December 31, 2011	319
Net book value as at December 31, 2012	203

8. INVENTORIES

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

	2012 (in EUR 000)	2011 (in EUR 000)
Materials and consumables	40.853	44.199
Lignite	4.937	3.596
Fuel	1.736	2.317
Spare parts	9.547	9.407
Others	10.973	11.154
	68.046	70.673
Assets classified as Disposal Group (Note 5)	(6.191)	-
Provision for obsolete inventories	(42.313)	(39.483)
	19.542	31.190

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8. INVENTORIES (CONTINUED)

Movements in obsolete inventories are presented as follows

	2012	2011
	(in EUR 000)	(in EUR 000)
Balance at 1 January	(39.483)	(33.540)
Charge for the Period	(2.830)	(5.943)
Reversal	-	-
Balance at 31 December	(42.313)	(39.483)

9. TRADE AND OTHER RECEIVABLES

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

	2012	2011
	(in EUR 000)	(in EUR 000)
Trade receivables:		
Local customers	393.061	373.001
Foreign customers	4.497	3.745
	397.558	376.746
Provision for bad debts	(376.952)	(363.496)
	20.606	13.250
Other receivables:		
Advances to suppliers	14.169	20.828
Advance to employees and other receivables	7.211	2.480
VAT refundable	-	616
	21.380	23.924
Total	41.986	37.174

Movements in Provision for bad debts are shown as follows:

	2012	2011
	(in EUR 000)	(in EUR 000)
Balance at 1 January	(363.496)	(345.138)
Charge for the Period	(13.456)	(18.358)
Balance at 31 December	(376.952)	(363.496)

In accordance with Memorandum of Understanding signed on 01.12.2006 between Ministry of Finance and Economy and Kosovo Trust Agency regarding the Value Added Tax (VAT) obligations of Publicly Owned Enterprises, the Company will be liable for VAT on collection rather than when invoiced. Since VAT liability arises depending on the collection of billed amount, the Company has presented amount receivables from local customers excluding VAT based on requirements of IFRS. Had the Company recorded VAT receivable when invoiced to customers, receivables from local customers and VAT payables would have been increased by an amount of EUR 55.105e thousand as at December 31, 2012 (2011: EUR 58.356 thousand).

Advances to suppliers include EUR 79 thousand as at December 31, 2012 (2011: EUR511 thousands), which were given to ex KEK units (Transportation, Health Care, Food restaurant, Elektroingenering, Ndertimtaria etc) at date of separation of these units from KEK.

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10. CASH ON HAND AND AT BANKS

	2012	2011
	(in EUR 000)	(in EUR 000)
Cash at banks	18.192	49.557
Cash on hand	4	4
	18.196	49.561

Current accounts with banks bear interest in the range of 2.65% to 0.65% per annum (2011: 2.65% to 0.65% per annum). The fair value of cash at banks and on hand is Euro 18.196 thousand (2011: Euro 49.561 thousand).

11. SHARE CAPITAL

As at December 31, 2011 and according to the Provisional Business Registration issued by the UNMIK administration dated 27 December 2005 under Business Reg. No. 70325399, total subscribed capital amounts to EUR 25 thousand. It comprises of 25,000 ordinary shares at 1 (one) EUR per share. The Company's sole shareholder is Kosovo Energy Corporation Holding J.S.C.

12. RESERVES

Reserves 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.

	2012	2011
	(in EUR 000)	(in EUR 000)
Balance as at January 1,	682.114	688.082
Transfer of property, plant and equipment to KOSTT (Note 6)	(5.275)	(5.968)
Balance as at December 31,	676.839	682.114

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13. BORROWINGS

The company has received long-term & short term loans from the government of Kosovo, as follows:

	2012	2011	2010
	(in EUR 000)	(in EUR 000)	(in EUR 000)
Non-current portion		*Restated	*Restated
Interest bearing loan from Ministry of Finance and Economy	161.946	171.728	146.953
	161.946	171.728	146.953
Current portion			
Interest free loan from Ministry of Finance and Economy	6.000	4.000	10.000
Interest bearing loan from Ministry of Finance and Economy	30.007	11.225	-
Accrued Interest	8.321	-	-
	44.328	15.225	10.000
Total borrowings	206.274	186.953	156.953

Loan 1 (Remount and rehabilitation of A5 block):

During 2008, the Company signed a borrowing contract dated June 23, 2008 with Ministry of Finance and Economy for a loan with total limit of EUR 9,400 thousand. As at December 31, 2009 the Company availed this loan fully. Both principal of this loan and interest are repayable in eight years in equal bi-annual installments starting from January 1, 2012 and carries interest at the rate of 7.43% pa. This loan is secured against hypothecation of equipment amounting to EUR 69,500 thousand.

Loan 2 (Opening and operation of the south-west Sibovic mine):

During 2009, the Company signed a borrowing contract dated June 4, 2009 with Ministry of Finance and Economy for a loan with total limit of EUR 70,000 thousand. As at December 31, 2012 the Company availed EUR 60,457 thousand of the loan (as at December 31, 2011: EUR 58,445 thousand). The principal of this loan is repayable in eight years in equal bi-annual installments starting from June 18, 2013 and carries interest at the rate of 6% pa. Interest is repayable starting from January 1, 2012. This loan is secured against hypothecation of mining assets and a general hypothecation of revenues.

Loan 3 (Overload systems II & III of the south-west Sibovic mine):

During 2008, the Company signed a borrowing contract dated June 24, 2008 with Ministry of Finance and Economy for a loan with total limit of EUR 75,000 thousand. As at December 31, 2012 the Company availed this loan fully. The principal of this loan is repayable in eight years in equal bi-annual installments starting from February 13, 2012 and carries interest at the rate of 7.43% p.a. Interest is repayable starting from January 1, 2012. This loan is secured against hypothecation of equipment amounting to EUR 85,000 thousand.

Loan 4 (Remount and rehabilitation of B1 and B2 units of termocentral Kosovo B):

On January 27, 2009, the Company signed a borrowing contract with Ministry of Finance and Economy for a loan with total limit of EUR 5,400 thousand. As at December 31, 2010 the Company availed this loan fully. Both principal of this loan and interest are repayable in eight years in equal bi-annual installments starting from January 1, 2012 and carries interest at the rate of 6% pa. This loan is secured against hypothecation of equipment.

Loan 5 (Opening and Operating of Sibovc South West Mine)

On April 19, 2010, the Company signed a borrowing contract with Ministry of Finance and Economy for a loan with total limit of EUR 58,000 thousand. As at December 31, 2012 the Company availed EUR 30,930 thousand (as at December 31, 2011: 17,942 thousand). The principal of this loan and interest are repayable in eight years in equal bi-annual installments starting from June 8, 2014, and carries interest at the rate of 6% pa. This loan is secured against hypothecation of equipment.

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13. BORROWINGS (CONTINUED)

Loan 6 (The Overhaul and refurbishment of Units B1 and B2 of the Kosova B Power Plant)

On April 19, 2010, the Company signed a borrowing contract with Ministry of Finance and Economy for a loan with total limit of EUR 11,353 thousand. As at December 31, 2010 the Company availed this loan fully. The principal of this loan and interest are repayable in eight years in equal bi-annual installments starting from May 14, 2014, and carries interest at the rate of 6% pa. This loan is secured against hypothecation of equipment.

Interest free loan:

During 2005, the Company obtained a loan from MFE under a contract dated September 29, 2005 for an amount of EUR 10,000 thousand and was repayable in lump sum on or before December 31, 2008. This loan is interest and collateral free. EUR 6,000 are payable within 2012

As per amendments for each of the six Loans dated 22 November 2010, signed between KEK J.S.C and the Ministry of Finance and Economy, the Parties had agreed that the Borrower shall not pay any interest payments on any outstanding principal under the Loans Agreements from the Effective Date, being 22nd November 2010, until 1st January 2012 (Article 1).

Following this interest free period, KEK J.S.C, wrote to the Ministry of Finance requesting that the interest free period be extended. To date, no response was received by KEK J.S.C. However, the 2012 Budget of the Government of Kosovo, voted by Parliament and published in the Official Gazette, does not foresee any repayments of interest accrued on the said loans.

	2012	2011
	(in EUR 000)	(in EUR 000)
Within one year	44.328	15.225
After one year but not more than five years	85.045	90.182
More than five years	76.900	81.546
	206.273	186.953

14. DEFERRED GRANTS

The company has received various grants from the government of Kosovo as follows:

	2012	2011
	(in EUR 000)	(in EUR 000)
As at 1 January		*Restated
		134.211
Correction of Error (Note 3)		(19.423)
As at January 1,	99.688	114.788
Grants received during the year	13.682	28.025
Opex grants amortized	(13.350)	(27.350)
Amortized during the year (Note 17)	(10.577)	(10.683)
Amortized during the year related to Assets Held for Sale (Note 24)	(19.355)	-
Eliminated on transfer of assets to KOSTT (refer note 4)	(2.609)	(5.092)
Balance as at December 31,	67.479	99.688

On August 9, 2011 the Government of the Republic of Kosovo has taken the decision for the transfer of certain property, plant and equipment from KEK to Kosovo System and Market Operator JSC (KOSTT). The assets were transferred with the values as of December 31, 2012 (Ref. to note 6)

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15. PROVISIONS

The company's provision as shown in the statement of financial position are further analyzed as follows:

(in EUR 000)	2012				2011			
	Clean-up and land reclamation	Legal cases	Staff pension	Total	Clean-up and land reclamation	Legal cases	Staff pension	Total
Balance as at January 1,	42.830	10.811	3.198	56.839	45.300	7.820	5.211	58.331
Change during the year	(3.188)	5.324	(405)	1.731	(2.470)	2.991	(2.013)	(1.492)
As at December 31,	39.642	16.135	2.793	58.570	42.830	10.811	3.198	56.839

Clean-up and land reclamation provisions:

The balance of provision as at December 31, 2012 represents the Company's best estimate of costs related to clean-up and land reclamation, ash dump removal and decommissioning of gasification plant from energy generation sites. These costs are based on the management internal assessments, where management believes that timings of cash flow in this regard will be 3-10 years. While making provision assessments, the Company utilized all related factors including possible offers for such projects, estimated timing of cash flows and other market related information.

Given below is the breakdown of clean-up and land reclamation provisions.

	2012 (in EUR 000)	2011 (in EUR 000)
Clean-up and land reclamation	1.742	4.930
Conversion of dry ash to wet	7.800	7.800
Ash dump removal	12.000	12.000
Overburden dump	2.500	2.500
Decommissioning of gasification plant	15.600	15.600
	39.642	42.830

Legal provision:

As at December 31, 2012, the Company has reassessed the possible impact of court cases. The Company believes that the amount of EUR 16,135 thousand (December 31, 2011: EUR 10,811 thousand) is a best estimate for any probable outflow of cash.

Staff pension provision:

Staff provision relates to certain old 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.

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16. TRADE AND OTHER PAYABLE

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

	2012	2011
	(in EUR 000)	(in EUR 000)
Trade Creditors		
Creditor		
Local suppliers	26.912	22.896
Foreign suppliers	7.616	11.158
	34.528	34.054
Other current payables		
Salaries to employees	3.577	4.481
Customers advances	76	69
VAT	1.339	-
Other payables	183	216
	5.175	4.766
	39.703	38.820

Part of the Company's trade payables are secured with guarantees issued by local bank. The bank charges monthly fee from the Company at 4% p.a. for the instruments issued.

17. ACCRUED EXPENSES

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

	2012	2011
	(in EUR 000)	(in EUR 000)
Concession fees	567	567
Other accrued expenses	2.020	660
	2.587	1.227

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18. SALES

The Company's revenues are composed as follows:

	Year ended 31 December 2012 (in EUR 000)	Year ended 31 December 2011 (in EUR 000)
Sale of electricity		
Domestic and industrial customers	100.203	99.728
Householders	101.749	93.227
Export of electricity	14.291	15.264
	216.243	208.219
Other sales		
Sales of coal	905	2.201
Other	5.443	5.540
	6.348	7.741
	222.591	215.960

The sales of electricity represent actual billed energy to the clients, the company performs the relevant meter readings almost at the end of period as such there is no amount of unbilled energy at the end of the period.

19. INCOME FROM GRANTS

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

	Year ended 31 December 2012 (in EUR 000)	Year ended 31 December 2011 (in EUR 000)
Grants for import of electricity	13.350	27.350
Grants from service	3.188	-
Amortization of deferred grants related to property, plant and equipment	10.577	10.683
Amortization of deferred grants related to PPE classified in Disposal Group	19.355	-
	46.470	38.033

20. OTHER INCOME

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

	Year ended 31 December 2012 (in EUR 000)	Year ended 31 December 2011 (in EUR 000)
Income from rent	178	192
Other income	737	2.650
	915	2.842

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21. STAFF COSTS

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

	Year ended 31 December 2012 (in EUR 000)	Year ended 31 December 2011 (in EUR 000)
Salaries, net	44.736	45.419
Pension contributions and taxes	8.013	8.024
Other	4.366	3.169
	57.115	56.612

The headcount is spread as follows:

	Year ended 31 December 2012 Number of Employees	Year ended 31 December 2011 Number of Employees
Mining Activity	3.343	3.441
Generation Activity	1.572	1.634
Network	1.177	816
Supply	1.357	1.785
	7.449	7.676

22. ELECTRICITY AND OTHER UTILITIES

	Year ended 31 December 2012 (in EUR 000)	Year ended 31 December 2011 (in EUR 000)
Electricity purchases	49.031	58.326
Fuel	14.621	14.240
Gas and water	989	1.308
Exchange of electricity	1.629	1.419
Transmission of electricity	16.547	11.388
	82.817	86.681

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23. OTHER OPERATING EXPENSES

	Year ended 31 December 2012 (in EUR 000)	Year ended 31 December 2011 (in EUR 000)
Transport services	172	818
Insurance expenses	1.803	2.056
Concessions fee	2.085	2.126
Licenses	524	681
Non-production expenses	739	1.384
Other	11.089	7.831
	16.412	14.896

24. FINANCIAL INCOME/EXPENSES NET

	Year ended 31 December 2012 (in EUR 000)	Year ended 31 December 2011 (in EUR 000)
		*Restated
Interest income on overdue balances	384	776
Interest expense on borrowings and delayed payments	(8.519)	(115)
Financial income/(charges), net	(8.135)	661

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25. TAXATION

	Year ended 31 December 2012 (in EUR 000)	Year ended 31 December 2011 (in EUR 000)
Profit before taxation	15.360	16.517
Adjustments for tax purposes:		
Depreciation	4.769	5.294
Less expenses capitalized	(632)	(1.837)
Other expenses	1.106	191
Profit before utilization of tax losses	20.603	20.165
Tax losses as at January 1,	(57.602)	(77.767)
Un-utilized tax losses	20.603	20.165
Tax losses carried forward as at December 31,	(36.999)	(57.602)

Under Law nr. 03/L-113 dated December 18, 2008 later with law nr 03/L-162 dated December 29, 2009 on corporate taxes, income tax rate is 10% for corporate entities from January 1, 2009 onward. In accordance with new Law, tax losses may be carried forward to be set off during the next seven years (5 years for losses incurred up to December 31, 2008) following the year in which the tax loss was incurred.

The Company's financial statements for the years ended December 31, 2009, 2010, 2011 and 2012 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, tax losses as at December 31, 2012 may differ significantly compared to the one reported in these financial statements.

26. DEFERRED TAX ASSET

	2012 (in EUR 000)	2011 (in EUR 000)
Deferred tax liability on PPE	18,545	17,758
Deferred tax asset on carried forward tax losses	(3.700)	(8,162)
Net deferred tax asset	14.845	9,596
Deferred tax liability not recognized	14.845	9,596
Deferred tax liability recognized	-	-

Owing to the significance of tax losses as at year end, management believes that the company will not have sufficient taxable profit in the foreseeable future. Accordingly the company did not recognize the deferred tax asset.

27. COMMITMENTS AND CONTINGENCIES

Commitments:

As at December 31, 2012, the Company has capital commitments of EUR 12,471 thousand (as at December 31, 2011: EUR 36,100 thousand).

The company has no operational lease commitments as at year end.

Litigations:

The company in ordinary course of its business is involved in 657 lawsuits. Other than provision recorded in these financial statements, the Company believes that there will be no additional provision required against the cases pending in court.

KOSTT Charges:

During February 2011 KOSTT, a State owned transmission company, initiated a dispute with Energy Regulatory Office (ERO) alleging that the Company refused to pay a portion of invoices for transmission services in 2010 and failed to pay the 2008 and 2009 reconciliation invoices submitted by KOSTT, totaling nearly €5 million. In its 2011 tariff review, ERO confirmed that KOSTT is subject to a revenue cap, limiting its revenues to the amount determined in the prior tariff decision. On December 29, 2011 the ERO review board decided that KEK has no liability towards KOSTT for the years 2008, 2009 and 2010. During 2012 the case was ruled in favor of KOSTT. According to the decision no. V-428-2012 on 18.07.2012 of ERO, KEK was obliged to pay KOSTT the invoices for the months of October, November, and December 2011, amounting at a total of EUR 3,803 thousand. In response, KEK initiated a lawsuit against the decision of ERO. However, the lawsuit was rejected as ill-founded. KEK has appealed the decision. KEK has provisioned the same amount (EUR 3,803 thousand) in these financial statements.

Claim by Tax Authorities:

Consequent upon a tax inspection, the Company has an outstanding income tax claim of EUR 5,012 thousand and EUR 7,730 thousand related to penalties and interest as at December 31, 2010. This tax claim relates to the fiscal years 2005, 2006 and 2007, and results from Tax Authority Report for Bad Debt provision that has disallowed the bad debt reserves in those years resulting into taxable profits. The Company challenged this claim and went to Judicial Review Board through its claim number 4133. Further based on the Supreme Court's decision dated August 2, 2011, the above claim will be considered suspended until Judicial Review Board concludes its work on the matter. On April 4, 2012 the Juridical Review Board decided in favour of KEK and allowed all the expenses related to bad debt as a result KEK does not have any tax liabilities for those years.

The Company's financial statements for the years ended December 31, 2009, 2010, 2011 and 2012 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, tax losses as at December 31, 2012 may differ significantly compared to the one reported in these financial statements.

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27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Interest on government loans:

As described in Note 13, KEK has obtained six Loans from the Government of Kosovo during 2008-2010 periods, for capital investment purposes. The Loans were obtained from the Government of Kosovo due to lack of a capital market where such Loans could be obtained otherwise. As at 1st January 2012, KEK had withdrawn Eur 177,539,992 and withdrew a further Eur 15,000,000 during year ended December 31, 2012.

The loans were originally granted with a interest free grace period, which was also subsequently amended on November 22, 2010 to extend the grace period until December 31, 2011.

Following this interest free period, KEK, requested to the Ministry of Finance to further extend the interest free period. Management believes that the request will be accepted by the government. However, based on existing loan agreement management accrued the interest on these loans for the year ended December 31, 2012 amounting to Eur 8,321,406.

Bank guarantees:

As at December 31, 2012, outstanding guarantees issued in favor of the Company were amounting to EUR 6.231 thousand (as at December 31, 2011: EUR 12,676 thousand).

Decommissioning and clean up costs:

In addition to recognised environment provisions disclosed in Note 15, 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
Decommissioning of Gasification and Nitrogen "Kosova Thëngjilli" (Kosova Coal), decommissioning and rehabilitation of the environment in the area of TC Kosova A	17.5
	5
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

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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 maximising the return to shareholder through the optimisation 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:

	2012	2011
	(in EUR '000)	(in EUR '000)
Debt	248.564	227.000
Equity	153.471	143.387
Debt to equity ratio	162%	158%

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.

The Company analyzes its receivables based on their origin and nature and not based on their age. This approach is supported by 9-year statistics, including correlation and regression analysis. For the purposes of analysis the receivables are classified based on their origin into the groups presented in the table below.

	35 kV	10 kV	Res'l-1	Res'l-2	Comm'l - A	Comm'l - 1	Comm'l - 2	Public Lighting	Flat rate	110 kV	Reclaimed losses
31 December 2012											
Group of A/R (%)	0.80	6.79	2.19	47.40	9.93	1.44	16.45	0.74	0.29	13.02	0.95
Group Collection (%)	90.84	100	84.26	89.96	100	83.47	100	81.59	41.92	100	0
31 December 2011											
Group of A/R (%)	0.9	7.13	4.07	44.42	8.43	2.75	16.05	0.49	0.61	14.11	1.05
Group Collection (%)	100	95	75	85	100	98	100	98	20	100	-

The Company's exposure to largest 14 companies in Kosovo is EUR 1,247 thousand as at December 31, 2012 (as at December 31, 2011: EUR 1,199thousand). Payment terms with these clients vary from less than one month to one year.

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.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

C:- Market risk

The Company's activities expose it primarily to the financial risk of changes in interest rates, as below in 28(e) and commodity risk in 28(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.

The company has prepared its budget utilising with the assumption that the average selling price will be 63,9 Eurp/MHV. The company has planed that will import energy equivalent to Euro 50 Million during the year on the other hand this is the planned grants for the import of Energy so far amounts 13 Million. The company has in addition planed in its budget an amount of Euro 2.9 million.

Following the privatization of the distribution and network divisions the company might not be responsible for importing energy after May 2013 and as such will not bear any commodity risk after such time.

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, 2012 and 2011, all borrowings are obtained from the Government of Kosovo, who is the 100% shareholder of the Company, with fixed interest rates. Given below is the analysis of both financial assets and financial liabilities.

	2012	2011
	(in EUR '000)	(in EUR '000)
Fixed rate interest		
Financial assets	18.192	49.557
Financial liabilities	200.274	180.953
Variable rate interest		
Financial assets		
Financial liabilities		

Since the company's financial assets are fixed interest rate bearing the company is not affected by any interest rate fluctuation

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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, where part of the funding is granted by the Government through donations.

As at December 31, 2012						
	Within One Month Euro 000	From one to three months Euro 000	From three months to one year Euro 000	From one year to five years Euro 000	Over five years Euro 000	Total Euro 000
Financial Assets						
Cash on hand and with banks	18.196	-	-	-	-	18.196
Trade and other receivables	19.886	22.100	-	-	-	41.986
Total financial assets	38.082	22.100	-	-	-	60.182
Financial Liabilities						
Trade and other payables	-	39.703	-	-	-	39.703
Provisions	-	-	-	18.927	39.643	58.570
Borrowings	-	-	44.328	85.045	76.900	206.273
Accrued expenses	-	2.587	-	-	-	2.587
Total liabilities	-	42.290	44.328	103.972	116.543	307.133
liquidity gap as at December 31, 2012	38.082	(20.190)	(44.328)	(103.972)	(116.543)	(246.951)
Cumulative liquidity gap as at December 31, 2012	38.082	17.892	(26.436)	(130.408)	(246.951)	-
As at December 31, 2011						
	Within One Month (in Eur 000)	From one to three months (in Eur 000)	From three months to one year (in Eur 000)	From one year to five years (in Eur 000)	Over five years (in Eur 000)	Total (in Eur 000)
*Restated						
Financial Assets						
Cash on hand and with banks	49.561	-	-	-	-	49.561
Trade and other receivables	12.488	239	24.448	-	-	37.175
Total financial assets	62.049	239	24.448	-	-	86.736
Financial Liabilities						
Trade and other payables	-	38.820	-	-	-	38.820
Provisions	-	-	-	14.008	42.831	56.839
Borrowings (Note 4)	-	4.000	11.225	90.182	81.546	186.953
Accrued expenses	1.227	-	-	-	-	1.227
Total liabilities	1.227	42.820	11.225	104.190	124.377	283.839
liquidity gap as at December 31, 2011	60.822	(42.581)	13.223	(104.190)	(124.377)	(197.103)
Cumulative liquidity gap as at December 31, 2012	60.822	18.241	31.464	(72.726)	(197.103)	-

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 fixed interest bearings loans the lender has punctually waived all interests from the company.

in Eur 000	Carrying amounts		Fair values	
Financial assets	31-Dec-12	31-Dec-11	31-Dec-12	31-Dec-11
Trade receivables	41.986	37.175	41.986	37.175
Cash and Banks	18.196	49.561	18.196	49.561
Total	60.182	86.736	60.182	86.736

in Eur 000	Carrying amount		Fair Value	
Financial Liabilities	31-Dec-12	31-Dec-11	31-Dec-11	31-Dec-10
Trade accounts payable	39.703	38.820	39.703	38.820
Borrowings	206.274	186.953	206.274	186.953
Other payables	2.587	1.227	2.587	1.227
Deferred Grants	67.479	99.688	67.479	99.688
Total	316.043	326.688	316.043	326.688

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

Electricity production:

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 73% of the plants' capacity during 2012 (2011: 73%).

Electricity losses:

There are substantial technical and commercial losses of electrical power in the operation of the electrical system. Technical losses arise upon the distribution of electrical power over lines, as well as from the transformation from one voltage to another. Commercial losses represent electricity consumed by customers, which the Company fails to identify and invoice.

Management estimates total technical losses of electric power, for the year ended 31 December 2012, to amount to 16.63 % of the total available electricity, whereas commercial losses during the year 2012 were 15.93% of total available electricity (for the year ended 31 December 2011: technical losses were 16.62% and commercial losses were 19.79%).

The cost of these technical and commercial losses is recovered by the Company from customers in tariffs as much as determined by the Government of Kosovo through the Energy Regulatory Office. Subsequent to the changes in the Kosovo Electricity Market with the partial privatization of KEK the Energy Regulatory Authority will enact new tariffs in order to regulate the operations of the various operators in the market. The further operations of the company and its profitability are dependent on the new tariffs that will be approved.

30. SUBSEQUENT EVENTS

On 10th of May 2013 the disposal group was spun off from KEC JSC and were transferred on the new company called KEDS JSC.