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KOSOVO ENERGY CORPORATION J.S.C.

Independent Auditor's Report and

Financial Statements for the year ended
December 31, 2008

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Independent Auditor's Report

To the Board of Directors of Kosovo Energy Corporation J.S.C.

We have audited the accompanying financial statements of Kosovo Energy Corporation J.S.C (the "Company"), which comprise the balance sheet as at December 31, 2008 and income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Company as at and for the year ended December 31, 2007 were audited by other auditors whose report dated February 3, 2009, expressed a qualified opinion on those financial statements due to scope limitation on valuation of property, plant and equipment, valuation of inventories, validity of trade receivables, valuation of provision for ash dump removal and valuation of deferred taxation.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except for the matters discussed in paragraphs 1 to 5 below, 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 whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

1. During our audit, we noted the Company does not have a consistent approach to method adopted for depreciation of property, plant and equipment. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the accuracy of the depreciation charge for the year, accumulated depreciation and accordingly the valuation of property, plant and equipment as at December 31, 2008.

2. As disclosed in note 7 to the accompanying financial statements, included in the trade and other receivables is an amount of EUR 17,241 thousand related to trade receivables, net of provision for impairment amounting to EUR 265,937 thousand as at December 31, 2007, where existence and validity of those trade receivables were qualified by last year auditors. Since opening balances enter into the determination of the results of operations for current year, we were unable to determine whether adjustments might be necessary to the income statement for the year ended December 31, 2008.

3. As disclosed in note 6 to the accompanying financial statements, as at December 31, 2007, the Company inventories amounting to EUR 11,357 thousand, net of provision for write downs amounting to EUR 26,461 thousand. The Company did not perform any cost or Net Realizable Value assessment for inventories as at December 31, 2007. Since opening balances enter into the determination of the results of operations for current year, we were unable to determine whether adjustments might be necessary to the income statement for the year ended December 31, 2008.

4. We did not observe the counting of the physical inventories as at December 31, 2008, since that date was prior to the time we were initially engaged as auditors for the Company. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the inventory quantities as at December 31, 2008 and the resulting impact on the income statement for the year ended December 31, 2008 by other audit procedures.

5. The Company has not made calculation of current income tax for the year ended December 31, 2008, as required under Kosovo Income Tax Regulations. Further, the Company has not established a deferred tax asset or liability as required by International Accounting Standard No. 12 "Income Taxes". In the absence of alternate audit procedures, we were unable to determine the extent of the adjustments, if any, that would be required to record the taxes in accordance with IAS 12, Income Taxes.

Disclosure Deficiencies

6. The accompanying financial statements do not contain all disclosures required by International Financial Reporting Standard (IFRS) 7 – Financial Instruments: Disclosures and certain other disclosures for mineral rights, mineral reserves and technical losses as detailed in note 25-27.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters referred to in paragraphs 1 to 5 above, and except for the effect on the financial statements of matter described in paragraph 6, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matters

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

i. These financial statements have been prepared on the assumption that the Company will continue as a going concern. As shown in the financial statements, during the year ended December 31, 2008, the Company incurred net loss of EUR 1,945 thousand and, as of that date, the Company's retained losses amount to EUR 603,475 thousand. Currently, the Company's operations are largely dependent and supported by Government funds. These and other factors raise the doubt about the Company's ability to continue as a going concern.

ii. Further to paragraph i above, we note that electricity price is regulated. Although there are indications, however an impairment analysis on the carrying values of property, plant and equipment is not carried out by the Company due to unpredictable future income stream.

iii. As explained in note 4 to the accompanying financial statements, included in the land and buildings are certain properties, where the ownership status is still unresolved as at December 31, 2008. A formal process has not yet been started, however, the Company has started the discussions with the relevant authorities to clarify ownership of these properties.

iv. As explained in note 3.17 to the accompanying financial statements, during 2008 the Company has performed an internal assessment for environmental, decommissioning and other related provisions including the assessment for ash dump removal. Currently there is no binding legal requirement for decommissioning and other related requirements. The Company has been carrying a provision for ash dump removal since its corporatization in 2005 of EUR 30 million, which was based on an external study. This has been re-confirmed by an internal assessment by the Company as at December 31, 2008. Internally the Company has also assessed additional costs amounting to approximately EUR 48 million that may be required for water and air contamination and other related costs. However, as the Company is not required and has no intention, it has not accounted for such costs in the attached financial statements. The actual eventual environment related costs may be materially different depending upon the obligation consequent upon legislative framework.

Other matter:

As explained in note 29 to the financial statements, subsequent to the year end, Government of Kosovo is planning to privatize certain unbundled units of the Company in near future. The future operations of the Company may be impacted by these events. Our audit is not carried out in view of such transaction and other parties should carry out their own due diligence and other evaluations.

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Prishtina, Kosova
August 10, 2009

	Notes	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
ASSETS			
Non-current assets			
Property, plant and equipment	4	235,721	212,652
Intangible assets	5	271	109
		235,992	**212,761**
Current assets			
Inventories	6	14,557	11,357
Trade and other receivables	7	64,648	34,879
Cash on hand and at banks	8	120	4,903
		79,325	**51,139**
TOTAL ASSETS		**315,317**	**263,900**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	9	25	25
Reserves	10	688,082	687,889
Retained losses from previous years		(601,530)	(565,266)
Loss for the year		(1,945)	(36,264)
		84,632	**86,384**
Non-current liabilities			
Borrowings – non current portion	11	8,711	10,000
Deferred grants	12	118,893	62,554
Provisions	13	30,000	30,000
		157,604	**102,554**
Current Liabilities			
Borrowings – current portion	11	12,116	10,340
Trade and other payables	14	56,793	54,169
Accrued expenses	15	4,172	10,453
		73,081	**74,962**
TOTAL EQUITY AND LIABILITIES		**315,317**	**263,900**

Authorized for issue by the management and signed on its behalf on August 10, 2009.

Mr. Arben Gjukaj

Managing Director

Mr. Salih Bytyqi

Chief Financial Officer

The accompanying notes from 1 to 29 form an integral part of these financial statements.

	Notes	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
OPERATING INCOME			
Sales	**16**	163,043	133,292
Income from grants	**17**	47,695	16,982
Other income	**18**	6,909	5,512
		217,647	155,786
OPERATING EXPENSES			
Depreciation and amortization	**4&5**	(22,417)	(26,228)
Staff costs	**19**	(43,677)	(41,687)
Electricity and other utilities	**20**	(85,527)	(69,802)
Maintenance costs	**21**	(7,825)	(5,221)
Materials and supplies		(8,521)	(11,921)
Provision for write down of inventories	**6**	(5,765)	-
Loss from impairment of receivables	**7**	(31,491)	(21,725)
Other operating expenses	**22**	(13,618)	(15,390)
		(218,841)	**(191,974)**
Loss from operations		**(1,194)**	**(36,188)**
Financial charges, net	**23**	(751)	(76)
Loss before taxation		**(1,945)**	**(36,264)**
Income tax expense	**24**	-	-
Net loss for the year		**(1,945)**	**(36,264)**

The accompanying notes from 1 to 29 form an integral part of these financial statements.

	Share capital	Reserves	Retained losses	Total
	--------------------(in EUR 000)--------------------			
Balance as at January 1, 2007	25	687,794	(565,266)	**122,553**
Loss for the year	-	-	(36,264)	**(36,264)**
Release of impairment on assets disposed off	-	95	-	**95**
Balance as at December 31, 2007	**25**	**687,889**	**(601,530)**	**86,384**
Profit for the year	-	-	(1,945)	**(1,945)**
Release of impairment on assets disposed off	-	193	-	**193**
Balance as at December 31, 2008	**25**	**688,082**	**(603,475)**	**84,632**

The accompanying notes from 1 to 29 form an integral part of these financial statements.

	Notes	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
Cash flows from operating activities			
Net profit/(loss) before taxation		(1,945)	(36,264)
Adjustments for non-cash items:			
Depreciation and amortization	4&5	22,417	26,228
Income from grants		(47,695)	(16,982)
Provision for doubtful debts		31,491	21,437
Provision for write down of inventories		5,765	-
Loss on disposal of property, plant and equipment		332	163
Operating deficit before changes in operating assets and liabilities		**10,365**	**(5,418)**
(Increase)/decrease in inventories		(8,965)	266
Increase in trade and other receivables		(58,260)	(32,894)
Increase in trade and other payables		1,031	11,646
Cash generated from /(used in) operating activities		**(55,829)**	**(26,400)**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(36,982)	(28,005)
Purchase of intangible assets	5	(203)	(74)
Cash used in investing activities		**(37,185)**	**(28,079)**
Cash flows from financing activities:			
Grants received during the year	12	87,744	39,141
Net loans received during the year		487	10,340
Cash generated from financing activities		**88,231**	**49,481**
Net decrease in cash and cash equivalents		**(4,783)**	**(4,998)**
Cash and cash equivalents at the beginning of the year		**4,903**	9,901
Cash and cash equivalents at the end of the year		**120**	**4,903**

The accompanying notes from 1 to 29 form an integral part of these financial statements

1. GENERAL

Kosovo Energy Corporation J.S.C. ("the Company" or "KEK") is shareholding Company incorporated in Kosovo and registered with the Provisional Business Registration under Reg.No. 70325399 dated December 27, 2003. The Company was transformed into a Joint Stock Company (J.S.C.) under United Nation Interim Administration Mission in Kosovo ("UNMIK") regulation No. 2001/6. The address of its registered head office is: Mother Teresa Street No. 36, 10 000 Prishtina, Kosovo.

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

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

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

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

- Lignite Production Division;
- Electricity Production Division;
- Network Division;
- Supply Division;
- Human Resources Division;
- Business Support Division;
- Corporate Services;
- Internal Audit Office; and
- Financial Division

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

2.2 Basis of preparation

These financial statements have been prepared on the historical cost convention basis except for the revaluation of certain financial assets and financial liabilities.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Standards and Interpretations in issue not yet adopted

As at the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009),
- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after 1 July 2009),
- IFRS 1 (revised) "First-time Adoption of IFRS" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- Amendments to IFRS 1 "First-time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements" – Cost of investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009),
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS (IAS 1, IFRS 5, IAS 8, IAS 10, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2009),
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009),
- IAS 1 (revised) "Presentation of Financial Statements" – A revised presentation (effective for annual periods beginning on or after 1 January 2009),
- IAS 23 (revised) "Borrowing Costs" (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRS 2 "Share-based Payment" – Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009),
- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" - Embedded Derivatives (effective for annual periods ending on or after 30 June 2009),
- IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008),
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009),
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008),
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009),
- IFRIC 18 "Transfers of Assets from Customers" (effective for transfer of assets from customers received on or after 1 July 2009).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements in the period of initial application.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.4 Currency of presentation

The Company's presentation 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.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 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 income statement 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 balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the income statement as foreign exchange translation gains less losses.

3.2 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 income statement during the financial period in which they are incurred.

'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 or revalued amounts 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 balance sheet date. 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 income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 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

3.4 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.

3.5 Financial assets and liabilities

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

3.6 Trade and other receivables

Trade receivables 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.

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 income statement. 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 income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 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 existing 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 income statement, 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.

3.8 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.

3.9 Borrowings

Borrowings represent the loans obtained from financial and government institutions and are measured at their fair value at the time of initial recognition and subsequent to initial recognition at amortized cost using the effective interest rate method.

3.10 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), refer to note 25 as well.

3.11 Taxation

Taxation has been provided for in the financial statements in accordance with Kosovo tax regulations currently in force (Administrative Instruction 01/2005 on implementation of UNMIK regulation no. 2004/51 "On Corporate Income Tax ", 2005/51 Amending UNMIK regulation 2004/51 ".

The income tax charge in the income statement for the year comprises current income tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates in force at the balance sheet date. Taxable profit differs from profit as reported in the income statement 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Revenue recognition

Revenue from sale of electricity comprises of the invoiced value of electricity supplied. 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.

3.13 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 balance sheet and transferred to the income statement on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in the statement of operations in the period in which they become receivable.

3.14 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 balance sheet date 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.

3.15 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 balance sheet date and a reasonable estimate of the amount of the resulting loss can be made.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Critical judgments in applying the Company's accounting policies

In the application of the accounting policies, which are described in this note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

3.17 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below:

Provision of trade receivables and inventories:
In normal course of business, the Company makes estimation for recovery and realisation of receivables and inventories. 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 for environmental, decommissioning and other related matters
During 2008 the Company has performed an internal assessment of environmental, decommissioning and other related provisions including the assessment for ash dump removal. As currently there is no binding legal requirement for such provisions in Kosovo and that the Company has no intention to make such provisions, as at December 31, 2008 the Company has recorded provision only for ash dump removal amounting to EUR 30,000 thousand out of the total assessment of EUR 78,030 thousand. 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.

3.18 Corresponding figures

In order to conform to the current year financial statements presentation, the Company has reclassified the 'Obligation for investment' amounting to EUR 7,830 thousand as 'Deferred grant'. The Company has reclassified this amount as it meets the grant recognition criteria, as amount being spent.

4. PROPERTY, PLANT AND EQUIPMENT

	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)
Cost/Deemed costs						
As at January 1, 2007	61,702	15,512	113,225	271,445	4,962	466,846
Additions	-	-	322	1,353	1,141	2,816
Donations	1,400	-	2,484	13,417	7,888	25,189
Disposals	-	-	(6)	(21)	(41)	(68)
Internal transfers	-	-	5	398	(403)	-
Accumulated impairment	(44,452)	(2,344)	(21,455)	(64,048)	(1,359)	(133,658)
As at December 31, 2007	**18,650**	**13,168**	**94,575**	**222,544**	**12,188**	**361,125**
Additions	-	-	2,026	13,402	1,464	16,892
Donations	-	384	5,689	5,354	17,267	28,694
Disposals	(15)	-	(8)	(464)	-	(487)
Internal transfers	(1,334)	1,334	1,921	8,112	(10,033)	-
Impairment released on assets disposed	-	-	-	(34)	(159)	(193)
As at December 31, 2008	**17,301**	**14,886**	**104,203**	**248,914**	**20,727**	**406,031**

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and forest (in EUR 000)	Land in mines (in EUR 000)	Buildings (in EUR 000)	Equipment (in EUR 000)	Construction in progress (in EUR 000)	Total (in EUR 000)
Accumulated depreciation						
As at January 1, 2007	-	3,950	33,719	84,502	-	122,171
Removal of accumulated depreciation on disposed assets	-	-	(1)	(96)		(97)
Charge for the year	-	1,772	5,479	18,956	-	26,207
As at December 31, 2007	-	**5,722**	**39,197**	**103,362**	-	**148,281**
Charge for the year	-	1,649	5,208	15,519	-	22,376
Removal of accumulated depreciation on disposed assets	-	-	(3)	(344)	-	(347)
As at December 31, 2008	-	**7,371**	**44,402**	**118,537**	-	**170,310**
Net book value						
As at December 31, 2008	**17,301**	**7,515**	**59,801**	**130,377**	**20,727**	**235,721**
As at December 31, 2007	**18,650**	**7,446**	**55,378**	**118,990**	**12,188**	**212,652**

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Disposal of assets
During 2008, the Company disposed off part of its property, plant and equipment out of use, the net carrying value of which amounted to EUR 140 thousand. For the amount of EUR 193 thousand (2007: EUR 95 thousand), related to impairment released on disposed assets, the Company has increased its reserves in equity.

In - kind donations
During 2008, the Company received in - kind donations totaling EUR 28,694 thousand (2007: EUR 25,189 thousand) accounted for through deferred grant account. The related depreciation on these assets for 2008 charged to the income statement in the amount of EUR 4,171 thousand (2007: EUR 3,030 thousand) has caused release of equal amount from the balance of deferred grants (see Notes 12 and 17).

Assets rendered under operating lease
Included in the balance of property, plant and equipment as at December 31, 2008, EUR 1,306 thousand (2007: EUR 1,559 thousand) represents assets rendered under operating lease terms to several organizational units separated from the Company during 2006, as well as to other entities. Following are the details of net carrying value of assets leased:

	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
Buildings	945	1,113
Other	361	446
	1,306	**1,559**

As at December 31, 2008, the Company's equipment amounting to EUR 69,500 thousand is collateralized against a loan from Ministry of Finance and Economy (see Note 11).

Movement of accumulated impairment on assets assessed at January 1, 2005:

	2008 (in EUR 000)	2007 (in EUR 000)
Balance as at January 1 (note 4&5)	134,281	134,376
Release of provision for assets disposed off	(193)	(95)
Balance as at December 31 (note 4&5)	**134,088**	**134,281**

Included in the 'land and forest' and 'buildings' are certain properties, where ownership status is still unresolved. The Company is in process of resolving these matters with the assistance of Government of Kosovo.

5. INTANGIBLE ASSETS

	Software (in EUR 000)
Cost/deemed cost:	
Balance as at January 1, 2007	818
Additions during the year	74
Accumulated impairment	(623)
Balance as at December 31, 2007	269
Additions during the year	203
Balance as at December 31, 2008	472
Accumulated amortization:	
Balance as at January 1, 2007	139
Amortization for the year	21
Balance as at December 31, 2007	160
Amortization for the year	41
Balance as at December 31, 2008	201
Net book value as at December 31, 2008	**271**
Net book value as at December 31, 2007	**109**

6. INVENTORIES

	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
Materials and consumables	26,849	25,226
Lignite	2,504	547
Fuel	1,384	922
Spare parts	7,299	5,419
Others	8,747	5,704
	46,783	37,818
Provision for slow moving and obsolete inventories	(32,226)	(26,461)
	14,557	**11,357**

Provision for slow moving and obsolete inventories

The provision for slow moving and obsolete items of inventories was initially established at a level of 80% from the inventory balance as of December 31, 2003 (excluding lignite and fuel inventories) and was based on management estimations as of that date. During 2008, the Company has reassessed the valuation of inventories, based on the management's best estimate, including slow moving and obsolete inventories (excluding lignite and fuel inventories) and accordingly charged all the write down impact of EUR 5,765 thousand to current year income statement.

7. TRADE AND OTHER RECEIVABLES

	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
Trade receivables:		
Local customers	311,272	279,273
Foreign customers	3,898	3,905
	315,170	**283,178**
Provision for impairment	(297,428)	(265,937)
	17,742	**17,241**
Other receivables:		
Advances to suppliers	42,852	17,120
Advances to employees	489	517
VAT refundable	3,565	1
	46,906	**17,638**
	64,648	**34,879**

As at December 31, 2008, the Company's trade receivables are collateralized against a loan from Ministry of Finance and Economy (see Note 11).

Advances to suppliers include EUR 1,334 thousand as at December 31, 2008, which were given to ex KEK units (Transportantion, Health Care, Food restaurant, Elektroingenering, Ndertimtaria etc) at date of separation of these units from KEK.

Advance to suppliers include EUR 3,000 thousand as at December 31, 2008, which are paid to European Agency for Reconstruction related to Overhaul of the Overburden System for Sibovc South Mine.

Movement in the impairment provision:

	2008 (in EUR 000)	2007 (in EUR 000)
Balance as at January 1,	265,937	244,500
Charge for the period	31,491	21,437
Balance as at December 31,	**297,428**	**265,937**

8. CASH ON HAND AND AT BANKS

	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
Cash at banks – in current accounts	118	4,872
Cash on hand	2	31
	120	**4,903**

Current accounts with banks bear interest at the rate of 2.6% per annum (2007: 0.65% to 1% p.a.)

9. SHARE CAPITAL

As at December 31, 2008 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.

10. RESERVES

Reserves, as detailed below, 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).

The components of the reserve account are as follows:

	Revaluation reserve (in EUR 000)	Other reserves (in EUR 000)	Total (in EUR 000)
As at January 1, 2007	60,304	627,490	687,794
Release of impairment on assets disposed off	-	95	95
As at December 31, 2007	60,304	627,585	687,889
Release of impairment on assets disposed off	(27)	220	193
As at December 31, 2008	**60,277**	**627,805**	**688,082**

11. BOROWINGS

	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
Non–current portion		
Interest free loan from Ministry of Finance and Economy	-	10,000
Interest bearing loan from Ministry of Finance and Economy	8,711	-
	8,711	**10,000**
Current portion		
Interest free loan from Ministry of Finance and Economy	10,000	-
Overdraft on bank's current account	2,116	10,340
	12,116	**10,340**
Total borrowings	**20,827**	**20,340**

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As at December 31, 2008 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.

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As at January 1, 2007	60,304	627,490	687,794
Release of impairment on assets disposed off	-	95	95
As at December 31, 2007	60,304	627,585	687,889
Release of impairment on assets disposed off	(27)	220	193
As at December 31, 2008	**60,277**	**627,805**	**688,082**

11. BOROWINGS

	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
Non–current portion		
Interest free loan from Ministry of Finance and Economy	-	10,000
Interest bearing loan from Ministry of Finance and Economy	8,711	-
	8,711	**10,000**
Current portion		
Interest free loan from Ministry of Finance and Economy	10,000	-
Overdraft on bank's current account	2,116	10,340
	12,116	**10,340**
Total borrowings	**20,827**	**20,340**

11. BOROWINGS (CONTINUED)

During 2008, the Company signed a borrowing contract dated June 23, 2008 with Ministry of Finance and Economy (MFE) for a loan with total limit of EUR 9,400 thousand. As at December 31, 2008, the Company availed EUR 8,711 thousand. This loan is repayable in eight years from the date of first disbursement (including a grace period of twelve months after the end of the term of the withdrawals, which is 12 months from the first withdrawal request) and carries interest at the rate of 7.43% pa. This loan is secured against hypothecation of equipment amounting to EUR 69,500 thousand.

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.

As at December 31, 2008, the Company has an overdraft facility from a local bank with a limit of EUR 15,000 thousand with a maturity till July 31, 2009. This overdraft carries interest at the rate of 4.85% plus 6months EURIBOR and is secured against pledge of trade receivables.

12. DEFERRED GRANTS

Movement in deferred grant account is as follows:

	2008 (in EUR 000)	2007 (in EUR 000)
As at January 1,	62,554	32,565
Additions in property, plant and equipment (Note 4)	28,694	25,189
Grant received from Government for capital investments	24,130	7,830
Grants received in prior years	7,686	-
Amortized during the year (Note 17)	(4,171)	(3,030)
Balance as at December 31,	**118,893**	**62,554**

Included in grant received from Government for capital investments is an amount of EUR 2,091 thousand as at December 31, 2008 (as at December 31, 2007: EUR 5,198 thousand), which is paid by the Company as VAT on capital investments and which is reimbursable from Tax Authorities. The Company intends to invest this amount in capital expenditure in future on reimbursement from Tax Authorities.

Included in additions in property, plant and equipment is an amount of EUR 4,268 thousand, which was recorded based on year-end inventory count and EUR 4,336 related to assets purchased from grants received in previous years.

Following are grant components received during the year:

	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
Property plant and equipment received	20,090	25,189
Received for CAPEX	24,130	-
Income from recovering operating expenses (Note 17)	43,524	13,952
	87,744	**39,141**

13. PROVISIONS

The balance of provisions as at December 31, 2008 represents the Company's estimate for ash dump removal costs from energy generation sites.

14. TRADE AND OTHER PAYABLES

	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
Trade Creditors		
Local suppliers	27,199	28,657
Foreign suppliers	13,880	9,496
	41,079	**38,153**
Other current payables		
VAT payable	-	57
Broadcasting tax	2,367	2,107
Taxes and other duties payable for previous periods	9,021	9,321
Salaries to employees	3,571	3,031
Customers advances	375	622
Other payables	380	878
	15,714	**16,016**
	56,793	**54,169**

Part of the Company's trade payables are secured with guarantees issued by Raiffeisen Bank, the limit of which at December 31, 2008 amounts to EUR 10,232 thousand (2007; EUR 1,550 thousand). The Bank charges monthly fee from the Company at 4% p.a for the instruments issued.

15. ACCURED EXPENSES

	As at December 31, 2008 (in EUR 000)	As at December 31, 2007 (in EUR 000)
Concession fees	1,852	2,678
Obligation for investment	39	4,725
Provision for court cases	1,400	2,900
Other accrued expenses	881	150
	4,172	**10,453**

Obligation from means for Investment
This balance represents contracted but unspent cash received through means of grant from the Kosovo Consolidated Budget (KCB).

As at December 31, 2008, the Company has reassessed the possible impact of court cases. The Company believes that the amount of EUR 1,400 thousand is a best estimate for any probable outflow of cash.

16. SALES

	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
Sale of electricity		
Customers (10kV, 35kV and 0.4kV)	49,958	39,152
Industrial customers	21,891	11,244
Householders	78,521	66,474
Export of electricity	8,241	10,307
	158,611	**127,177**
Other sales		
Income from re-connection services	1,245	4,075
Sales of coal	1,561	218
Other	1,626	1,822
	4,432	6,115
	163,043	**133,292**

17. INCOME FROM GRANTS

	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
Grants for operational purposes:		
Electricity imported	42,802	11,451
Repairs and maintenance	632	730
Others	90	1,771
	43,524	**13,952**
Amortization of deferred grants related to assets (Note 12)	4,171	3,030
	47,695	**16,982**

18. OTHER INCOME

	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
Court decision on behalf of KEK	-	3,651
Pension fund liabilities	-	1,407
Other income	6,909	454
	6,909	**5,512**

Included in the other income for 2008 is an amount of EUR 4,344 thousand and EUR 1,782 thousand for inventory and property, plant and equipment respectively, recorded as a result of December 31, 2008 inventory count.

19. STAFF COSTS

	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
Salaries, net	34,192	31,517
Pension contributions and taxes	6,355	6,178
Other	3,130	3,992
	43,677	**41,687**

20. ELECTRICITY AND OTHER UTILITIES

	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
Electricity purchases	53,923	47,860
Fuel	9,370	7,400
Gas and water	1,061	1,146
Exchange of electricity	6,076	2,975
Transmission of electricity	15,097	10,421
	85,527	**69,802**

Electricity purchases represent the cost of electricity imported to consume it locally.

21. MAINTENANCE COSTS

	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
Repairs	6,791	4,841
Current maintenance	1,034	380
	7,825	**5,221**

22. OTHER OPERATING EXPENSE

	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
Transport services	1,953	2,935
Insurance expenses	2,410	2,372
Concessions fee	2,055	1,754
Lost court dispute	46	1,610
Licenses	1,196	1,004
Non-production expenses	2,005	1,833
Other	3,953	3,882
	13,618	**15,390**

23. FINANCIAL CHARGES, NET

	Year ended December 31, 2008 (in EUR 000)	Year ended December 31, 2007 (in EUR 000)
Interest income on overdue balances	79	249
Interest expense on borrowings and delayed payments	(830)	(325)
Financial charges, net	**(751)**	**(76)**

24. TAXATION

The charge for the year can be reconciled to the profit per 2008 income statement as follows:

	Year ended December 31, 2008 (in EUR '000)	Year ended December 31, 2007 (in EUR '000)
Loss before taxation	(1,945)	(36,264)
Tax at rate of 20%	(389)	(7,253)
Unrecognized losses varied forward	389	7,253
	-	-

Under Law nr. 03/L-113 dated December 18, 2008 on corporate taxes, income tax rate will be 10% for corporate entities from January 1, 2009 onward (until December 31, 2008 it was 20%).

The Company incurred loss from its operations for 2008 and 2007 thus has no income tax liability for the periods considered.

Tax losses may be carried forward to be set of the next five years following the year in which the tax loss was incurred. During 2008 and previous years the Company has incurred tax losses. No provision for deferred tax on past losses or timing differences has been made due to the uncertainty as to when or if the Company will start earning taxable profits.

25. COMMITMENTS AND CONTINGENCIES

Commitments:
As at December 31, 2008, the Company has un-availed borrowing facility from Ministry of Finance and Economy amounting to EUR 75,000 thousand. This facility is secured against hypothecation of equipment amounting to EUR 85,000 thousand.

Litigations:
As at December 31, 2008, legal proceedings raised against the Company amount to EUR 6,952 thousands (2007: EUR 6,278 thousand). No provision has been made for the cases, where the Company's legal department believes that it is unlikely that any cash outflow will arise.

Employee benefits:
The Company is paying 3 salaries to its employees who retire at the age of 65, where the Collective Agreement with employees in this regard is already expired and the Company has no intention to have any more such agreement in future. Since there is no Law in Kosovo regarding retirement benefits, the Company believes that it is under no legal or constructive obligation to record any provision for employees' retirement benefits.

Bank guarantees:
As at December 31, 2008, outstanding guarantees issued in favor of the Company were amounting to EUR 35,700 thousand.

During July 2007 the Company entered into Trade Finance Credit Line Agreement with Raiffeisen Bank for issuance of guarantees, the initial limit of which was set at EUR 5,000 thousands. As at December 31, 2008 the guarantees issued by the Company amounts to EUR 12,732 thousand (as at December 31, 2007: EUR 1,550 thousand).

Mineral rights:
The Company has received an exploration license over the current mining areas and the process of obtaining an exploration license over a new mining area is ongoing. It is likely that granting the exploitation license for new mines will be accompanied by clauses requiring the rehabilitation and removal of contaminated materials. Work will be undertaken during the next years to evaluate the extent of this problem, however it represents a potential liability which has not been accounted for in these financial statements.

Site re-allocations:
KEK plans to develop a new coalmine, which would require the relocation of approximately 400 houses in Hade village. The amount estimated to be paid for such relocation is approximately EUR 36 million.

26. MINERAL RESERVES

The Company has made an estimation of the reserves and resources within its historical license areas at the end of 2003. The relevant governmental authority, the Directorate of Mines and Minerals, has confirmed these.

The Company has applied for an exploration license over a new area of 834 hectares that extends to the north of the existing mines. This has not yet been granted but the application secures the Company's rights to the reserves in the area, which are considered to be approximately 700 million tones of exploitable lignite. A feasibility study will be carried out to demonstrate the economic viability of extracting these reserves and this will be used to apply for an extraction license. 21.

27. TECHNOLOGICAL LOSSES

The Company incurs substantial technical and trade losses of electrical power in its operations. Technical losses arise upon the transmission of electrical power, as well as from one voltage to another.

Trade losses represent electricity consumed by customers, which the Company fails to identify and invoice. Management estimates total technological losses of electric power, for the year ended 31 December 2007, to amount to 48 % of the total electricity supplied.

28. FINANCIAL RISK MANAGEMENT

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 balance sheet. Trade receivables are therefore monitored on monthly basis and customers warned promptly.

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.

Market risk

The Company has not entered into any hedging transactions to cover its exposure to price movements arising from its operations.

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 the Company is not exposed to interest rate risk on its financial instruments except for borrowings, which carry fixed interest rate.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 balance sheet 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.

Foreign exchange rate risk

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the company is not exposed to any significant foreign currency risk as majority of the transactions are carried in EUR.

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Management believes that the carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

29. SUBSEQUENT EVENTS

Subsequent to the year end, Government of Kosovo is planning to privatize certain unbundled units of the Company in near future. The future operations of the Company may be impacted by these events.

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