

KOSOVO ENERGY CORPORATION J.S.C

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013, and the Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for 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 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 2013, 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. 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, 2013, the Company has booked provisions relating to these environmental costs amounting to Eur 35 million (2012: 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.
- ii. We draw attention to note 2.3 to the financial statements that disclose Management's judgments and assumptions in preparing the financial statements under going concern basis. Despite the fact that the company has reported an operational profit for a number of years, the Company is still dependent of long term financing by the Government. As discussed in Note 12, certain interest and principal instalments are already past due and the Company may not have the repayment capability to meet loan repayments as they come due. As at December 31, 2013 there is no formal decision to postpone repayment of loans. Our opinion is not qualified in relation to this uncertainty.

Ernst & Young Certified Auditors sh.p.k.

Ernst & Young Certified Auditors sh.p.k.

April 29, 2014.

KOSOVO ENERGY CORPORATION J.S.C.

STATEMENT OF FINANCIAL POSITION as at December 31, 2013

	Notes	2013 (in EUR 000)	2012 (in EUR 000) Restated
ASSETS			
Non-current assets			
Property, plant and equipment	5	363,316	366,475
Intangible assets	6	67	203
Assets leased	5	146	-
		363,529	366,678
Current assets			
Inventories	7	21,936	19,542
Trade and other receivables, net	8	35,267	41,986
Cash on hand and at banks	9	26,820	18,196
		84,023	79,724
Disposal Group	4	-	81,682
TOTAL ASSETS		447,552	528,084
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	10	25	25
Reserves	11	560,393	658,295
Accumulated losses		(496,944)	(523,393)
		63,474	134,928
Non-current liabilities			
Borrowings – noncurrent portion	12	137,878	161,946
Deferred grants	13	60,054	67,479
Provisions	14	60,922	58,570
Deferred tax liability (restated)*	25	17,152	18,544
		276,006	306,539
Current Liabilities			
Borrowings – current portion	12	74,060	44,328
Trade and other payables	15	27,190	39,703
Accrued expenses	16	6,822	2,587
		108,072	86,618
Liability associated to disposal group	5	-	-
TOTAL EQUITY AND LIABILITIES		447,552	528,084

* Financial statements for the year ended December 31, 2012 were restated – see Note 3.1

Approved for issue on behalf of the Management and signed on its behalf on April 28, 2014.

Mr. Arben Gjuka

Mr. Salih Bytyqi

Managing Director

Chief Financial Officer

The statement of financial position is to be read in conjunction with the notes set out on pages 5 to 35, forming an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2013

	Notes	Year ended December 31, 2013 (in EUR 000)	Year ended December 31, 2012 (in EUR 000)
Sales	17	194,271	222,591
Income from grants	18	21,129	46,470
Other income	19	13,211	915
		228,611	269,976
OPERATING EXPENSES			
Depreciation and amortization	5,6	(42,208)	(43,210)
Staff costs	20	(44,989)	(57,115)
Electricity and other utilities	21	(33,803)	(82,817)
Maintenance costs		(4,584)	(7,381)
Materials and supplies		(9,373)	(21,529)
Provision for write down of inventories	7	-	(2,830)
Loss from impairment of receivables	8	(13,340)	(13,456)
Change in provisions	14	(2,352)	(1,731)
Other operating expenses	22	(40,131)	(16,412)
		(190,780)	(246,481)
Profit from operations		37,831	23,495
Finance expense, net	23	(11,383)	(8,135)
Profit before taxation		26,448	15,360
Taxation	24	-	-
Net Profit for the year		26,448	15,360
Other comprehensive income/(loss)*		1,392	(786)
Total comprehensive income		27,840	14,574

* Financial statements for the year ended December 31, 2012 were restated – see Note 3.1

The statement of comprehensive income is to be read in conjunction with the notes set on pages 5 to 35 forming an integral part of the financial statements

KOSOVO ENERGY CORPORATION J.S.C.

STATEMENT OF CHANGES IN EQUITY for the year ended December 31, 2013

	Share capital Euro 000	Reserves* Euro 000	Accumulated losses Euro 000	Total Euro 000
Balance as at January 1, 2012	25	664,356	(538,752)	125,629
Transactions with owners	-	-	-	-
Profit for the year	-	-	15,360	15,360
Other comprehensive income*	-	(786)	-	(786)
Total comprehensive income	-	(786)	15,360	14,574
Transfer of PPE to KOSTT (note 6 and 12)	-	(5,275)	-	(5,275)
Balance as at December 31, 2012	25	658,295	(523,392)	134,928
Transactions with owners	-	-	-	-
Profit for the year	-	-	26,448	26,448
Other comprehensive income	-	1,392	-	1,392
Total comprehensive loss	-	1,392	26,448	27,840
Transfer of assets to KEDS	-	(95,636)	-	(95,636)
Transfer of PPE to KOSTT (note 6 and 12)	-	(3,658)	-	(3,658)
Balance as at December 31, 2013	25	560,393	(496,944)	63,474

* Financial statements for the year ended December 31, 2012 were restated – see Note 3.1

The Statement of Changes in Equity is to be read in conjunction with the notes set on pages 5 to 35, forming an integral part of the financial statements.

KOSOVO ENERGY CORPORATION J.S.C.

STATEMENT OF CASH FLOWS for the year ended December 31, 2013

		2013	2012
	Note	(in EUR 000)	(in EUR 000)
Cash flows from operating activities			
Net profit before tax		26,448	15,359
Adjustments for non-cash items:			
Depreciation and amortization	5,6	42,208	43,210
Amortization of grants	18	(21,129)	(46,470)
Interest Income	23	(308)	(384)
Interest Expenses	23	11,691	8,519
Provision for doubtful debts	8	13,340	13,456
Provision for environmental and pension costs	14	2,352	1,731
Provision for write down/back of inventories	7	(3,248)	2,830
Property, plant and equipment written off	5,6	235	1,557
Profit before changes in operating assets and liabilities		71,589	39,808
Decrease/(Increase) in inventories		854	5,457
Decrease/(Increase) in trade and other receivables		(14,388)	(21,097)
Increase/(Decrease) in trade and other payables		(12,513)	5,431
Cash generated from operating activities		45,542	29,599
Interest Received		308	384
Interest Paid		-	-
Net Cash flows from Operating Activities		45,850	29,983
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(49,178)	(85,421)
Purchase of intangible assets	6	(40)	(410)
Cash used in investing activities		(49,218)	(72,149)
Cash flows from financing activities:			
Grants received during the year		12,300	13,682
Loans received during the year		-	10,802
Cash generated from financing activities		12,300	10,802
Net increase/(decrease) in cash equivalents		8,624	(31,365)
Cash and equivalents at the beginning of the year		18,196	49,561
Cash and equivalents at the end of the year		26,820	18,196

The Statement of Cash Flows is to be read in conjunction with the notes set on pages 5 to 35, forming an integral part of the financial statements

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

1. BACKGROUND INFORMATION

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

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

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

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

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

- Lignite Production Division;
- Electricity Production Division;
- 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).

Hence, as of May 8th, 2013, the supply network and distribution divisions were no longer operated by KEK.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Basis of preparation

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

2.3 Going concern assumption

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

In making this assumption, management has taken in consideration the fact that the Company's accumulated losses are still significant and as at December 31, 2013 amount to EUR 496 million. However, the Company has generated profits in recent years and subsequent to the unbundling of its Distribution and Supply divisions, it is no longer relying on Government grants to support its operations.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Going concern assumption (Continued)

On the other hand, the Company is still relying on long term Government loans which as discussed in Note 12 are not being repaid by the Company, although certain interest and principal installments are already past due.

Although there is no formal decision to postpone the repayment of loans, Management believes that the repayment of loans will be made in a manner that is consistent with KEK's repayment capabilities and that the Government will not request a forced repayment of loans.

The Company's future viability is also dependent on the determination of tariffs that it will sell the produced energy to the private distributor of the Company.

2.4 Functional Currency

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

2.5 Foreign currency transactions

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

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

2.6 Property, plant and equipment

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

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

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

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (continued)

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

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

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the statement of financial position. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

2.7 Intangible assets

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

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

2.8 Impairment of non - financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial instruments

The Company classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Initial recognition and derecognition

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

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

a) Financial assets at fair value through profit and loss

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

b) Loans and receivables

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

Trade receivables are classified in this category. They are recognized initially at fair value and subsequently measured at recoverable amounts, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial Instruments (continued)

b) Loans and receivables

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

(c) Held-to-maturity financial assets

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

(d) Available-for-sale financial assets

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

Fair Values

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Inventories

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

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

2.11 Cash and cash equivalents

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

2.12 Borrowings

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

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

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

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.

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

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

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

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

2.16 Revenue recognition

Revenue from sale of electricity is recognized when electricity is supplied to customers. Billings for electricity sale are made every month within the first 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 recognized 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 recognized 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 judgments, 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 recognized 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.

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

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 for environmental, decommissioning and other related matters

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

3. CORRECTION OF ERRORS, CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

3.1 Correction of errors

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 as at January 1, 2012 and December 31, 2012 were restated as follows:

	January 1, 2012 (in EUR 000)	December 31, 2012 (in EUR 000)
Reserves before restatement	682,114	676,839
Amount of restatement	(17,758)	(18,544)
Reserves after restatement	664,356	658,295
Deferred tax Liability	-	-
Amount of restatement	(17,758)	(18,544)
Deferred tax liability after restatement	(17,758)	(18,544)
Statement of other comprehensive income	-	-
Amount of restatement		(786)
Other Comprehensive income after restatement		(786)

3. CORRECTION OF ERRORS, CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

3.1 Correction of errors (continued)

The Company had not recognized any deferred tax liabilities in relation to taxable temporary differences arising from its election in to measure an item of Property, Plant and Equipment at the date of transition to IFRSs in 2005 at its fair value as deemed cost. The deferred tax liability was not recognized as it was deemed to be offset against deferred tax assets arising from carried forward losses.

However, since these deferred tax liabilities relate to an item that is accounted in equity, the liability should have been accounted in equity as well. Management restated the financial statements as indicated above to account for the error.

3.2 Changes in accounting policies and disclosures

Standards issued but not yet effective and not early adopted

As at 31 December 2013 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 28 Investments in Associates and Joint Ventures (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2014. As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, 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 relevant amendment has no effect on the Company's financial statements.

- **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. These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify 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. Management has assessed that such amendment has no impact over the financial statements of the Company.

- **IFRS 9 Financial Instruments: Classification and Measurement and subsequent amendments to IFRS 9 and IFRS 7-Mandatory Effective Date and Transition Disclosures; Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39**

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 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 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 subsequent package of amendments issued in November 2013 initiate further accounting requirements for financial instruments.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

Standards issued but not yet effective and not early adopted (continued)

These amendments a) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; b) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 Financial Instruments to be applied in isolation without the need to change any other accounting for financial instruments; and c) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

- **IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets**

This amendment is effective for annual periods beginning on or after 1 January 2014. These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. Management has assessed that such amendment will not have an impact on the Company's financial statements.

- **IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting**

This amendment is effective for annual periods beginning on or after 1 January 2014. Under the amendment there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The IASB made a narrow-scope amendment to IAS 39 to permit the continuation of hedge accounting in certain circumstances in which the counterparty to a hedging instrument changes in order to achieve clearing for that instrument. Management has assessed that such amendment will not have an impact on the Company's financial statements.

- **IAS 19 Defined Benefit Plans (Amended): Employee Contributions**

The amendment is effective from 1 July 2014. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. Management has assessed that such amendment will not have an impact on the Company's financial statements.

- **IFRIC Interpretation 21: Levies**

The 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. Management has assessed that such amendment will not have an impact on the Company's financial statements.

- **The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. Management has assessed that such amendment will not have an impact on the Company's financial statements.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

Standards issued but not yet effective and not early adopted (continued)

- **IFRS 2 Share-based Payment:** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- **IFRS 3 Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- **IFRS 8 Operating Segments:** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- **IFRS 13 Fair Value Measurement:** This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- **IAS 16 Property Plant & Equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- **IAS 24 Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- **IAS 38 Intangible Assets:** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- **The IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. Management has assessed that such amendment will not have an impact on the Company's financial statements.
- **IFRS 3 Business Combinations:** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IFRS 13 Fair Value Measurement:** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- **IAS 40 Investment Properties:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

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4. DISPOSAL GROUP

On 17 November 2012 the Government of Kosovo through a bidding procedure decided to privatize the network and distribution arm of KEK 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, KEDS. 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. The full transfer of these assets was effective on May 8, 2013.

During the period from January 1, 2013 until the transfer, KEK and KEDS completed the process of the assets that would be transferred. In addition, financial assets consisting of the April 2013 invoice of energy and uncollected billings of February and March 2013 were agreed to be transferred to KEDS as part of the privatization consideration.

Assets transferred as at 31 December 2013 and the disposal group of the network and distribution as at December 31, 2012 are as follows.

ASSETS	2013 (in EUR 000)	2012 (in EUR 000)
	Assets transferred	Disposal group
Property, plant and equipment	74.549	75.075
Intangible Assets	530	416
Inventories, net	2.376	6.191
Financial Assets	18.180	-
Net assets directly associated with the Disposal Group	95.635	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 considered in 2012 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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5. PROPERTY, PLANT AND EQUIPMENT

	Land and forest (in EUR 000)	Land in mines (in EUR 000)	Buildings (in EUR 000)	Equipment (in EUR 000)	Construction in progress (in EUR 000)	Total (in EUR 000)
Cost/Deemed costs:						
As at January 1, 2012	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	(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
As at January 1, 2013	11.437	38.452	33.165	472.306	14.872	570.232
Additions	-	591	1.400	16.953	30.369	49.313
Written off	-	-	-	(570)	-	(570)
Internal transfers	-	603	700	20.379	(21.734)	(52)
Disposal	-	-	-	-	-	-
Transfers to KEDS	-	-	(96)	(2341)	-	(2.437)
Transfers to KOSTT	-	-	(80)	(317)	(8.169)	(8.566)
As at December 31, 2013	11.437	39.646	35.089	506.410	15.338	607.920

On January 29, 2014, the Government of Kosovo issued decision No. 121168 granting to the government-owned Energy Companies the right of use and other property rights to all assets placed in energy sites for which there were no formal ownership records. Following the decision, the Company has full and formal ownership of its assets.

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

	Land and forest (in EUR 000)	Land in mines (in EUR 000)	Buildings (in EUR 000)	Equipment (in EUR 000)	Construction in progress (in EUR 000)	Total (in EUR 000)
Accumulated depreciation:						
As at January 1, 2012	-	10.668	2.071	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)
Transfer of assets to KOSTT	-	-	(231)	(180)	-	(411)
As at December 31, 2012	-	11.196	15.436	177.125	-	203.757
Charge for the year	-	572	2.002	39.611	-	42.185
Removed on written off assets	-	-	-	(336)	-	(336)
Removed on transfer to KEDS	-	-	(48)	(1.058)	-	(1.106)
Transfer of assets to KOSTT	-	-	(2)	(40)	-	(42)
As at December 31, 2013	-	11.768	17.388	215.302	-	244.458
Net book value:						
As at December 31, 2012	11.437	27.256	17.729	295.181	14.872	366.475
As at December 31, 2013	11.437	27.878	17.701	291.108	15.338	363.462

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

KOSOVO ENERGY CORPORATION J.S.C.
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

6. INTANGIBLE ASSETS

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

	Software (in EUR 000)
Cost/deemed cost:	
Balance as at January 1, 2012	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
Additions during the year	-
Transfers	52
Disposal	(543)
Balance as at December 31, 2013	245
Accumulated amortization:	
Balance as at January 1, 2012	416
Amortization for the year	130
Disposal	(13)
Balance as at December 31, 2012	533
Amortization for the year	23
Disposal	(378)
Balance as at December 31, 2013	178
Net book value as at December 31, 2012	203
Net book value as at December 31, 2013	67

7. INVENTORIES

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

	2013 (in EUR 000)	2012 (in EUR 000)
Materials and consumables	32.794	40.853
Lignite	6.069	4.937
Fuel	1.726	1.736
Spare parts	9.697	9.547
Others	10.715	10.973
	61.001	68.046
Assets classified as Disposal Group (Note 5)	-	(6.191)
Provision for obsolete inventories	(39.065)	(42.313)
	21.936	19.542

KOSOVO ENERGY CORPORATION J.S.C.
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7. INVENTORIES (CONTINUED)

Movements in obsolete inventories are presented as follows

	2013	2012
	(in EUR 000)	(in EUR 000)
Balance at 1 January	(42.313)	(39.483)
Charge for the Period	(5.375)	(2.830)
Provision related to disposal group	3.003	-
Reversal	5.620	-
Balance at 31 December	(39.065)	(42.313)

8. TRADE AND OTHER RECEIVABLES

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

	2013	2012
	(in EUR 000)	(in EUR 000)
Trade receivables:		
Local customers	39.631	393.061
Foreign customers	3.744	4.497
	43.375	397.558
Provision for bad debts	(23.158)	(376.952)
	20.217	20.606
Other receivables:		
Advances to suppliers	8.462	14.169
Advance to employees and other receivables	6.588	7.211
Total other receivables	15.050	21.380
Total	35.267	41.986

Movements in Provision for bad debts are shown as follows:

	2013	2012
	(in EUR 000)	(in EUR 000)
Balance at 1 January	(376.952)	(363.496)
Write offs of old receivables provision	367.134	-
Charge for the Period	(13,340)	(13.456)
Balance at 31 December	(23,158)	(376.952)

Subsequent to the transfer of the Distribution and Supply divisions, KEK entered into an agreement with KEDS to assign to KEDS the collection of outstanding receivables and KEK has written off all the amounts receivable from individual and commercial clients, which were already fully provided for. The Gross amount of these receivables on the date of transfer was Eur 416 million and the balance as at December 31, 2013 is 409 million. Provisions are created for the following:

	2013	2012
	(in EUR 000)	(in EUR 000)
Customers	-	368,574
KEDS	14,780	-
TREPCA	3,887	3,887
FERRONIKEL	748	748
Provision for EPS Serbia and KESH - exports	3,743	3,743
Balance at 31 December	(23,158)	(376,952)

KOSOVO ENERGY CORPORATION J.S.C.
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9. CASH ON HAND AND AT BANKS

	2013	2012
	(in EUR 000)	(in EUR 000)
Cash at banks	26.818	18.192
Cash on hand	2	4
	26.820	18.196

Current accounts with banks bear interest in the range of 2.65% to 0.65% per annum (2012: 2.65% to 0.65% per annum). The fair value of cash at banks and on hand is Euro 26.820k (2012: Euro 18.196 k).

10. 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.

11. 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.

After the restatement of the financial statements as described in Note 3, reserves also include the deferred tax effect on the revaluation of property, plant and equipment subsequently carried as deemed cost upon transition to IFRS.

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12. BORROWINGS

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

	2013	2012
	(in EUR 000)	(in EUR 000)
Non-current portion		
Interest bearing loan from Ministry of Finance and Economy	137.878	161.946
	137.878	161.946
Current portion		
Interest free loan from Ministry of Finance and Economy	-	6.000
Interest bearing loan from MoFE – Past due	30.007	-
Interest bearing loan from MoFE – Current portion	24.068	30.007
Accrued Interest (past due)	19.985	8.321
	74.060	44.328
Total borrowings	211.938	206.274

Loan 1 (Rehabilitation of A5 block):

During 2008, the Company signed a borrowing contract dated June 23, 2008 with Ministry of Finance and Economy ("MoFE") 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. As of the year ended 31 December 2013 the outstanding principal is EUR 8,813 thousand (the amount of EUR 587 thousand of principal and the amount of EUR 346 thousand of interest has been paid in 2010). As at 31 December 2013, the amount of EUR 2,350 thousand of principal and interest of EUR 851 thousand are due for payment.

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

During 2009, the Company signed a borrowing contract dated June 4, 2009 with MoFE for a loan with total limit of EUR 70,000 thousand. As at December 31, 2012 the Company availed EUR 60,457 thousand; no further withdrawals were made in 2013. 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. As at 31 December 2013 principal and interest payments of EUR 7,557 and EUR 3,514 thousand respectively were due for payments.

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 MoFE 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. As at 31 December 2013 principal and interest payments of EUR 18,750 thousand and EUR 7,308 thousand respectively were due for payments.

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

On January 27, 2009, the Company signed a borrowing contract with MoFE 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. As at 31 December 2013 principal and interest payments of EUR 1,350 thousand and EUR 425 thousand respectively were due for payments.

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

On April 19, 2010, the Company signed a borrowing contract with MoFE for a loan with total limit of EUR 58,000 thousand. As at December 31, 2012, the Company availed EUR 30,930 thousand; no further withdrawals were made in 2013. 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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12. 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 MoFE 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. As at the year ended 31 December 2013 the amount of principal outstanding is EUR 11,353 thousand and no repayments are due.

Interest free loan:

During 2005, the Company obtained a loan from MoFE 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 and is fully repaid as of 31 December 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.

	2013	2012
	(in EUR 000)	(in EUR 000)
Past due (including accrued interest)	49.992	8.321
Within one year	24.068	36.007
After one year but not more than five years	96.270	85.046
More than five years	41.608	76.900
	211.938	206.273

Repayment of government loans:

As described above KEK has not paid any interest on the government loans and a number of loans have principal amounts that have fallen due as at December 31, 2013. The Government has not requested payment from KEK, however there is no formal agreement that defers the payment of the Government loans.

Management acknowledges that the Company does not have the ability to fully service the government debt according to the current repayment schedule and that currently there is no formal decision by the Government whether the Company should start repayment of loans; defer them further or whether the loans will be ultimately capitalized.

13. DEFERRED GRANTS

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

	2013	2012
	(in EUR 000)	(in EUR 000)
As at January 1,	67.479	99.688
Grants received during the year	20,375	13.682
Operational grants amortized	(12,300)	(13.350)
Amortized during the year (Note 17)	(8.829)	(10.577)
Grants related to Disposal Group	(1.806)	(19.355)
Eliminated on transfer of assets to KOSTT (refer note 4)	(4.865)	(2.609)
Balance as at December 31,	60.054	67.479

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, 2013 (Ref. to note 6)

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14. PROVISIONS

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

(in EUR 000)	KEDS	2013				2012			
		Clean-up, land reclamation	Legal cases	Staff pension	Total	Clean-up and land reclamation	Legal cases	Staff pension	Total
Balance as at January 1,	-	39.642	16.135	2.793	58.570	42.830	10.811	3.198	56.839
Charge during the year	5.968	(4.642)	1.505	(479)	2.352	(3.188)	5.324	(405)	1.731
As at December 31,	5.968	35.000	17.640	2.314	60.922	39.642	16.135	2.793	58.570

Clean-up and land reclamation provisions:

The balance of provision as at December 31, 2013 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.

	2013 (in EUR 000)	2012 (in EUR 000)
Clean-up and land reclamation	1.400	1.742
Conversion of dry ash to wet	2.350	7.800
Stored chemical removal	750	-
Ash dump removal	12.000	12.000
Overburden dump	2.500	2.500
Decommissioning of gasification plant	15.600	15.600
Air reduction pollution in Kosovo B	400	-
	35.000	39.642

Legal provision:

As at December 31, 2013, the Company has reassessed the possible impact of court cases. The Company believes that the amount of EUR 17.640k (December 31, 2012: EUR 16,135k) 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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15. 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.

	2013	2012
	(in EUR 000)	(in EUR 000)
Trade Creditors		
Creditor		
Local suppliers	13.360	26.912
Foreign suppliers	2.957	7.616
	16.317	34.528
Other current payables		
Salaries to employees	3.379	3.577
Customers advances	5.513	76
VAT	1.806	1.339
Other payables	175	183
	10.873	5.175
	27.190	39.703

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.

16. ACCRUED EXPENSES

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

	2013	2012
	(in EUR 000)	(in EUR 000)
Lignite royalty fee	6.504	567
Other accrued expenses	318	2.020
	6.822	2.587

Lignite royalty fee represents royalties paid in connection with the mining activities of the Company for extraction of lignite used in the power plants. The royalty tax was increased to Eur 3\ton in 2013 (2012: Eur 0.26\ton)

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17. SALES

The Company's revenues are composed as follows:

	Year ended 31 December 2013 (in EUR 000)	Year ended 31 December 2012 (in EUR 000)
Sale of electricity		
Domestic and industrial customers	137.800	100.203
Households	43.116	101.749
Export of electricity	8.122	14.291
	189.038	216.243
Other sales		
Sales of coal	2.976	905
Other	2.257	5.443
	5.233	6.348
	194.271	222.591

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

18. INCOME FROM GRANTS

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

	Year ended 31 December 2013 (in EUR 000)	Year ended 31 December 2012 (in EUR 000)
Grants for import of electricity	11.644	13.350
Grants from service	656	3.188
Amortization of deferred grants related to property, plant and equipment	8.829	10.577
Amortization of deferred grants related to PPE classified in Disposal Group	-	19.355
	21.129	46.470

19. OTHER INCOME

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

	Year ended 31 December 2013 (in EUR 000)	Year ended 31 December 2012 (in EUR 000)
Collection of client receivables from KEDS	5.987	-
Decrease in environmental provisions	4.193	-
Income from rent	92	178
Other income	2.939	737
	13,211	915

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20. STAFF COSTS

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

	Year ended 31 December 2013 (in EUR 000)	Year ended 31 December 2012 (in EUR 000)
Salaries, net	36.251	44.736
Pension contributions and taxes	6.493	8.013
Other	2.245	4.366
	44.989	57.115

The headcount is spread as follows:

	Year ended 31 December 2013 Number of Employees	Year ended 31 December 2012 Number of Employees
Mining Activity	3.124	3.150
Generation Activity	1.530	1.481
Network	-	1.109
Supply	-	1.279
Headquarters	192	430
	4.846	7.449

21. ELECTRICITY AND OTHER UTILITIES

	Year ended 31 December 2013 (in EUR 000)	Year ended 31 December 2012 (in EUR 000)
Electricity purchases	13.239	49.031
Fuel	9.387	14.621
Transmission of electricity	8.099	16.547
Gas and water	850	989
Exchange of electricity	2.228	1.629
	33.803	82.817

The Company has purchased electricity only until the distribution and supply divisions were unbundled on May the 8th.

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22. OTHER OPERATING EXPENSES

	Year ended 31 December 2013 (in EUR 000)	Year ended 31 December 2012 (in EUR 000)
Lignite royalty fee	24.662	2.085
Provision for KEDS (Note 14)	5.968	-
Insurance expenses	1.870	1.803
Transport services	239	172
Licenses	951	524
Non-production expenses	996	739
Other	5.445	11.089
	40.131	16.412

Included in "Other" are provisions in connection to legal cases of Eur 4.600 thousand (2012: 5,324 thousand).

23. FINANCIAL INCOME/EXPENSES NET

	Year ended 31 December 2013 (in EUR 000)	Year ended 31 December 2012 (in EUR 000)
Interest income on overdue balances	308	384
Interest expense on borrowings and delayed payments	(11.691)	(8.519)
Financial income/(charges), net	(11.383)	(8.135)

24. TAXATION

	Year ended 31 December 2013 (in EUR 000)	Year ended 31 December 2012 (in EUR 000)
Profit before taxation	26,448	15,360
<i>Adjustments for tax purposes:</i>		
Depreciation	10,321	4,769
Less expenses capitalized	(177)	(632)
Other expenses	-	1,106
Profit before utilization of tax losses	36,592	20,603
Tax losses as at January 1,	(36,999)	(57,602)
Tax losses carried forward as at December 31,	(407)	(36,999)

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, 2012, and 2013 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, 2013 may differ significantly compared to the one reported in these financial statements.

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25. DEFERRED TAX ASSETS AND LIABILITIES

In 2013, the Company carried forward losses amount to Eur 407 thousand (2012: 36.999 thousand). Management has not recognized any deferred tax assets at the rate of 10% in relation to these carried forward losses.

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

Deferred tax liability arises on the following items

	Year ended 31 December 2013 (in EUR 000)	Year ended 31 December 2012 (in EUR 000)
Deemed Cost	325,774	443,168
Tax carrying amount	154,252	256,724
Taxable temporary difference	171,522	185,444
Deferred tax liability at 10%	17,152	18,544

26. COMMITMENTS AND CONTINGENCIES

Commitments:

As at December 31, 2013, the Company has capital commitments of EUR 15,130 thousand (2012: EUR 12,471 thousand). The Company has no operational lease commitments as at year end.

Litigations:

The company in ordinary course of its business is involved in 743 lawsuits (2012: 659 cases). 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.

Movement in provision for legal cases is as follows:

	Amount of Provision	Number of Cases
31.12.2012	16,135,431	659
New Claims	6,258,102	180
Claims closed	4,753,690	96
31.12.2013	17,639,843	743

The decrease in average claim remaining is impacted by the payment of one claim to the KOST, the public transmission utility of 3.5 million Euros, which was significantly above the average.

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26. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Interest and repayment of government loans:

As described in Note 12, 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. No further withdrawals were made in 2013.

The loans were originally granted with an 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, 2013 amounting to Eur 19,985,192 (2012: Eur 8,321,406).

In addition, as at December 31, 2013, certain principal repayments are already past due as described in Note 12. The Company has not received a request for payment by the Government for these loans.

Bank guarantees:

As at December 31, 2013, outstanding guarantees issued in favor of the Company were amounting to EUR 5.075k (as at December 31, 2012: EUR 6.231k).

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	17.5
"Kosova Thëngjilli" (Kosova Coal), decommissioning and rehabilitation of the environment in the area of TC Kosova A	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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27. FINANCIAL RISK MANAGEMENT

A:- CAPITAL RISK MANAGEMENT

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

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

Gearing ratio

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

	2013	2012
	(in EUR '000)	(in EUR '000)
Debt	245.949	248.564
Equity	93.253	153.471
Debt to equity ratio	264%	162%

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. Subsequent to the transfer of the Distribution and Supply operations, KEK has significantly reduced its exposure of credit risk.

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

C:- Market risk

The Company's activities expose it primarily to the financial risk of changes in interest rates, as below in 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.

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

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27. FINANCIAL RISK MANAGEMENT (Continued)

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, 2013 and 2012, 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.

	2013	2012
	(in EUR '000)	(in EUR '000)
Fixed rate interest		
Financial assets	28.819	18.192
Financial liabilities	211.938	200.274
Variable rate interest	-	-

Since the company's financial liabilities are at fixed interest rate bearing the Company is not affected from any fluctuation of interest rates.

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27. 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, 2013						
	Within 1 Month	From 1 to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000	Euro 000
Financial Assets						
Cash on hand and with banks	26.820	-	-	-	-	26.820
Trade and other receivables	15.174	17.623	1.080	1.390	-	35.267
Total financial assets	41.994	17.623	1.080	1.390	-	62.087
Financial Liabilities						
Trade and other payables	-	27.190	-	-	-	27.190
Provisions	-	550	9.168	7.500	43.704	60.922
Borrowings	-	-	54.075	80.963	76.900	211.938
Accrued expenses	-	6.281	-	-	-	6.281
Total liabilities	-	34.021	63.243	88.463	120.604	306.331
liquidity gap as at December 31, 2013	41.994	(16.398)	(62.163)	(87.073)	(120.604)	(244.244)
Cumulative liquidity gap as at December 31, 2013	41.994	25.596	(36.567)	(123.640)	(244.244)	
As at December 31, 2012						
	Within 1 Month	From 1 to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
	(in Eur 000)	(in Eur 000)	(in Eur 000)	(in Eur 000)	(in Eur 000)	(in Eur 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 (Note 4)	-	-	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)	-

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27. 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 Euor 000	Carrying amounts		Fair values	
Financial assets	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
Trade receivables	39.588	41.986	39.588	41.986
Cash and Banks	26.820	18.196	26.820	18.196
Total	66.408	60.182	66.408	60.182

in Euor 000	Carrying amount		Fair Value	
Financial Liabilities	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
Trade accounts payable	27.190	39.703	27.190	39.703
Borrowings	211.938	206.274	211.938	206.274
Other payables	6.821	2.587	6.821	2.587
Deferred Grants	60.054	67.479	60.054	67.479
Total	306.003	316.043	306.003	316.043

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.

28. PRODUCTION AND LOSSES OF ELECTRICITY

The Company has two power plants; Kosova A and Kosova B for electricity production purposes. These plants have total operating capacity of 860 MW, and operated at 73% of the plants' capacity during 2013 (2012: 73%). The production of energy in both plants for 2013 was 5,718,805 MW/h (2012 5,457,552 MW/h).

The production of lignite in 2013 was 8,219,393 ton (2012: 8,028,397 ton).

Electricity losses:

After the unbundling of the distribution and supply divisions, KEK is no longer exposed to energy losses in the network. As of 31 December 2012, management estimated that energy losses amounted to 16.63% representing a significant cost to the Company.

29. SUBSEQUENT EVENTS

There are no material subsequent events that require adjustment or disclosure in the financial statements. The new energy tariffs expected to be in force from April 2014 have not been yet approved.