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KOSOVO ENERGY CORPORATION J. S.C.

Independent Auditor's Report and

Financial Statements for the year ended
December 31, 2009

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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 statement of financial position as at December 31, 2009 and 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 notes.

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 3 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
Limitations on audit scope

1. As detailed in note 3.2 to the financial statements, the Company depreciates its property, plant and equipment using straight-line method. During our audit, we noted that the Company does not have a consistent approach to method adopted for depreciation of different items 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, 2009.

2. We did not observe the counting of the physical inventories as at December 31, 2009 or December 31, 2008, since in both cases we were appointed auditors after the year end. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the inventory quantities as at December 31, 2009 and opening inventories as of January 1, 2009, the resulting impact on the statement of comprehensive income and statement of cash flows for the year ended December 31, 2009.

3. The Company has not made proper calculation of current income tax for the year ended December 31, 2009, as required under Kosovo Income Tax Regulations and accordingly does not incorporate the tax effects in the accompanying financial statements. 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

4. The accompanying financial statements do not contain all disclosures required by International Financial Reporting Standard (IFRS) 7 – Financial Instruments: Disclosures.

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 3 above, and except for the effect on the financial statements of matter described in paragraph 4 above, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009, and of 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. As discussed in note 2.3 and 26 to the financial statements, these financial statements have been prepared on the assumption that the Company will continue as a going concern. The Company recorded a positive net result for the year ended December 31, 2009 of EUR 4,859 thousand, resulting in reduction of accumulation losses as of December 31, 2008 of EUR 603,475 thousand to EUR 598,616 thousand as of December 31, 2009. Further the Company received Governmental grants during the year ended December 31, 2009 for import of electricity. Despite the positive trend in the Company's financial performance, the continued dependence on government subsidies for the import of power and accumulated losses as of the year ended December 31, 2009, raises doubts about the Company's ability to continue as a going concern. No adjustments are made to these financial statements to reflect this uncertainty.

ii. Further to paragraph i above and the factors as detailed in note 26 to the financial statements, we note that electricity price is regulated. An impairment analysis on the carrying values of property, plant and equipment is not carried out by the Company due to unpredictable future income stream, however management of the Company believes there is no significant risk of impairment given the regulated prices and the support of the Government.

iii. As explained in note 4 to the accompanying financial statements, included in the buildings and equipment are certain assets, which are under the control of the Company but, for which the Company does not possess the ownership documentation. In order to resolve the issue, a formal process has not yet been started, however, the Company has started the discussions with the relevant authorities to complete the ownership documentation.

iv. As explained in note 3.17 to the accompanying financial statements, currently there is no binding legal requirement in Kosovo for recognition of environmental, decommissioning and other related provisions. The Company has been carrying a provision for ash dump removal since its corporatisation in 2005 of Euro 30 million based on an external study in 2005 and internal re-assessment as of December 31, 2009. In 2009 it has also recorded provisions for decommissioning totalling Euro 14,000 thousand. As detailed further in note 13, based on internal assessment of the Company, there are further environmental, decommissioning and related provisions that are in excess of Euro 44,000 thousand. The Company regularly performs its internal assessments for such provisions and recognises them depending on the nature and circumstances around those provisions. Depending on the nature and size of the operations of the Company in future and further on any possible change in legal framework in Kosovo, actual results may materially differ from the assessments of the Company.

Other matter:

As explained in note 27 to the financial statements, Government of Kosovo is planning to privatize certain unbundled units of the Company in future. The future operations of the Company may be impacted by these events. Our audit is not carried out in view of such transaction or possible other financial transactions with other parties. Other parties should carry out their own due diligence and other evaluations. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

Deloitte Kosova sh.p.k

Deloitte Kosova sh.p.k
Prishtina, Kosova
August 16, 2010

	Notes	As at December 31, 2009 (in EUR 000)	As at December 31, 2008 (in EUR 000)
ASSETS			
Non-current assets			
Property, plant and equipment	4	294,511	235,721
Intangible assets	5	227	271
		294,738	**235,992**
Current assets			
Inventories	6	23,245	14,557
Trade and other receivables	7	80,639	64,648
Cash on hand and at banks	8	20,515	120
		124,399	**79,325**
TOTAL ASSETS		**419,137**	**315,317**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	9	25	25
Reserves	10	688,082	688,082
Accumulated losses from previous years		(603,475)	(601,530)
Profit/(loss) for the year		4,859	(1,945)
		89,491	**84,632**
Non-current liabilities			
Borrowings – non current portion	11	86,953	8,711
Deferred grants	12	124,618	118,893
Provisions	13	49,211	30,000
		260,782	**157,604**
Current Liabilities			
Borrowings – current portion	11	10,587	12,116
Trade and other payables	14	51,008	56,793
Accrued expenses	15	7,269	4,172
		68,864	**73,081**
TOTAL EQUITY AND LIABILITIES		**419,137**	**315,317**

Authorized for issue by the management and signed on its behalf on August 16, 2010.

Mr. Arben Gjukaj
Managing Director

Mr. Salih Bytyqi
Chief Financial Officer

The accompanying notes from 1 to 27 form an integral part of these financial statements.

	Notes	Year ended December 31, 2009 (in EUR 000)	Year ended December 31, 2008 (in EUR 000)
OPERATING INCOME			
Sales	**16**	174,392	163,043
Income from grants	**17**	58,472	47,695
Other income	**18**	5,044	6,909
		237,908	217,647
OPERATING EXPENSES			
Depreciation and amortization	**4&5**	(23,920)	(22,417)
Staff costs	**19**	(46,657)	(43,677)
Electricity and other utilities	**20**	(83,109)	(85,527)
Maintenance costs		(8,217)	(7,825)
Materials and supplies		(10,938)	(8,521)
Provision for write down of inventories	**6**	-	(5,765)
Loss from impairment of receivables	**7**	(25,625)	(31,491)
Provisions expenses for environmental and other issues	**13**	(19,211)	-
Other operating expenses	**21**	(15,218)	(13,618)
		(232,895)	**(218,841)**
Profit/(loss) from operations		**5,013**	**(1,194)**
Financial charges, net	**22**	(154)	(751)
Profit/(loss) before taxation		**4,859**	**(1,945)**
Taxation	**23**	-	-
Net profit/(loss) for the year		**4,859**	**(1,945)**
Other comprehensive income		-	-
Total comprehensive income/(loss)		**4,859**	**(1,945)**

The accompanying notes from 1 to 27 form an integral part of these financial statements.

	Share capital	Reserves	Accumulated losses	Total
	----------	----------	(in EUR 000)	----------
Balance as at January 1, 2008	**25**	**687,889**	**(601,530)**	**86,384**
Loss 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**
Profit for the year	-	-	4,859	**4,859**
Balance as at December 31, 2009	**25**	**688,082**	**(598,616)**	**89,491**

The accompanying notes from 1 to 27 form an integral part of these financial statements.

	Notes	Year ended December 31, 2009 (in EUR 000)	Year ended December 31, 2008 (in EUR 000)
Cash flows from operating activities			
Net profit/(loss) before taxation		4,859	(1,945)
Adjustments for non-cash items:			
Depreciation and amortization	4&5	23,920	22,417
Income from grants		(58,472)	(47,695)
Provision for doubtful debts		25,625	31,491
Provision for environmental and staff pension costs		19,211	-
Provision for write down/back of inventories		(596)	5,765
Property, plant and equipment written off		139	332
Operating deficit before changes in operating assets and liabilities		**14,686**	**10,365**
Increase in inventories		(8,092)	(8,965)
Increase in trade and other receivables		(41,616)	(58,260)
(Decrease)/increase in trade and other payables		(2,688)	1,031
Cash used in operating activities		**(37,710)**	**(55,829)**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(82,772)	(36,982)
Purchase of intangible assets	5	(33)	(203)
Cash used in investing activities		**(82,805)**	**(37,185)**
Cash flows from financing activities:			
Grants received during the year		64,197	87,744
Net loans received during the year		76,713	487
Cash generated from financing activities		**140,910**	**88,231**
Net decrease in cash and cash equivalents		**20,395**	**(4,783)**
Cash and cash equivalents at the beginning of the year		**120**	**4,903**
Cash and cash equivalents at the end of the year		**20,515**	**120**

The accompanying notes from 1 to 27 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 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;
- 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 basis except for the revaluation of certain financial assets and financial liabilities.

2.3 Going concern assumption

These financial statements have been prepared on a going concern basis. As shown in these financial statements, the Company recorded a positive net result for the year ended December 31, 2009 of EUR 4,859 thousand, resulting in reduction of accumulated losses as of December 31, 2008 of EUR 603,475 thousand to EUR 598,616 thousand as of December 31, 2009. Further as detailed in note 17, the Company received Governmental grants during the year ended December 31, 2009 mainly for import of electricity and that the factors that led to the recognition of impairment of the assets on January 1, 2005 have improved substantially (billing and collection have improved by more than 30% since January 1, 2005 and government subsidies for capital expenses have been replaced by loans during 2009 etc).

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

2.4 Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **IFRS 8 "Operating Segments"** (effective for annual periods beginning on or after 1 January 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 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 published on 22 May 2008 (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),

The adoption of these amendments to the existing standards and interpretations has not led to any significant changes in the Company's accounting policies.

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

2.5 Standards and interpretations in issue not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2013),
- **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 1 "First-time Adoption of IFRS"**- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IFRS 2 "Share-based Payment"** - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- **Amendments to IAS 24 "Related Party Disclosures"** Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 27 "Consolidated and Separate Financial Statements"** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010)
- **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 various standards and interpretations** resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) 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 2010),
- **Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction"** - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- **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),
- **IFRIC 19 "Extinguishing Liabilities with Equity Instruments"** (effective for annual periods beginning on or after 1 July 2010).

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 of the Company in the period of initial application.

2.6 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 (Law nr. 03/L-113 dated December 18, 2008 on corporate taxes).

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

As at December 31, 2009, the Company has almost EUR 202 million as internally assessed costs related to environmental, water and air cleaning, dust emission control and infrastructure improvements. The Company did not recognise these costs due to lack of legal requirements.

4. 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, 2008	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**
Additions	-	-	1,854	21,593	52,492	75,939
Donations	-	-	220	280	6,333	6,833
Internal transfers	-	-	3,093	997	(4,090)	-
Written off	-	-	(191)	(1,020)	-	(1,211)
As at December 31, 2009	**17,301**	**14,886**	**109,179**	**270,764**	**75,462**	**487,592**

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and forest	Land in mines	Buildings	Equipment	Construction in progress	Total
	(in EUR 000)	(in EUR 000)	(in EUR 000)	(in EUR 000)	(in EUR 000)	(in EUR 000)
Accumulated depreciation						
As at January 1, 2008	**-**	**5,722**	**39,197**	**103,362**	**-**	**148,281**
Removal of accumulated depreciation on disposed assets	-	-	(3)	(344)	-	(347)
Charge for the year	-	1,649	5,208	15,519	-	22,376
As at December 31, 2008	**-**	**7,371**	**44,402**	**118,537**	**-**	**170,310**
Charge for the year	-	1,654	5,654	16,535	-	23,843
Removed on written off assets	-	-	(166)	(906)	-	(1,072)
As at December 31, 2009	**-**	**9,025**	**49,890**	**134,166**	**-**	**193,081**
Net book value						
As at December 31, 2009	**17,301**	**5,861**	**59,289**	**136,598**	**75,462**	**294,511**
As at December 31, 2008	**17,301**	**7,515**	**59,801**	**130,377**	**20,727**	**235,721**

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In - kind donations

During 2009, the Company received in - kind donations totaling EUR 6,833 thousand (2008: EUR 28,694 thousand) accounted for through deferred grant account. The related depreciation on these assets for 2009 charged to the income statement in the amount of EUR 4,490 thousand (2008: EUR 4,171 thousand) has caused release of equal amount from the balance of deferred grants (see Note 17).

Assets rendered under operating lease

Included in the property, plant and equipment are certain assets as at December 31, 2009, which are rendered under operating lease terms to several organizational units separated from the Company during 2006, as well as to other entities.

As at December 31, 2008, the Company's equipment and mining assets are collateralized against borrowings from loan from Ministry of Finance and Economy (see Note 11).

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

5. INTANGIBLE ASSETS

	Software (in EUR 000)
Cost/deemed cost:	
Balance as at January 1, 2008	269
Additions during the year	203
Balance as at December 31, 2008	472
Additions during the year	33
Balance as at December 31, 2009	505
Accumulated amortization:	
Balance as at January 1, 2008	160
Amortization for the year	41
Balance as at December 31, 2008	201
Amortization for the year	77
Balance as at December 31, 2009	278
Net book value as at December 31, 2009	**227**
Net book value as at December 31, 2008	**271**

6. INVENTORIES

	As at December 31, 2009 (in EUR 000)	As at December 31, 2008 (in EUR 000)
Materials and consumables	31,797	26,849
Lignite	2,818	2,504
Fuel	2,196	1,384
Spare parts	8,313	7,299
Others	9,751	8,747
	54,875	46,783
Provision for slow moving and obsolete inventories	(31,630)	(32,226)
	23,245	**14,557**

7. TRADE AND OTHER RECEIVABLES

	As at December 31, 2009 (in EUR 000)	As at December 31, 2008 (in EUR 000)
Trade receivables:		
Local customers	339,084	311,272
Foreign customers	3,853	3,898
	342,937	**315,170**
Provision for impairment	(323,053)	(297,428)
	19,884	**17,742**
Other receivables:		
Advances to suppliers	57,810	42,852
Advances to employees	527	489
VAT refundable	2,418	3,565
	60,755	**46,906**
	80,639	**64,648**

Advances to suppliers include EUR 999 thousand as at December 31, 2009 (2008: EUR 1,334 thousands), which were given to ex KEK units (Transportation, Health Care, Food restaurant, Elektroingenering, Ndertimtaria etc) at date of separation of these units from KEK.

Movement in the impairment provision:

	2009 (in EUR 000)	2008 (in EUR 000)
Balance as at January 1,	297,428	265,937
Charge for the period	25,625	31,491
Balance as at December 31,	**323,053**	**297,428**

8. CASH ON HAND AND AT BANKS

	As at December 31, 2009 (in EUR 000)	As at December 31, 2008 (in EUR 000)
Cash at banks – in current accounts	20,511	118
Cash on hand	4	2
	20,515	**120**

Current accounts with banks bear interest in the range of 2.65% to 0.65% per annum (2008: 2.6% 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). These reserves are removed on the disposal of the related assets. Further these reserves are not available for distribution to shareholder.

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, 2008	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**
Release of impairment on assets disposed off	-	-	-
As at December 31, 2009	**60,277**	**627,805**	**688,082**

11. BOROWINGS

	As at December 31, 2009 (in EUR 000)	As at December 31, 2008 (in EUR 000)
Non–current portion		
Interest bearing loan from Ministry of Finance and Economy	86,953	8,711
	86,953	8,711
Current portion		
Interest free loan from Ministry of Finance and Economy	10,000	10,000
Interest bearing loan from Ministry of Finance and Economy	587	-
Overdraft on bank's current account	-	2,116
	10,587	**12,116**
Total borrowings	**97,540**	**20,827**

Loan 1 (Remount and rehabilitation of A5 block):
During 2008, the Company signed a borrowing contract dated June 23, 2008 with Ministry of Finance and Economy for a loan with total limit of EUR 9,400 thousand (as at December 31, 2008, the Company availed EUR 8,710 thousand of this facility). The principal of this loan is repayable in eight years in equal bi-annual installments starting from July 11, 2010 and carries interest at the rate of 7.43% pa. This loan is secured against hypothecation of equipment amounting to EUR 69,500 thousand.

Loan 2 (Opening and operation of the south-west Sibovic mine):
During 2009, the Company signed a borrowing contract dated June 4, 2009 with Ministry of Finance and Economy for a loan with total limit of EUR 70,000 thousand. As at December 31, 2009 the Company availed EUR 16,317 thousand of the loan. 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. This loan is secured against hypothecation of mining assets and a general hypothecation of revenues.

Loan 3 (Overload systems II & III of the south-west Sibovic mine):
During 2008, the Company signed a borrowing contract dated June 24, 2008 with Ministry of Finance and Economy for a loan with total limit of EUR 75,000 thousand. As at December 31, 2009 the Company availed EUR 57,071 thousand of the loan (as at December 31, 2008, the Company did not avail this facility). 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. This loan is secured against hypothecation of equipment amounting to EUR 85,000 thousand.

Loan 4 (Remount and rehabilitation of B1 and B2 units of termocentral Kosovo B):
On January 27, 2009, the Company signed a borrowing contract with Ministry of Finance and Economy for a loan with total limit of EUR 5,400 thousand. As at December 31, 2009 the Company availed EUR 4,752 thousand of the loan. The principal of this loan is repayable in eight years in equal bi-annual installments starting from February 18, 2011 and carries interest at the rate of 7.43% pa. This loan is secured against hypothecation of equipment.

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

11. BOROWINGS (CONTINUED)

Overdraft:
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 and was repaid during 2009 accordingly. This overdraft carried interest at the rate of 4.85% plus 6 months EURIBOR and was secured against pledge of trade receivables.

12. DEFERRED GRANTS

	2009 (in EUR 000)	2008 (in EUR 000)
As at January 1,	118,893	62,554
Additions in property, plant and equipment	-	28,694
Grant received from Government for capital investments	-	24,130
2010 Opex grants received	10,515	-
Prior years grants received	-	7,686
Amortized during the year (Note 17)	(4,790)	(4,171)
Balance as at December 31,	**124,618**	**118,893**

13. PROVISIONS

	As at December 31, 2009 (in EUR 000)	As at December 31, 2008 (in EUR 000)
Balance as at January 1,	30,000	30,000
Charge to profit and loss:		
Ash dump removal and decommissioning	14,000	-
Staff pension provision	5,211	-
Balance as at December 31,	**49,211**	**30,000**

Ash dump removal and decommissioning provision:
The balance of provision as at December 31, 2009 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 3-5 years.

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 ordered 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 favor of the Company, the Company removed the provision from its books.

14. TRADE AND OTHER PAYABLES

	As at December 31, 2009 (in EUR 000)	As at December 31, 2008 (in EUR 000)
Trade Creditors		
Local suppliers	36,867	27,199
Foreign suppliers	9,425	13,880
	46,292	**41,079**
Other current payables		
Broadcasting tax	522	2,367
Taxes and other duties payable for previous periods	-	9,021
Salaries to employees	3,449	3,571
Customers advances	72	375
Other payables	673	380
	4,716	**15,714**
	51,008	**56,793**

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.

15. ACCRUED EXPENSES

	As at December 31, 2009 (in EUR 000)	As at December 31, 2008 (in EUR 000)
Concession fees	1,662	1,852
Provision for court cases	3,257	1,400
Other accrued expenses	2,350	920
	7,269	**4,172**

As at December 31, 2009, the Company has reassessed the possible impact of court cases. The Company believes that the amount of EUR 3,257 thousand (2008: EUR 1,400 thousand) is a best estimate for any probable outflow of cash.

16. SALES

	Year ended December 31, 2009 (in EUR 000)	Year ended December 31, 2008 (in EUR 000)
Sale of electricity		
Domestic and industrial customers	79,087	71,848
Householders	84,343	78,522
Export of electricity	5,669	8,241
	169,099	**158,611**
Other sales		
Income from re-connection services	97	1,245
Sales of coal	1,903	1,561
Other	3,293	1,626
	5,293	4,432
	174,392	**163,043**

17. INCOME FROM GRANTS

	Year ended December 31, 2009 (in EUR 000)	Year ended December 31, 2008 (in EUR 000)
Grants for operational purposes:		
Electricity imported	53,682	42,802
Repairs and maintenance	-	632
Others	-	90
	53,682	**43,524**
Amortization of deferred grants related to assets	4,790	4,171
	58,472	**47,695**

18. OTHER INCOME

	Year ended December 31, 2009 (in EUR 000)	Year ended December 31, 2008 (in EUR 000)
Write off of old liabilities	3,159	-
Income from rent	592	232
Change in provision for inventory	596	-
Other income	697	6,677
	5,044	**6,909**

19. STAFF COSTS

	Year ended December 31, 2009 (in EUR 000)	Year ended December 31, 2008 (in EUR 000)
Salaries, net	37,277	34,192
Pension contributions and taxes	6,188	6,355
Other	3,192	3,130
	46,657	**43,677**

20. ELECTRICITY AND OTHER UTILITIES

	Year ended December 31, 2009 (in EUR 000)	Year ended December 31, 2008 (in EUR 000)
Electricity purchases	49,829	53,923
Fuel	8,903	9,370
Gas and water	1,122	1,061
Exchange of electricity	3,397	6,076
Transmission of electricity	19,858	15,097
	83,109	**85,527**

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

21. OTHER OPERATING EXPENSE

	Year ended December 31, 2009 (in EUR 000)	Year ended December 31, 2008 (in EUR 000)
Transport services	2,185	1,953
Insurance expenses	2,442	2,410
Concessions fee	2,038	2,055
Licenses	648	1,196
Non-production expenses	1,776	2,005
Other	6,129	3,999
	15,218	**13,618**

22. FINANCIAL CHARGES, NET

	Year ended December 31, 2009 (in EUR 000)	Year ended December 31, 2008 (in EUR 000)
Interest income on overdue balances	50	79
Interest expense on borrowings and delayed payments	(204)	(830)
Financial charges, net	**(154)**	**(751)**

23. TAXATION

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

	Year ended December 31, 2009 (in EUR '000)	Year ended December 31, 2008 (in EUR '000)
Loss before taxation	4,859	(1,945)
Tax at rate of 10% (2008; 20%)	486	(389)
Unrecognized losses/(gain) utilised	(486)	389
	-	-

Under Law nr. 03/L-113 dated December 18, 2008 on corporate taxes, income tax rate is 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 off during 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.

24. COMMITMENTS AND CONTINGENCIES

Commitments:
As at December 31, 2009, the Company has un-availed borrowing facility from Ministry of Finance and Economy amounting as detailed in note 11. Further during April 2010, the Company signed two new borrowing agreements with the Ministry of Finance and Economy amounting to EUR 69 million for CAPEX purposes.

As at December 31, 2009, the Company has capital commitments of EUR 13,228 thousand.

Litigations:
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.

During 2009, the Company had a dispute with a supplier regarding purchase of 'used transformer'. Currently the Company is looking for different options to solve this matter amicably including the court case option. Depending on the outcome of the dispute, the amount of loss involved ranges from EUR 745 thousand to EUR 2,900 thousand.

Bank guarantees:
As at December 31, 2009, outstanding guarantees issued in favor of the Company were amounting to EUR 4,500 thousand (as at December 31, 2008: EUR 35,700 thousand).

25. 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.

25. 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.

26. PRODUCTION AND LOSSES OF ELECTRICITY

Electricity production:
The Company has two power plants; Kosova A and Kosova B for electricity production purposes. These plants have total operating capacity of 860 MW, and operated at 69.8% of the plants' capacity during 2009 (2008: 66.3%). The Company already improved the plants' operating capacity through recent investments and is at present finalizing the further investment plans regarding the A3 and B2 units of the plants to further increase the annual production level beyond 70%.

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

Management estimates total technical losses of electric power, for the year ended 31 December 2009, to amount to 18 % of the total available electricity, whereas trade losses during the year 2009 were 16% of total available electricity (for the year ended 31 December 2008: technical losses were 17% and trade losses were 15%). The cost of these technical and trade losses are recovered by the Company from customers in tariffs as much as determined by the Government of Kosovo through the Energy Regulatory Office.

27. SUBSEQUENT EVENTS

Government of Kosovo is planning to privatize certain unbundled units of the Company by the end of 2011. The future operations of the Company may be impacted by these events.