Grant Thornton

Financial Statements and Independent Auditors' Report

Kosovo Energy Corporation J.S.C

As of and for the year ended December 31, 2011

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Independent Auditors' Report

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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 (further referred to as "the Company"), which comprise the Statement of financial position as at December 31, 2011, 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 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.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

We draw attention to the following:

i. As discussed in note 3.3 and 26 to the financial statements, the financial statements have been prepared on the assumption that the Company will continue as a going concern. The Company incurred a positive net result for the year ended December 31, 2011 of EUR 16,517 thousand, resulting in reduction of accumulated losses to EUR 558,762 as of December 31, 2011. Further the Company received governmental grants during the year ended December 31, 2011 mainly 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 December 31, 2011, 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 land, buildings and equipment are certain assets, which are under the control of the Company but for which the Company does not possess the ownership documentation. In order to resolve the issue, a formal process has not yet been started, however, the Company has started the discussions with the relevant authorities to complete the ownership documentation.

iv. As explained in note 3.21 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 of EUR 56,839 thousand as at December 31, 2011, as detailed in note 13 to the financial statements. This provision has been recorded based on external assessments in 2005 and internal re-assessments. 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.

v. As detailed in note 24 to the financial statements, as at December 31, 2011, the Company is in dispute with tax authorities for income taxes, penalties and interest totalling EUR 12,742 thousands for the fiscal years 2005, 2006 and 2007. Currently this matter has been decided by the Judicial Review Board in favour of the Company and there is an injunction on any payments by the Supreme Court of Kosovo. However, no tax inspection report is available for 2008 and no tax inspections has been carried out for the financial years ended December 31, 2009, 2010 and 2011 which may also impact additional claims by the tax authorities. There is lack of legislative clarity and precedence on such matter, however, management is confident that it will be able to defend its position successfully in the future.

vi. As detailed in note 24 to the financial statements, as at December 31, 2011, the Company is in dispute with KOSTT. KOSTT is demanding from the Company, the payment of portion of invoices for transmission services in 2010 and reconciliation of invoices of 2008 and 2009 for an amount of nearly EUR 5 million. The matter is currently being contested in Supreme Court and ultimate outcome of the matter cannot be determined at the date of this report.

Our Opinion is not modified in respect of the matters as detailed in paragraphs i to vi above.

Other matters:

vii. 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 shareholder as a body, for our audit work, for this report, or for the opinion we have formed.

viii. The financial statements of the Company as of and for the year ended December 31, 2010 were audited by another auditor who expressed a modified opinion on those statements on September 20, 2011 due to scope limitation regarding non observance of physical inventory count as at December 31, 2010 and 2009 and emphasis of matters paragraphs regarding (i) going concern assumption, (ii) absence of impairment analysis on the carrying values of property, plant and equipment, (iii) absence of ownership documentation for certain assets (iv) uncertainties regarding environmental, decommissioning and other related provisions, (v) dispute with tax authorities.

Grant Thornton LLC

Grant Thornton LLC
Prishtina, Kosovo
April 30, 2012

KOSOVO ENERGY CORPORATION J.S.C.
Statement of financial position as at December 31, 2011

	Notes	As at December 31, 2011 (in EUR 000)	As at December 31, 2010 (in EUR 000)
ASSETS			
Non-current assets			
Property, plant and equipment	4	408,669	384,822
Intangible assets	5	319	174
		408,988	**384,996**
Current assets			
Inventories	6	31,190	27,979
Trade and other receivables	7	37,175	57,688
Cash on hand and at banks	8	49,561	37,320
		117,926	**122,987**
TOTAL ASSETS		**526,914**	**507,983**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	9	25	25
Reserves	10	682,114	688,082
Accumulated losses		(558,762)	(575,279)
		123,377	**112,828**
Non-current liabilities			
Borrowings – non current portion	11	172,315	147,540
Deferred grants	12	119,111	134,211
Provisions	13	56,839	58,331
		348,265	**340,082**
Current Liabilities			
Borrowings – current portion	11	15,225	10,000
Trade and other payables	14	38,820	43,880
Accrued expenses	15	1,227	1,193
		55,272	**55,073**
TOTAL EQUITY AND LIABILITIES		**526,914**	**507,983**

Authorized for issue by the management and signed on its behalf on April 30, 2012.

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.

Statement of comprehensive income for the year ended December 31, 2011

	Notes	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
OPERATING INCOME			
Sales	16	215,960	192,757
Income from grants	17	38,033	44,055
Other income	18	2,842	2,015
		256,835	**238,827**
OPERATING EXPENSES			
Depreciation and amortization	4&5	(37,711)	(29,163)
Staff costs	19	(56,612)	(51,434)
Electricity and other utilities	20	(86,681)	(77,736)
Maintenance costs		(7,948)	(6,505)
Materials and supplies		(14,322)	(17,336)
Provision for write down of inventories	6	(5,943)	(1,911)
Loss from impairment of receivables	7	(18,358)	(22,085)
Change in provisions	13	1,492	(5,863)
Other operating expenses	21	(14,896)	(12,832)
		(240,979)	**(224,865)**
Profit from operations		**15,856**	**13,962**
Financial income/(charges), net	22	661	186
Profit before taxation		**16,517**	**14,148**
Taxation	23	-	-
Net profit for the year		**16,517**	**14,148**
Other comprehensive income		-	-
Total comprehensive income		**16,517**	**14,148**

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, 2010	**25**	**688,082**	**(589,427)**	**98,680**
Transactions with owners	-	-	-	-
Profit for the year	-		14,148	14,148
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	**14,148**	**14,148**
Balance as at December 31, 2010	**25**	**688,082**	**(575,279)**	**112,828**
Balance as at January 1, 2011	**25**	**688,082**	**(575,279)**	**112,828**
Transactions with owners	-	-	-	-
Profit for the year	-	-	16,517	**16,517**
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	**16,517**	**16,517**
Transfer of property, plant and equipment to KOSTT (note 4 and 10)	-	(5,968)	-	**(5,968)**
Balance as at December 31, 2011	**25**	**682,114**	**(558,762)**	**123,377**

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

Statement of cash flows for the year ended December 31, 2011

	Notes	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
Cash flows from operating activities			
Net profit before taxation		16,517	14,148
Adjustments for non-cash items:			
Depreciation and amortization	4&5	37,711	29,163
Income from grants		(38,033)	(44,055)
Provision for doubtful debts		18,358	22,085
Provision for environmental and staff pension costs		(1,492)	5,863
Provision for write down/back of inventories		5,943	1,911
Property, plant and equipment written off		2,498	304
Profit before changes in operating assets and liabilities		**41,502**	**29,419**
Increase in inventories		(9,154)	(6,644)
Decrease in trade and other receivables		2,156	866
(Decrease) in trade and other payables		(5,026)	(9,947)
Cash generated from operating activities		**29,478**	**13,694**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(75,262)	(108,833)
Purchase of intangible assets	5	-	(17)
Cash used in investing activities		**(75,262)**	**(108,850)**
Cash flows from financing activities:			
Grants received during the year		28,025	51,961
Loans received during the year		30,000	60,000
Cash generated from financing activities		**58,025**	**111,961**
Net increase in cash and cash equivalents		**12,241**	**16,805**
Cash and cash equivalents at the beginning of the year		**37,320**	**20,515**
Cash and cash equivalents at the end of the year		**49,561**	**37,320**

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;

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 New and amended standards adopted by the Company

The Improvements to IFRSs 2010 made several minor amendments to a number of IFRSs. The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Company's accounting policies.

2.2 Standards, interpretations and amendments to standards issued but not effective for the financial year beginning 1 January 2011 and not early adopted by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 Financial Instruments (IFRS 9)
The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. The Company's management has yet to assess the impact of this new standard on the Company's financial statements. However, they do not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards
A package of consolidation standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below. The Company's management have yet to assess the impact of these new and revised standards.

<u>IFRS 10 Consolidated Financial Statements (IFRS 10)</u>
IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements (IAS 27) and SIC 12 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.
<u>IFRS 11 Joint Arrangements (IFRS 11)</u>
IFRS 11 supersedes IAS 31 Interests in Joint Ventures (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

<u>IFRS 12 Disclosure of Interests in Other Entities (IFRS 12)</u>
IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

2.2 Standards, interpretations and amendments to standards issued but not effective for the financial year beginning 1 January 2011 and not early adopted by the Company (continued)

Consequential amendments to IAS 27 and IAS 28 Investments in Associates and Joint Ventures (IAS 28)
IAS 27 now only deals with separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

IFRS 13 Fair Value Measurement (IFRS 13)
IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Company's management has yet to assess the impact of this new standard.

Amendments to IAS 1 Presentation of Financial Statements (IAS 1 Amendments)
The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and
(b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Company's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

Amendments to IAS 19 Employee Benefits (IAS 19 Amendments)
The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognize all gains and losses arising in the reporting period
- streamline the presentation of changes in plan assets and liabilities
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The amended version of IAS 19 is effective for financial years beginning on or after 1 January 2013. The Company's management has yet to assess the impact of this revised standard on the Company's consolidated financial statements

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

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

3.2 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.

3.3 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 after tax for the year ended December 31, 2011 of EUR 16,517 thousand (year ended December 31, 2010 of EUR 14,148 thousand), resulting in reduction of accumulated losses as of December 31, 2011 to EUR 558,762 thousand (December 31, 2010: EUR 575,279 thousand). Further as detailed in note 17, the Company received Governmental grants during the year ended December 31, 2011 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 since 2009 etc.). See also note 26 for discussion on production and losses.

3.4 Currency of presentation

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

3.5 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 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.

'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 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.

3.7 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 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.

3.9 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.

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. The Company has no assets classified in this category.

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through profit and loss or available for sale. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms.
Trade receivables are classified in this category. They are recognized initially at fair value and subsequently measured at recoverable amounts, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.
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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Financial Instruments (continued)

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

(d) Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. The Company has no assets classified in this category.

Initial recognition and derecognition
Regular-way purchases and sales of financial assets are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the profit or loss.
Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Subsequent measurement
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. 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. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognised in equity.
When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the profit or loss as net realised gains/losses on financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit or loss. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the Company's right to receive payments is established. Both are included in the investment income line.
The 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 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.

3.11 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.

3.12 Borrowings

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

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

3.13 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.

3.14 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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Taxation

Taxation has been provided for in the financial statements in accordance with Kosovo tax regulations currently in force, Law no. 03/L-113 "On Corporate Income Tax".

The income tax charge in the profit or loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates in force at the date of the statement of financial position. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

3.16 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.

3.17 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.
Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to the profit or loss on a systematic and rational basis over the useful lives of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 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.

3.19 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.

3.20 Critical judgments in applying the Company's accounting policies

There are no critical judgements, apart from those involving estimations (see 3.21 below), that the management have made in the process of applying the Company's accounting policies and that have the significant effect on the amounts recognised in these financial statements.

3.21 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.

Useful lives of property, plant and equipment
As described in note 3.6 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Key sources of estimation uncertainty (continued)

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.

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, 2010	**17,318**	**10,948**	**108,991**	**268,285**	**79,419**	**484,961**
Additions	-	-	3,927	63,707	41,199	108,833
Internal transfers	-	19,455	7,543	45,708	(72,706)	-
Written off	-	-	(129)	(1,571)	(8)	(1,708)
As at December 31, 2010	**17,318**	**30,403**	**120,332**	**376,129**	**47,904**	**592,086**
Additions	-	-	2,575	45,418	27,269	75,262
Written off	-	(1,047)	(2,686)	(2,814)	(2)	(6,549)
Internal transfers	23	2,955	3,594	11,157	(17,981)	(252)
Transfers to KOSTT (see Note below)	(65)	-	(3,228)	(9,995)	(1,474)	(14,762)
As at December 31, 2011	**17,276**	**32,311**	**120,587**	**419,895**	**55,716**	**645,784**

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and forest (in EUR 000)	Land in mines (in EUR 000)	Buildings (in EUR 000)	Equipment (in EUR 000)	Construction in progress (in EUR 000)	Total (in EUR 000)
Accumulated depreciation:						
As at January 1, 2010	-	**8,663**	**52,818**	**118,095**	-	**179,576**
Charge for the year	-	1,614	5,425	22,053	-	29,092
Removed on written off assets	-	-	(55)	(1,349)	-	(1,404)
As at December 31, 2010	-	**10,277**	**58,188**	**138,799**	-	**207,264**
Charge for the year	-	391	6,241	30,972	-	37,604
Removed on written off assets	-	-	(1,555)	(2,496)	-	(4,051)
Removed on transfer of assets to KOSTT (see Note below)	-	-	(803)	(2,899)	-	(3,702)
As at December 31, 2011	-	**10,668**	**62,071**	**164,376**	-	**237,115**
Net book value:						
As at December 31, 2011	**17,276**	**21,643**	**58,516**	**255,518**	**55,716**	**408,669**
As at December 31, 2010	**17,318**	**20,126**	**62,144**	**237,330**	**47,904**	**384,822**

Note:
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 on March 30, 2012 with the cost values of EUR 14,762, accumulated depreciation of EUR 3,702 and net book values of EUR 11,060 as of December 31, 2011. The corresponding credits were in deferred grants amounting to EUR 5,092 and Reserves EUR 5,968 as of December 31, 2011 (refer to note 12 and 10).

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets rendered under operating lease:
Included in the property, plant and equipment are certain assets as at December 31, 2011, 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, 2011, 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 'land', 'buildings' and 'equipment' are certain properties, which are under the control of the Company but for which the Company does not possess the ownership documentation. The Company is in process of resolving matter and to complete the documentation with the assistance of Government of Kosovo.

5. INTANGIBLE ASSETS

	Software (in EUR 000) (restated)
Cost/deemed cost:	
Balance as at January 1, 2010	466
Additions during the year	17
Disposal	-
Balance as at December 31, 2010	**483**
Internal Transfers	252
Additions during the year	-
Balance as at December 31, 2011	**735**
Accumulated amortization:	
Balance as at January 1, 2010	239
Amortization for the year	70
Removed on written off	-
Balance as at December 31, 2010	**309**
Amortization for the year	107
Balance as at December 31, 2011	**416**
Net book value as at December 31, 2011	**319**
Net book value as at December 31, 2010	**174**

6. INVENTORIES

	As at December 31, 2011 (in EUR 000)	As at December 31, 2010 (in EUR 000)
Materials and consumables	44,199	37,969
Lignite	3,596	2,197
Fuel	2,317	1,465
Spare parts	9,407	9,102
Others	11,154	10,786
	70,673	61,519
Provision for slow moving and obsolete inventories	(39,483)	(33,540)
	31,190	**27,979**

7. TRADE AND OTHER RECEIVABLES

	As at December 31, 2011 (in EUR 000)	As at December 31, 2010 (in EUR 000)
Trade receivables:		
Local customers	373,001	352,112
Foreign customers	3,745	3,802
	376,746	**355,914**
Provision for impairment	(363,496)	(345,138)
	13,250	**10,776**
Other receivables:		
Advances to suppliers	20,829	40,872
Advance to employees and other receivables	2,480	2,102
VAT refundable	616	3,938
	23,925	**46,912**
	37,175	**57,688**

In accordance with Memorandum of Understanding signed on 01.12.2006 between Ministry of Finance and Economy and Kosovo Trust Agency regarding the Value Added Tax (VAT) obligations of Publicly Owned Enterprises, the Company will be liable for VAT on collection rather than when invoiced. Since VAT liability arises depending on the collection of billed amount, the Company has presented amount receivables from local customers excluding VAT based on requirements of IFRS. Had the Company recorded VAT receivable when invoiced to customers, receivables from local customers and VAT payables would have been increased by an amount of EUR 58,356 thousand as at December 31, 2011 (December 31, 2010: EUR 52,232 thousand).

Advances to suppliers include EUR 511 thousand as at December 31, 2011 (2010: EUR 885 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.

7. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement in the impairment provision:

	2011 (in EUR 000)	2010 (in EUR 000)
Balance as at January 1,	345,138	323,053
Charge for the year	18,358	22,085
Balance as at December 31,	**363,496**	**345,138**

8. CASH ON HAND AND AT BANKS

	As at December 31, 2011 (in EUR 000)	As at December 31, 2010 (in EUR 000)
Cash at banks – in current accounts	49,557	37,316
Cash on hand	4	4
	49,561	**37,320**

Current accounts with banks bear interest in the range of 2.65% to 0.65% per annum (2010: 2.65% to 0.65% per annum.).

9. 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.

10. 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.

	2011 (in EUR 000)	2010 (in EUR 000)
Balance as at January 1,	688,082	688,082
Transfer of property, plant and equipment to KOSTT	(5,968)	-
Balance as at December 31,	**682,114**	**688,082**

11. BORROWINGS

	As at December 31, 2011 (in EUR 000)	As at December 31, 2010 (in EUR 000)
Non–current portion		
Interest bearing loan from Ministry of Finance and Economy	172,315	147,540
	172,315	147,540
Current portion		
Interest free loan from Ministry of Finance and Economy	4,000	10,000
Interest bearing loan from Ministry of Finance and Economy	11,225	-
	15,225	**10,000**
Total borrowings	**187,540**	**157,540**

Loan 1 (Remount and rehabilitation of A5 block):
During 2008, the Company signed a borrowing contract dated June 23, 2008 with Ministry of Finance and Economy for a loan with total limit of EUR 9,400 thousand. As at December 31, 2009 the Company availed this loan fully. Both principal of this loan and interest are repayable in eight years in equal bi-annual installments starting from January 1, 2012 and carries interest at the rate of 7.43% pa. This loan is secured against hypothecation of equipment amounting to EUR 69,500 thousand.

Loan 2 (Opening and operation of the south-west Sibovic mine):
During 2009, the Company signed a borrowing contract dated June 4, 2009 with Ministry of Finance and Economy for a loan with total limit of EUR 70,000 thousand. As at December 31, 2011 the Company availed EUR 58,445 thousand of the loan (as at December 31, 2010: EUR 37,315 thousand). The principal of this loan is repayable in eight years in equal bi-annual installments starting from June 18, 2013 and carries interest at the rate of 6% pa. Interest is repayable starting from January 1, 2012. This loan is secured against hypothecation of mining assets and a general hypothecation of revenues.

Loan 3 (Overload systems II & III of the south-west Sibovic mine):
During 2008, the Company signed a borrowing contract dated June 24, 2008 with Ministry of Finance and Economy for a loan with total limit of EUR 75,000 thousand. As at December 31, 2011 the Company availed this loan fully (as at December 31, 2010: 74,059 thousand). The principal of this loan is repayable in eight years in equal bi-annual installments starting from February 13, 2012 and carries interest at the rate of 7.43% p.a. Interest is repayable starting from January 1, 2012. This loan is secured against hypothecation of equipment amounting to EUR 85,000 thousand.

Loan 4 (Remount and rehabilitation of B1 and B2 units of termocentral Kosovo B):
On January 27, 2009, the Company signed a borrowing contract with Ministry of Finance and Economy for a loan with total limit of EUR 5,400 thousand. As at December 31, 2010 the Company availed this loan fully. Both principal of this loan and interest are repayable in eight years in equal bi-annual installments starting from January 1, 2012 and carries interest at the rate of 6% pa. This loan is secured against hypothecation of equipment.

Loan 5 (Opening and Operating of Sibovc South West Mine)
On April 19, 2010, the Company signed a borrowing contract with Ministry of Finance and Economy for a loan with total limit of EUR 58,000 thousand. As at December 31, 2011 the Company availed EUR 17,942 thousand (as at December 31, 2010: 10,013 thousand). The principal of this loan and interest are repayable in eight years in equal bi-annual installments starting from June 8, 2014, and carries interest at the rate of 6% pa. This loan is secured against hypothecation of equipment.

11. BORROWINGS (CONTINUED)

Loan 6 (The Overhaul and refurbishment of Units B1 and B2 of the Kosova B Power Plant)
On April 19, 2010, the Company signed a borrowing contract with Ministry of Finance and Economy for a loan with total limit of EUR 11,353 thousand. As at December 31, 2010 the Company availed this loan fully. The principal of this loan and interest are repayable in eight years in equal bi-annual installments starting from May 14, 2014, and carries interest at the rate of 6% pa. This loan is secured against hypothecation of equipment.

Interest free loan:
During 2005, the Company obtained a loan from MFE under a contract dated September 29, 2005 for an amount of EUR 10,000 thousand and was repayable in lump sum on or before December 31, 2008. This loan is interest and collateral free. EUR 4,000 are payable within 2012.

12. DEFERRED GRANTS

	2011 (in EUR 000)	2010 (in EUR 000)
As at January 1,	134,211	126,305
Grants received during the year	28,025	51,961
Opex grants amortized	(27,350)	(39,021)
Amortized during the year (Note 17)	(10,683)	(5,034)
Eliminated on transfer of assets to KOSTT (refer note 4)	(5,092)	-
Balance as at December 31,	**119,111**	**134,211**

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 on March 30, 2012 with the values as of December 31, 2011 (Ref. to note 4)

13. PROVISIONS

	As at December 31, 2011				As at December 31, 2010			
(in EUR 000)	**Clean-up and land reclamation**	**Legal cases**	**Staff pension**	**Total**	**Clean-up and land reclamation**	**Legal cases**	**Staff pension**	**Total**
Balance as at January 1,	45,300	7,820	5,211	58,331	44,000	3,257	5,211	52,468
Change during the year	(2,470)	2,991	(2,013)	(1,492)	1,300	4,563	-	5,863
As at December 31, 2010	**42,830**	**10,811**	**3,198**	**56,839**	**45,300**	**7,820**	**5,211**	**58,331**

Clean-up and land reclamation provisions:
The balance of provision as at December 31, 2011 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.

13. PROVISIONS (CONTINUED)

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

	As at December 31, 2011 (in EUR 000)	As at December 31, 2010 (in EUR 000)
Clean-up and land reclamation	4,930	6,700
Conversion of dry ash to wet	7,800	8,500
Ash dump removal	12,000	12,000
Overburden dump	2,500	2,500
Decommissioning of gasification plant	15,600	15,600
	42,830	**45,300**

Legal provision:

As at December 31, 2011, the Company has reassessed the possible impact of court cases. The Company believes that the amount of EUR 10,811 thousand (December 31, 2010: EUR 7,820 thousand) is a best estimate for any probable outflow of cash

.

Staff pension provision:

Staff provision relates to certain old employees with whom the Company had service contracts specifying the post employment benefits owing to certain conditions. The Company recorded this provision based on the recent decision by the Constitutional Court, whereby the Court referred to the Supreme Court to revisit its previous decision in the light of constitutional rights of employees. In prior years, the Company stopped making such contracts and ultimately stopped making such payments. During 2007 based on the Supreme Court's decision in favor of the Company, the Company removed the provision from its books.

14. TRADE AND OTHER PAYABLES

	As at December 31, 2011 (in EUR 000)	As at December 31, 2010 (in EUR 000)
Trade Creditors		
Local suppliers	22,896	30,798
Foreign suppliers	11,158	8,449
	34,054	**39,247**
Other current payables		
Salaries to employees	4,481	4,066
Customers advances	69	73
Other payables	216	494
	4,766	**4,633**
	38,820	**43,880**

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, 2011 (in EUR 000)	As at December 31, 2010 (in EUR 000)
Concession fees	567	695
Other accrued expenses	660	498
	1,227	**1,193**

16. SALES

	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
Sale of electricity		
Domestic and industrial customers	99,728	89,132
Householders	93,227	87,740
Export of electricity	15,264	9,580
	208,219	**186,452**
Other sales		
Sales of coal	2,201	2,350
Other	5,540	3,955
	7,741	6,305
	215,960	**192,757**

17. INCOME FROM GRANTS

	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
Grants for import of electricity	27,350	39,021
Amortization of deferred grants related to property, plant and equipment	10,683	5,034
	38,033	**44,055**

18. OTHER INCOME

	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
Income from rent	192	196
Other income	2,650	1,819
	2,842	**2,015**

19. STAFF COSTS

	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
Salaries, net	45,419	41,038
Pension contributions and taxes	8,024	7,019
Other	3,169	3,377
	56,612	**51,434**

20. ELECTRICITY AND OTHER UTILITIES

	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
Electricity purchases	58,326	44,782
Fuel	14,240	11,913
Gas and water	1,308	1,138
Exchange of electricity	1,419	4,103
Transmission of electricity	11,388	15,800
	86,681	**77,736**

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

21. OTHER OPERATING EXPENSE

	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
Transport services	818	1,543
Insurance expenses	2,056	2,044
Concessions fee	2,126	2,064
Licenses	681	1,227
Non-production expenses	1,384	1,303
Other	7,831	4,651
	14,896	**12,832**

22. FINANCIAL INCOME/(CHARGES), NET

	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
Interest income on overdue balances	776	321
Interest expense on borrowings and delayed payments	(115)	(135)
Financial income/(charges), net	**661**	**186**

23. TAXATION

	Year ended December 31, 2011 (in EUR 000)	Year ended December 31, 2010 (in EUR 000)
Profit before taxation	16,517	14,148
Adjustments for tax purposes:		
Depreciation	5,294	8,554
Less expenses capitalized	(1,837)	(230)
Other expenses	191	-
Profit before utilization of tax losses	**20,165**	**22,472**
Tax losses as at January 1,	(77,767)	(126,540)
Un-utilized tax losses	-	26,301
Tax losses as at December 31,	**(57,602)**	**(77,767)**

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. 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.

23. TAXATION

23.1 Deferred tax asset

	As at December 31, 2011 (in EUR 000)	As at December 31, 2010 (in EUR 000)
Deferred tax liability on PPE	3,753	4,891
Deferred tax asset on carried forward tax losses	(5,760)	(7,777)
Net deferred tax asset	**(2,007)**	**(2,885)**
Deferred tax asset not recognized	2,007	2,885
Deferred tax asset recognized	-	-

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

24. COMMITMENTS AND CONTINGENCIES

Commitments:

As at December 31, 2011, the Company has capital commitments of EUR 36,100 thousand (as at December 31, 2010: EUR 49,824 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.

KOSTT Charges:

During February 2011 KOSTT, a State owned transmission company, initiated a dispute with Energy Regulatory Office (ERO) alleging that the Company refused to pay a portion of invoices for transmission services in 2010 and failed to pay the 2008 and 2009 reconciliation invoices submitted by KOSTT, totaling nearly €5 million. In its 2011 tariff review, ERO confirmed that KOSTT is subject to a revenue cap, limiting its revenues to the amount determined in the prior tariff decision. On December 29, 2011 the ERO review board decided that KEK has no liability towards KOSTT for the years 2008, 2009 and 2010. In 2011 there is a difference of €3 million but since ERO confirmed the Company's position, the management believes that it has no liability towards KOSTT.

24. COMMITMENTS AND CONTINGENCIES

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

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

Bank guarantees:
As at December 31, 2011, outstanding guarantees issued in favor of the Company were amounting to EUR 6,178 thousand (as at December 31, 2010: EUR 4,000 thousand).

25. FINANCIAL RISK MANAGEMENT

a. Capital risk management

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

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

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

	As at December 31, 2011 (in EUR '000)	As at December 31, 2010 (in EUR '000) (restated)
Debt	187,540	157,540
Equity	123,377	112,828
Debt to equity ratio	152%	140%

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Credit risk

The Company is subject to credit risk through its selling activities. In this respect, the credit risk for the Company stems from the possibility that different counterparties might default on their contractual obligations. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. Trade receivables are therefore monitored on monthly basis and customers warned promptly.

The Company analyzes its receivables based on their origin and nature and not based on their age. This approach is supported by 8-year statistics, including correlation and regression analysis. For the purposes of analysis the receivables are classified based on their origin into the groups presented in the table below.

	35 kV	10 kV	Reside ntial - 1	Reside ntial -2	Comm ercial A	Comm ercial - 1	Comm ercial - 2	Publi c Light ing	Flat rate	110 kV	Reclai med losses
Group of A/R (%)	0.90	7.13	4.07	44.42	8.43	2.75	16.05	0.49	0.61	14.11	1.05
Group Collection (%)	100	95	75	85	100	98	100	98	20	100	-

The Company's exposure to largest 14 companies in Kosovo is EUR 1,199 thousand as at December 31, 2011 (as at December 31, 2010: EUR 1,401thousand). Payment terms with these clients vary from less than one month to one year.

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

c. Market risk

The Company's activities expose it primarily to the financial risk of changes in interest rates, as below in 25(e) and commodity risk in 25(d). The market risk is not concentrated to currency risk, as majority of the transactions of the Company are in local currency.

d. Commodity risk

Commodity Risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. The Company imports electricity to cover the deficit in the energy balance of Kosovo, thereby exposing the Company to commodity risk.
The average electricity import price forecast that the Company used in the preparation of its 2011 annual budget approved by BOD was 85 Euro/MMWH and the actual average price was 69.7 Euro/MMWH. The imported electricity in 2011 was 460,000 MMWH. The average electricity price forecast for 2012 was 75 Euro and amount for import electricity forecasted 600,000 MWH. However the Company recognizes that as result of adverse market conditions the actual price may exceed the forecast. If the actual price is 10% higher than the forecasted price, the Company's expenses will increase by around 4.5 million Euros. In order to manage this risk in timely and effective manner, the Company already included in its approved annual budget an amount of Euro 5 million as contingency reserve.

25. 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, 2011 and 2010, 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.

As at December 31, 2011	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non - interest bearing	Total
	---Interest bearing---					
	(in EUR '000)					
Financial Assets						
Cash on hand and at banks	49,557	-	-	-	4	**49,561**
Trade receivable	-	-	-	-	13,250	**13,250**
Total financial assets	**49,557**	-	-	-	**13,254**	**62,811**
Financial Liabilities						
Trade and other payables	-	-	-	-	38,820	**38,820**
Provisions	-	-	-	-	56,839	**56,839**
Borrowings	-	11,225	84,450	87,865	4,000	**187,540**
Accrued expenses	-	-	-	-	1,227	**1,227**
Total financial liabilities	-	**11,225**	**84,450**	**87,865**	**100,886**	**284,426**
Net interest risk gap	**49557**	**(11,225)**	**(84,450)**	**(87,865)**	**(87,632)**	**(221,615)**
Cumulative gap as at December 31, 2011	**49,557**	**38,332**	**(46,148)**	**(133,983)**	**(221,615)**	

As at December 31, 2010	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non - interest bearing	Total
	---Interest bearing---					
	(in EUR '000)					
Financial Assets						
Cash on hand and at banks	**37,316**	-	-	-	**4**	**37,320**
Trade receivable	-	-	-	-	**10,776**	**10,776**
Total financial assets	**37,316**	-	-	-	**10,780**	**48,096**
Financial Liabilities						
Trade and other payables	-	-	-	-	**43,880**	**43,880**
Provisions	-	-	-	-	**58,331**	**58,331**
Borrowings	-	-	**62,901**	**84,639**	**10,000**	**157,540**
Accrued expenses	-	-	-	-	**1,193**	**1,193**
Total financial liabilities	-	-	**62,901**	**84,639**	**102,624**	**260,944**
Net interest risk gap	**37,316**	-	**(62,901)**	**(84,639)**	**(91,833)**	**(212,848)**
Cumulative gap as at December 31, 2010	**37,316**	**37,316**	**(25,585)**	**(110,224)**	**(212,848)**	-

25. 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, 2011	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(in EUR '000)					
Financial Assets						
Cash on hand and at banks	49,561	-	-	-	-	**49,561**
Trade receivables	12,488	239	523	-	-	**13,250**
Total financial assets	**62,049**	**239**	**523**	-	-	**62,811**
Financial Liabilities						
Trade and other payables	-	38,820	-	-	-	**38,820**
Provisions	-	-	-	14,008	42,831	**56,839**
Borrowings	-	4,000	11,225	84,450	87,865	**187,540**
Accrued expenses	1,227	-	-	-	-	**1,227**
Total financial liabilities	**1,227**	**42,820**	**11,225**	**98,458**	**130,696**	**284,426**
Net interest risk gap	**60,822**	**(42,581)**	**(10,702)**	**(98,458)**	**(130,696)**	**(221,615)**
Cumulative gap as at December 31, 2011	**60,822**	**18,241**	**7,539**	**(90,919)**	**(221,615)**	**-**

As at December 31, 2010	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(in EUR '000)					
Financial Assets						
Cash on hand and at banks	37,320	-	-	-	-	**37,320**
Trade receivables	9,462	174	1,140	-	-	**10,776**
Total financial assets	**46,782**	**174**	**1,140**	-	-	**48,096**
Financial Liabilities						
Trade and other payable	-	43,880	-	-	-	**43,880**
Provisions	-	-	-	13,031	45,300	**58,331**
Borrowings	-	-	-	72,901	84,639	**157,540**
Accrued expenses	1,193	-	-	-	-	**1,193**
Total financial liabilities	**1,193**	**43,880**	-	**85,932**	**129,939**	**260,944**
Net interest risk gap	**45,589**	**(43,706)**	**1,140**	**(85,932)**	**(129,939)**	**(212,848)**
Cumulative gap as at December 31, 2010	**45,589**	**1,883**	**3,023**	**(82,909)**	**(212,848)**	**-**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

g. 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 financial 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 73% of the plants' capacity during 2011 (2010: 69.8%).

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 2011, to amount to 16.62 % of the total available electricity, whereas commercial losses during the year 2011 were 19.79% of total available electricity (for the year ended 31 December 2010: technical losses were 17.12% and commercial losses were 19.28%). The cost of these technical and commercial losses is recovered by the Company from customers in tariffs as much as determined by the Government of Kosovo through the Energy Regulatory Office.

27. SUBSEQUENT EVENTS

Government of Kosovo is planning to privatize certain unbundled units of the Company by the end of 2012. The future operations of the Company may be impacted by these events.