BDO

KORPORATA ENERGJETIKE E KOSOVËS SH.A.
KOSOVO ENERGY CORPORATION J.S.C.
ENERGETSTKA KORPORACIJA KOSOVA D.D.

Kosovo Energy Corporation J.S.C

Independent Auditors' Report and financial statements for the year ended 31 December 2017

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Kosovo Energy Corporation J.S.C

Opinion

We have audited the financial statements of Kosovo Energy Corporation J.S.C. (the Company), which comprise: the statement of financial position as at December 31, 2017, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter:

We draw attention to the following:

i. The Energy Regulatory Office on January 18 2017 has approved guidelines for Liberalization of Electricity Market in Kosovo. Dated on May 26, 2017 Kosovo Energy Corporation and KESCO has managed to make the Draft Agreement Amendment / Supplement to Agreement on wholesale electricity supply (MFSH), date of October 17, 2012 ("BSA"). Electricity tariffs delivered by KEK have been billed based on this Draft Agreement which until the date of this Report has not been signed between the parties. However, the company's management believes that the Draft Agreement Amendment / Supplement will be signed and there will be no effect on tariff changes or other conditions.

ii. As explained in Note 5 to the accompanying financial statements, included property, plant and equipment are certain assets, which are under the control of the Company but for which the Company does not possess of obtaining property deeds, however the timing and the outcome of the process cannot be determined with any reasonable accuracy, at this stage.

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iii. As disclosed in note 14 to the accompanying financial statements the Company's activities give rise to the need of significant future costs related to environmental damage and decommissioning of its long term assets. . As at December 2017 the balance of provision reload of these environmental costs reaches Euro 29,500 thousand In addition the Company has disclosed in Note 26, estimated decommission cost which are not recognized as a legislation to carry out the decommissioning of its assets. The ultimate settlement amount of these provisions is dependent upon periodic assessments of environmental impacts and future changes of the legislation in relation to decommissioning liabilities. The actual amounts may materially differ from these estimates.

iv. As disclosed in Note 26 to the accompanying financial statements, the Company's financial statements for the year ended December 31, 2011 to 2017 are subject to inspection by local tax authorities. The Company's management used its best estimate and judgment to comply with the tax laws including the use of results previous tax inspections .However until completion of the tax authorities inspection, tax expenses, liabilities and prepayments as disclosed in these financial statements may not be considered finalized. A provision for additional taxes penalties, if any, that may be levied, cannot be determined with any reasonable accuracy, at this stage.

Our opinion is not modified in respect of the matters as detailed in paragraphs (i) to (iv) above.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

This report is a translation of the original version in Albanian, in case of noncompliance the Albanian version will predominate.

BDO Kosova L.L.C.

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March 27, 2018

KOSOVO ENERGY CORPORATION J.S.C.
Statement of Financial Position
As at December 31, 2017

	Notes	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
ASSETS			
Non-current assets			
Property, plant and equipment	5	284,146	305,721
Intangible assets	6	17	44
Total non-current assets		**284,163**	**305,765**
Current assets			
Inventories	7	20,497	22,950
Trade and other receivables, net	8	22,854	22,212
Income tax receivables		1,918	3,349
Cash on hand and at banks	9	89,609	63,305
Total current assets		**134,878**	**111,816**
TOTAL ASSETS		**419,041**	**417,581**
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	10	25	25
Reserves	11	565,797	565,772
Accumulated (losses)		(442,954)	(463,912)
Total Shareholder's equity		**122,868**	**101,885**
Liabilities			
Non-current liabilities			
Borrowings - noncurrent portion	12	171,804	182,680
Deferred grants	13	33,120	39,037
Provisions	14	47,684	52,333
Deferred tax liability	25	11,749	11,773
Total non-current liabilities		**264,357**	**285,823**
Current liabilities			
Borrowings - current portion	12	11,309	7,550
Trade and other payables	15	15,097	14,780
Accrued expenses	16	5,410	7,543
Total current liabilities		**31,816**	**29,873**
Total liabilities		**296,173**	**315,697**
TOTAL EQUITY AND LIABILITIES		**419,041**	**417,581**

These financial statements have been approved for issue on behalf of the Management and signed on its behalf on March 21, 2018.

Mr. Arben Gjukaj
Managing Director

Mr. Salih Bytyqi
Chief Financial Officer

The accompanying notes from 1 to 30 form an integral part of these financial statements.

	Notes	Year ended December 31, 2017 (in 000 EUR)	Year ended December 31, 2016 (in 000 EUR)
Sales	17	160,464	156,609
Income from grants	18	5,917	6,462
Other income	19	5,836	6,282
		172,217	169,353
OPERATING EXPENSES			
Depreciation and amortization	5,6	(35,125)	(35,195)
Staff costs	20	(48,242)	(48,983)
Electricity and other utilities	21	(19,797)	(12,553)
Maintenance costs		(3,381)	(3,158)
Materials and supplies		(6,940)	(4,913)
Lignite royalty fee	16	(22,734)	(26,670)
Release of/Provision for write down of inventories	7	(643)	431
Loss from impairment of receivables	8	-	(310)
Change in provisions	14	1,634	902
Other operating expenses	22	(10,281)	(17,422)
		(145,509)	(147,871)
Profit from operations		**26,708**	**21,482**
Finance expense/(Income), net	23	(2,882)	(7,623)
Profit before taxation		**23,826**	**13,859**
Taxation	24	(2,868)	(2,861)
Net Profit for the year		**20,958**	**10,998**
Other comprehensive income for the year		-	-
Deferred tax effect on revaluation of property, plant and equipment	25	25	37
Total comprehensive income for the year		**20,983**	**11,035**

The accompanying notes from 1 to 30 form an integral part of these financial statements.

	Share capital	Reserves	Accumulated (losses)	Total
		(in 000 EUR)		
Balance as at January 1, 2016	25	565,735	(474,910)	90,850
Profit for the year	-	-	10,998	10,998
Other comprehensive income	-	37	-	37
Total comprehensive income	**-**	**37**	**10,998**	**11,035**
Balance as at December 31, 2016	**25**	**565,772**	**(463,912)**	**101,885**
Balance as at January 1, 2017	25	565,772	(463,912)	101,885
Profit for the year	-	-	20,958	20,958
Other comprehensive income	-	25	-	25
Total comprehensive income	**-**	**25**	**20,958**	**20,983**
Balance as at December 31, 2017	**25**	**565,797**	**(442,954)**	**122,868**

The accompanying notes from 1 to 30 form an integral part of these financial statements.

	Notes	For the year ended December 31, 2017 (in 000 EUR)	For the year ended December 31, 2016 (in 000 EUR)
Cash flows from operating activities			
Profit before tax		23,826	13,859
Adjustments for non-cash items:			
Depreciation and amortization	5,6	35,125	35,195
Amortization of grants	18	(5,917)	(6,462)
Interest Income	23	-	(4)
Interest Expenses	23	2,882	7,627
Provision for doubtful debts	8		310
Provision for environmental and pension costs	14	(4,649)	(902)
Provision for write down/back of inventories	7	643	(431)
Loss of damaged equipment	5,22	-	-
Property, plant and equipment written off	5,22	104	502
Profit before changes in operating assets and liabilities		**52,014**	**49,694**
Decrease/(Increase) in inventories		1,810	(3,569)
Decrease/(Increase)in trade and other receivables		1,159	(739)
Decrease in trade and other payables and accrued expenses		(1,816)	(352)
Cash generated from operating activities		**53,167**	**45,034**
Interest received		-	4
Interest paid		(3,283)	(7,301)
Income tax paid		(2,360)	(2,848)
Net Cash flows from Operating Activities		**47,524**	**34,889**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(13,670)	(10,149)
Cash used in investing activities		**(13,670)**	**(10,149)**
Cash flows from financing activities:			
Loans paid during the year		(7,550)	(2,556)
Cash generated from financing activities		**(7,550)**	**(2,556)**
Net increase in cash equivalents		**26,304**	**22,184**
Cash and equivalents at the beginning of the year		63,305	41,121
Cash and equivalents at the end of the year	9	**89,609**	**63,305**

The accompanying notes from 1 to 30 form an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

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

The Company's principal activities are generation and 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 - Kosova B;
- Electricity Production Division - Kosova A;

The License of Kosovo Energy Corporation - Generation Division (KEK JSC) - TPP Kosovo A for electricity generation is extended for the period from 4th of October 2015 until 4th of October 2016 (license number ERO / Li_05 / 13_A,) from the Energy Regulatory Office.

The License of Kosovo Energy Corporation - Generation Division (KEK JSC) - TPP Kosovo B for electricity generation is given for the period from 4th of October 2006 until 4th of October 2026 (license number ZRRE_Li_05/13_B) from the Energy Regulatory Office (ERO).

Whereas on 23 December 2014 the License of Kosovo Energy Corporation (KEK JSC), Generation Division "TPP Kosova B", with license number ZRRE/Li_05/13_B, is hereby modified into "Electricity and Thermal Energy Cogeneration License" by the Energy Regulatory Office(ERO) with all the all other provisions of the previous license remain in force.

Kosovo Energy Corporation (KEK JSC), during December 2014 started the project for Thermal Energy Cogeneration where the thermal energy is sold to Termokos J.S.C. in order to ensure of heating supply in Prishtina.

The Government of Kosovo decided and begun the privatization process for KEK Distribution Network and Supply Divisions. Hence, as of May 8th, 2013, the supply network and distribution divisions were no longer operated by KEK.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Basis of preparation

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

2.3 Going concern assumption

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

In making this assumption, management has taken in consideration the fact that the Company's accumulated losses are still significant and as at December 2017 amount to EUR 442 million (2016: EUR 463 million). However, the Company has generated profits in recent years and subsequent to the unbundling of its Distribution and Supply divisions, it is no longer relying on Government grants to support its operations

2.4 Functional Currency

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

2.5 Foreign currency transactions

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment

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

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

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

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

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

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

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

2.7 Intangible assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of non - financial assets

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

2.9 Financial instruments

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

Initial recognition and de-recognition

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

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

a) Financial assets at fair value through profit and loss

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial Instruments (continued)

b) Loans and receivables

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

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

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

(c) Held-to-maturity financial assets

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

(d) Available-for-sale financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial Instruments (continued)

Fair Values

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

2.10 Inventories

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

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

2.11 Cash and cash equivalents

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

2.12 Borrowings

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

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

2.13 Trade and other payables

Liabilities for trade and other amounts payable are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received whether billed to the Company or not.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Retirement benefit costs

The Company makes no provision and has no obligation for employees pensions over and above the contributions paid into the Kosovo Pension Saving Trust (KPST).

2.15 Taxation

Taxation has been provided for in the financial statements in accordance with Kosovo tax regulations in force from 01 September 2015, Law no.05/L -029 "On Corporate Income Tax".The income tax charge in the profit or loss for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates in force at the date of the statement of financial position.

Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxes other than income taxes are recorded within operating expenses.

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

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

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

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

2.16 Revenue recognition

Revenues from the sale of electricity are recognized when electricity is provided to customers. Billing for electricity sales are made each month within five (5) days of the month following the month in which the consumption of electricity is performed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to the profit or loss on a systematic and rational basis over the useful lives of the related assets.

Additionally the company receives government grants for purchase of electricity when needed. The company defers such grants until the purchase electricity has been delivered and invoiced to the subscribers, which normally occurs within the year.

2.18 Provisions

A provision is recognized when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation.

2.19 Related parties

Related parties are those where one of the parties is controlled by the other or has significant influence in making financial or business decisions of the other party.

2.20 Commitments and contingencies

Contingent liabilities are not recognized in the financial statements. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. The amount of a contingent loss is recognized as a provision if it is probable that future events will confirm that, a liability incurred as at the date of the statement of financial position and a reasonable estimate of the amount of the resulting loss can be made.

2.21 Events after reporting date

Post-year-end events that provide additional information about a Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. CRITICAL JUDGMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

There are no critical judgements, apart from those involving estimations (see 3.1 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.

3.1 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying of the assets and liabilities within the next financial year.

Impairment and useful lives of property, plant and equipment
As described in note 2.6 above, the Company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. Any change in continued use of properties or other factor may impact the useful lives of assets and accordingly may significantly change the carrying amount of those assets.

The carrying amount of property, plant and equipment is dependent upon the decisions of the independent energy regulator of Kosovo on determination of energy tariffs. Future changes in the level of tariffs may have significant impact on the carrying amount of the Company's assets.

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 coses
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 discloses the contingent liability. Actual results may differ from estimation.

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

4. AMANDAMENTS IN ACCOUNTING POLICIES AND DISCLOSURES

Adoption of new and revised standards of International Financial Reporting Standards (IFRS)

New standards and amendments approved by the company

Improvements to IFRSs 2017 have made some minor changes to a number of IFRSs. Adopting these changes to existing standards and interpretations has not led to any change in the company's accounting policies.

Amandaments in IFRS that are required to be applied for annual periods beginning on or after 1 January 2017.

The following IFRS adjustments became necessarily applicable in the current year. All these changes to IFRSs generally require full retrospective application (the comparative amounts should be restated), with some changes that require prospective application. Below is a list of changes to IFRSs that are necessarily applicable for the financial year 2017:

- IAS 12 Income Taxes (Amendment - Recognition of Deferred Tax Assets for Unrealized Losses.
- IAS 7 Statement of Cash Flows (Disclosure Initiative Amendments).
- Annual Improvements to IFRSs (2014 - 2016 Cycle): IFRS 12 Disclosure of interests in other entities.

4. AMANDAMENTS IN ACCOUNTING POLICIES AND DISCLOSURES(CONTINUED)

New and revised IFRSs that are not necessarily applicable (but allow for early application) for the year ended 31 December 2017:

Below is a list of new and revised IFRSs that are not yet enforceable (but allow for early application) for the year ended 31 December 2017

- IFRS 15 Revenue from contracts with customers and relevant explanations (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 classification and Measurement of Share-based payment Transactions (effective 1 January 2018);
- IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019);
- Amendments to IFRS 10 and IAS 28 Selling or Contributing Assets between an Investor and his associate or joint venture (effective for annual periods beginning on or after a specified date);
- Transfer of Investing Property (Amendments to IAS 40) (effective for annual periods beginning on or after 1 January 2018);
- Application of IFRS 9 Financial Instruments 'to IFRS 4 Insurance Contracts' (Amendments to IFRS 4) (effective for annual periods beginning on or after 1 January 2018).

5. PROPERTY, PLANT AND EQUIPMENT

	Land and forest (in 000 EUR)	Land in mines (in 000 EUR)	Buildings (in 000 EUR)	Equipment (in 000 EU
Cost/Deemed costs:				
As at January 1, 2016	11,489	39,898	37,283	555,4
Additions			632	6,5
Written off			(518)	(2,27
Internal transfers			2,399	8,4
As at December 31, 2016	**11,489**	**39,898**	**39,796**	**568,1**
As at January 1, 2017	11,489	39,898	39,796	568,1
Additions			540	8,9
Written off			(1,180)	(61
Internal transfers		864	31	2,1
As at December 31, 2017	**11,489**	**40,762**	**39,187**	**578,7**

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and forest (in 000 EUR)	Land in mines (in 000 EUR)	Buildings (in 000 EUR)	Equipment (in 000 EUR)	Construction in progress (in 000 EUR)	Total (in 000 EUR)
Accumulated depreciation:						
As at January 1, 2016	-	**13,154**	**19,942**	**290,639**	-	**323,735**
Charge for the year	-	2,998	1,236	30,945		35,179
Removed on written off assets	-	-	(512)	(1,782)		(2,294)
As at December 31, 2016		**16,152**	**20,666**	**319,802**		**356,620**
As at January 1, 2017		**16,152**	**20,666**	**319,802**		**356,620**
Charge for the year	-	3,043	1,231	30,824		35,098
Removed on written off assets	-	-	(1,101)	(584)		(1,685)
As at December 31, 2017		**19,195**	**20,796**	**350,042**	-	**390,033**
Net book value:						
As at December 31, 2016	**11,489**	**23,746**	**19,130**	**248,374**	**2,982**	**305,721**
As at December 31, 2017	**11,489**	**21,567**	**18,391**	**228,715**	**3,983**	**284,146**

As at December 31, 2017 and 2016, the Company's equipment and mining assets are collateralized against borrowings from loan from Ministry of Finance (see Note 12).

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

5.2 Property, plant and equipment written off

During 2017 the Company wrote off against current profit and loss, items of property, plant and equipment net carrying value of which amount EUR 104 thousand (2016:EUR 502 thousand) (see Note 22).

6. INTANGIBLE ASSETS

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

	Software (in 000 EUR)
Cost/deemed cost:	
Balance as at January 1, 2016	**227**
Additions during the year	28
Transfers	-
Write offs	(5)
Balance as at December 31, 2016	**250**
Write offs	(5)
Balance as at December 31, 2017	**245**
Accumulated amortization:	
Balance as at January 1, 2016	**195**
Amortization for the year	16
Write offs	(5)
Balance as at December 31, 2016	**206**
Amortization for the year	27
Write offs	(5)
Balance as at December 31, 2017	**228**
Net book value as at December 31, 2016	**44**
Net book value as at December 31, 2017	**17**

7. INVENTORIES

Inventories in the statement of financial position are analyzed as follows:

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Materials and consumables	29,064	30,877
Lignite	4,351	4,985
Fuel	2,365	2,354
Spare parts	12,787	12,340
Others	10,996	10,817
	59,563	61,373
Provision for obsolete inventories	(39,066)	(38,423)
Total	20,497	22,950

Movements in inventory provision account are presented as follows

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Balance at 1 January	(38,423)	(38,854)
Release/(Charge) for the period	(643)	431
Balance at 31 December	(39,066)	(38,423)

8. TRADE AND OTHER RECEIVABLES

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

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Trade receivables:		
Local customers	40,331	47,435
Foreign customers	3,745	3,744
	44,076	51,179
Provision for bad debts	(32,289)	(32,870)
	11,787	18,309
Other receivables:		
Advances to suppliers	9,043	1,874
Other receivables	2,241	2,246
	11,284	4,120
Provision for other receivables and advances	(217)	(217)
Total other receivables	11,067	3,903
Total	22,854	22,212

8.1. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements in Provision for bad debts and other receivables are shown as follows:

	As at December 31,2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Balance at 1 January	(33,087)	(32,988)
Reclassified from provisions	-	211
Collected during the period	581	
Charge for the Period	-	(310)
Balance at 31 December	**(32,506)**	**(33,087)**

Provisions are created for the following bad debts:

	As at December 31,2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
KEDS JSC	21,177	21,177
Trepca	5,024	5,605
Ferronikel	748	748
Provision for EPS - Serbia and KESH - Albania Exports	3,743	3,743
Costumers	1,814	1,814
Balance at 31 December	32,506	33,087

9. CASH ON HAND AND AT BANKS

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Current accounts with banks	89,606	63,304
Cash on hand	3	1
Total	**89,609**	**63,305**

10. SHARE CAPITAL

As at December 31, 2017 and according to the Business Registration issued by the Kosovo Business Registration Agency under Business Reg. No. 70325399, total subscribed capital amounts to EUR 25 thousand (2016: same). It comprises of 25,000 ordinary shares at 1 (one) EUR per share. The Company's sole shareholder is Government of Kosovo.

11. RESERVES

Reserves, which at 31 December 2017 amount to EUR 565,797 thousand (2016: EUR 565,772 thousand) 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.

Reserves also include the deferred tax effect (release of deferred tax liability) initially created based on the revaluation of property, plant and equipment upon transition to IFRS (see Note 25).

12. BORROWINGS

The Company has received long-term and short term loans from the Government of Republic of Kosova, as follows:

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Non-current portion		
Interest bearing loan from Ministry of Finance	171,804	182,680
	171,804	**182,680**
Current portion		
Interest bearing loan from Ministry of Finance	10,876	6,716
Accrued Interest	433	834
	11,309	**7,550**
Total borrowings	**183,113**	**190,230**

Government loans:

On 8 April 2015, the Government of Republicof Kosova represented by the Ministry of Finance has decided to redesign the KEK loans and rearrange them in two loans.With the same agreement and the decision of the Government of Republic of Kosova dated 24 March 2015, the accrued interest up to 31 of December 2014 was forgiven. Income released based on this decision amounts EUR 19,986 thousand and is recognized in the current profit and loss (see Note 19).

The first loan in amount of EUR 166,387 thousand is for Mines and the principal and interest are repayable in 18 years in 36 equal installments except for the first interest payment of EUR 1,500 thousand which is payable on 15 October 2015.The principal and interest are payable starting from 15 October 2017 and carries interest at the rate of 2.5%p.a at maximum.The loan is secured against pledge of company's' property plant and equipment (see Note 5).

The second loan in amount of EUR 25,565 thousand is for generation and the principal and interest are repayable in 9 years in 18 equal installments starting from 15 April 2016 and carries interest at the rate of 2.5% p.a at maximum.The loan is secured against pledge of company's' property plant and equipment (see Note 5).

12. BORROWINGS (CONTINUED)

Government loans (continued):

The repayment plan of the loans is as follows:

	Total (in 000 EUR)
Within 12 months	10,876
2019	10,876
2020	10,876
2021	10,876
After 2021	139,176
	182,680

13. DEFERRED GRANTS

The Company has received various grants from the Government of Republic of Kosova as follows:

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
As at January 1,	39,037	45,499
Grants received during the year	-	-
Amortized during the year (Note 18)	(5,917)	(6,462)
Balance as at December 31,	33,120	39,037

14. PROVISIONS

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

(in 000Euro)	As at December 31, 2017				As at December 31, 2016			
	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,	33,058	17,549	1,726	52,333	33,058	18,331	1,846	53,235
Change / release during the year	(3,558)	(995)	(96)	(4,649)		(782)	(120)	(902)
As at December 31,	29,500	16,554	1,630	47,684	33,058	17,549	1,726	52,333

Clean-up and land reclamation provisions:

The balance of provision as at December 31, 2017 represents the Company's best estimate of costs related to clean-up and land reclamation, ash dump removal and decommissioning of gasification plant from energy generation sites. These costs are based on the management internal assessments, where management believes that timings of cash flow in this regard will be 3-10 years. While making provision assessments, the Company utilized all related factors including possible offers for such projects, estimated timing of cash flows and other market related information.

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

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Clean-up and land reclamation	-	327
Conversion of dry ash to wet	-	2,350
Stored chemical removal	2,400	5
Ash dump removal	7,000	11,922
Overburden dump	3,000	2,454
Decommissioning of gasification plant	15,600	15,600
Air reduction pollution in Kosovo B	1,500	400
	29,500	33,058

14. PROVISIONS (CONTINUED)

Legal provision:

As at December 31, 2017, the Company has reassessed the possible impact of court cases. The Company believes that the amount of EUR 16,554 thousand (December 31, 2016: EUR 17,549 thousand) is a best estimate for any probable outflow of cash.

Staff pension provision:

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

Prepayment of tax on profit

During 2017 the Company wrote off part of prepayment of profit tax in amount EUR 1,925 thousand, closing the prepayment is due to exceeding the legal limit for reimbursement and considering that the matter is in court proceedings.

15. TRADE AND OTHER PAYABLES

Trade payables are non-inter8est bearing liabilities with domestic and foreign suppliers and are normally settled on a period ranging from 30 days to 180 days.

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Trade Creditors		
Creditor		
Local suppliers	6,168	6,235
Foreign suppliers	5,041	2,585
	11,209	8,820
Other current payables		
Salaries to employees	3,319	3,748
Customers advances	121	434
Corporate tax payable for the year	238	1,741
Other payables	210	37
	3,888	5,960
	15,097	14,780

16. ACCRUED EXPENSES

Current expenses presented in the statement of financial position are analyzed in detail as follows:

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Lignite royalty fee	5,156	7,285
Other accrued expenses	254	258
	5,410	**7,543**

Lignite royalty fee represents royalties paid in connection with the mining activities of the Company for extraction of lignite used in the power plants. The royalty taxis Euro 3\ton in 2017 (2016: EUR 3\ton). Total royalty fee charged in current profit and loss for the year ended 31 December 2017 amounts to EUR 22,734 thousand (2016: EUR 26,670 thousand)

17. SALES

The Company's sales consist of the following:

	Year ended December 31, 2017 (in 000 EUR)	Year ended December 31, 2016 (in 000 EUR)
Sale of electricity		
Domestic and industrial customers	129,428	152,456
Revenues from non balances	728	-
Export of electricity	27,233	1,322
	157,389	**153,778**
Other sales		
Sales of coal	2,228	2,017
Other	847	814
	3,075	**2,831**
	160,464	156,609

Domestic and industrial customers in 2017 and 2016 represent energy sold to KEDS after the unbundling of the distribution and supply division on May 8, 2013. The sales of electricity represent actual billed energy to the clients.

18. INCOME FROM GRANTS

Revenues from grants are presented in the Comprehensive Income Statement and are analyzed as follows:

	Year ended December 31, 2017 (in 000 EUR)	Year ended December 31, 2016 (in 000 EUR)
Amortization of deferred grants related to long-term tangible assets	5,917	6,462
	5,917	**6,462**

19. OTHER INCOME

The other revenues are presented in the Comprehensive Income Statement and are analyzed as follows:

	Year ended December 31, 2017 (in 000 EUR)	Year ended December 31, 2016 (in 000 EUR)
Collection of client receivables from KEDS	3,950	5,490
Income from rent	29	32
Revenues from the collection of bad debts	581	-
Other income	1,276	760
	5,836	**6,282**

20. STAFF COSTS

Personnel expenses are presented in the Comprehensive Income Statement and are analyzed as follows:

	Year ended December 31, 2017 (in 000 EUR)	Year ended December 31, 2016 (in 000 EUR)
Salaries, net	39,039	39,714
Pension contributions and taxes	7,481	7,618
Other	1,722	1,651
	48,242	**48,983**

21. ELECTRICITY AND OTHER UTILITIES

	Year ended December 31, 2017 (in 000 EUR)	Year ended December 31, 2016 (in 000 EUR)
Fuel	7,351	6,467
Transmission of electricity	9,101	3,718
Gas and water	780	659
Exchange of electricity	2,550	1,624
Electricity purchases	15	85
	19,797	**12,553**

22. OTHER OPERATING EXPENSES

	Year ended December 31, 2017 (in 000 EUR)	Year ended December 31, 2016 (in 000 EUR)
Insurance expenses	2,077	2,009
Non-production expenses	878	773
Licenses	1,156	1,446
Transport services	72	154
Loss from write of off property, plant and equipment (Note 5)	104	502
Other	5,994	12,538
	10,281	17,422

23. FINANCIAL INCOME/EXPENSES NET

	Year ended December 31, 2017 (in 000 EUR)	Year ended December 31, 2016 (in 000 EUR)
Interest income		4
Interest (expense) on borrowings and delayed payments	(2,882)	(7,627)
Financial income/(charges), net	**(2,882)**	**(7,623))**

24. TAXATION

	Year ended December 31, 2017 (in 000 EUR)	Year ended December 31, 2016 (in 000 EUR)
Profit before taxation	23,826	14,693
Adjustments for tax purposes:		
Expenditures / (Revenues)	1,804	
Depreciation	2,909	2,341
Less capitalized expenses		
Other expenses	137	11,576
Loss from damaged assets		
Profit before the use of (losses) tax	**28,676**	**28,610**
(Losses) carried forward		-
Taxable Profit	**28,676**	**28,610**
Income tax for the year / (carried forward losses)	**2,868**	**2,861**

24. TAXATION (CONTINUED)

According to the Corporate Income Law no.05/L -029 entered into force commencing on 1 September 2015, the Company is required to pay income tax at a rate of 10% on the taxable profit, as calculated in the annual Income Tax Return Statement. In accordance with new Law, tax losses may be carried forward to be set off during the next six years following the year in which the tax loss was incurred.

The Company's financial statements for the years ended December 2011, 2012, 2013, 2014 2015, 2016 and 2017 are subject to inspection by local tax authorities.The company's financial statements up to 2010 are inspected by the Tax Administration. 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, income tax expense for the year ended December 31, 2017 may differ significantly compared to the one reported in these financial statements.

25. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax liability is calculated as follows:

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Accounting carrying amount	270,473	293,075
Tax carrying amount	(152,986)	(175,342)
Taxable temporary difference	**117,487**	**117,733**
Deferred tax liability at 10%	**11,749**	**11,773**

Total deferred tax liability released through other comprehensive income for the year ended 31 December 2017 amounts EUR 25 thousand (2016: EUR 37 thousand).

26. COMMITMENTS AND CONTINGENCIES

Commitments:

As at December 31, 2017, the Company has capital commitments of EUR 21,714 thousand (2016: EUR 516 thousand). The Company has no operational lease commitments as at year end.

Litigations:

As of the date of these financial statements the Company is involved in 516 lawsuits (2016: 794 cases). Other than provision recognized in these financial statements, the Company believes that there will be no additional provision required against the cases pending in court. Movement in provision for legal cases is as follows:

	Amount of Provision ('000)	Number of Cases
31 December 2016	**17,549**	**479**
New claims for the period	430	63
Claims closed during the period	(1,425)	(26)
31 December 2017	**16,554**	**516**

26. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Tax Litigations

The Company's financial statements for the years ended December 31, 2011 to 2017 are subject to inspection by local tax authorities.

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 expenses, liabilities and prepayments as at December 31, 2017 and 2016 may differ significantly compared to the one reported in these financial statements.

Bank guarantees:

As at December 31, 2017, outstanding guarantees issued in favor of the Company were amounting to EUR 11,027 thousand (as at December 31, 2016: EUR 646 thousand).

Decommissioning and clean-up costs:

The Government of Kosovo is committed to decommission TPP 'Kosova A', due to its age and environmental pollution, but also for the fact that Kosovo is a party to the ENCT and must comply with European Directive 2001/80/EC, on the limitation of emissions of certain pollutants into the air from large combustion plants.

Based on the Energy Strategy of the Republic of Kosovo for the period 2009-2018 is foreseen that the Power generation from TPP Kosova A, operating with A3, A4 and A5 units and in line with the European Directive for Large Combustion Plants, the units of TPP Kosova A could be operated until the end of 2017. In relation to this activity, the Government of the Republic of Kosovo issued its Decision No. 22/109, which establishes three working groups for the preparation for decommissioning of TPP Kosova A and other facilities at its location.

Whereas based on the Draft Energy Strategy of the republic of Kosovo for the period 2013-2022 is foreseen that time of decommissioning of TPP Kosova A, is closely linked with the entry into operation of TPP Kosova e Re, in order not to create a shortage of electricity in local capacities. It should also be noted that the dismantling of all units of TPP Kosova A will start immediately after the decommissioning of its active units.

In addition to recognized environment provisions disclosed in Note 14, the Company acknowledges that there are a number of environmental concerns and liabilities arising from the Operations of the Company that require significant cost to rectify. Based on a decommissioning study dated March 15th 2010, such costs are estimated as follows:

	(in million EUR)
Demolition, cleaning and revitalization of the area with a number of supporting facilities serving for five units of Kosova A	28.4
Social issues; which include retraining of workers, socialization, early retirement and other forms of rehabilitations of workers.	5
Decommissioning of Gasification and Nitrogen	17.5
"KosovaThëngjilli" (Kosova Coal), decommissioning and rehabilitation of the environment in the area of TC Kosova A	5
Total estimated	**55.9**

26. COMMITMENTS AND CONTINGENCIES (CONTINUED)

These costs may not be the ultimate outcome of the cost of settling these obligations and further studies are required and are planned to ascertain the potential liabilities.

The Company however has no current legal liability to settle these obligations as such obligations are not clearly foreseen by the legislation in force. Consequently, it has not recognized a provision in its financial statements.

As of the reporting date there are no new decisions or information available to us which would indicate different approach to the TPP Kosova A units.

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amount of financial assets and financial liabilities for each category are as follows:

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Financial assets		
Loans and receivables (amortized cost)		
Trade and other receivables (Note 8)	22,854	22,212
Cash and cash equivalents (Note 9)	89,609	63,305
	112,463	**85,517**
Financial liabilities		
Other liabilities (amortized cost)		
Trade and other payables	15,097	14,780
Borrowings	183,113	190,230
	198,210	**205,010**

27. FINANCIAL RISK MANAGEMENT

A:- Capital RiskManagement

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to shareholder through the optimization of the debt and equity balance.
The capital structure of the company consists of borrowings and the equity attributable to equity holder, comprising capital, reserves and retained losses.

Gearing ratio

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

	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Debt	183,113	189,396
Equity	122,868	102,719
Debt to equity ratio	**149%**	**184%**

B:- Credit risk

The Company is subject to credit risk through its selling activities. In this respect, the credit risk for the Company stems from the possibility that different counterparties might default on their contractual obligations. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. Trade receivables are therefore monitored on monthly basis and customers warned promptly.
The Company analyzes its receivables based on their origin and nature and not based on their age. Subsequent to the transfer of the Distribution and Supply operations, KEK has significantly reduced its exposure of credit risk.

At 31 December the Company has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The amounts at 31 December, analyzed by the length of time past due, are:

Past due not impaired receivables	As at December 31, 2017 (in 000 EUR)	As at December 31, 2016 (in 000 EUR)
Not more than 3 months	953	885
3 - 6 months	221	313
6 - 12 months	142	158
More than 1 year	4	189
	1,320	**1,545**

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

B: - Credit risk (Continued)

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks.

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 27(e) and commodity risk in 27(d). The market risk is not concentrated to currency risk, as majority of the transactions of the Company are in local currency.

D: - Commodity risk

Commodity Risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. The Company imports electricity to cover the deficit in the energy balance of Kosovo, thereby exposing the Company to commodity risk.

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

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, 2017 and 2016, all borrowings are obtained from the Government of Kosovo, who is the 100% shareholder of the Company, with variables interest rates. Given below is the analysis of both financial assets and financial liabilities.

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

E:-Interest rate risk (Continued)

	As at December 31, 2017 (in EUR '000)	As at December 31, 2016 (in 000 EUR)
Assets		
Non - interest bearing		
Trade and other receivables	22,854	21,859
Cash and cash equivalents	3	1
	22,857	21,860
Fixed rate interest		
Cash and cash equivalents	89,606	63,304
Liabilities		
Non - interest bearing		
Trade and other payables	15,022	14,780
Variable rate interest		
Borrowings	183,113	190,230
	287,816	**268,314**

The Company's financial liabilities are with variable interest rate which at maximum can rise up to 2.5% p.a.
The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 2.5% (2016: +/- 2.5%).

	Profit for the year		Equity	
	+ 2.5%	- 2.5%	+ 2.5%	- 2.5%
31 December 2017	4,567	4,567		
31 December 2016	4,735	-4,735	-	-

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. As at 31 December 2017 and 2016, the Company's liabilities have contractual maturities (including interest payments where applicable) as summarized below:

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

F:-Liquidity risk (Continued)

As at December 31, 2017	Within 1 Month	From 1 to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
		(in 000 EUR)				
Trade and other payables	5,427	9,670				**15,097**
Provisions			465	15,271	31,948	47,684
Borrowings (Note 12)		433	10,876	54,380	117,424	**183,113**
Accrued expenses	5,410					5,410
Total liabilities	**10,837**	**10,103**	**11,341**	**69,651**	**149,372**	**251,304**

As at December 31, 2016	Within 1 Month	From 1 to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
		(in 000 Euro)				
Trade and other payables	5,314	9,467				**14,781**
Provisions		350	353	16,001	35,629	**52,333**
Borrowings (Note 12)			6,716	54,380	131,364	**192,460**
Accrued expenses	7,543					**7,543**
Total liabilities	**12,857**	**9,817**	**7,069**	**70,381**	**166,993**	**267,117**

27 FINANCIAL RISK MANAGEMENT(CONTINUED)

G:- Fair value of financial instruments

The fair values of current assets and current liabilities approximate their carrying values due to their short-term nature. The fair value of borrowings as well approximates the fair value because although they are variable interest bearings loans the lender has punctually waived all interests from the company.

In 000 EUR	Carrying amounts		Fair values	
Financial assets	**31-Dec-17**	**31-Dec-16**	**31-Dec-17**	**31-Dec-16**
Trade and other receivables	22,854	22,212	22,854	22,212
Cash and Banks	89,609	63,305	89,609	63,305
Total	**112,463**	**85,517**	**112,463**	**85,517**

In 000 EUR	Carrying amounts		Fair values	
Financial Liabilities	**31-Dec-17**	**31-Dec-16**	**31-Dec-17**	**31-Dec-16**
Trade and other accounts payable	15,097	14,780	15,097	14,780
Borrowings	183,113	189,396	183,113	189,396
Total	**198,210**	**204,176**	**198,210**	**204,176**

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

28. PRODUCTION AND LOSSES OF ELECTRICITY

The Company has two power plants; Kosova A and Kosova B for electricity production purposes. These plants have total operating capacity of 860 MW, and operated at 83.94% of the plants' capacity during 2017 (2016: 91.80%). The production of energy in both plants for 2017 was 5.121.065 MWh (2016: 5.600.670 MWh).

	As at December 31, 2017	As at December 31, 2016
Kosova A	**(in MW/h)**	**(in MW/h)**
Unit A3	458,139	668,232
Unit A4	824,240	879,870
Unit A5	801,622	766,707
	2,084,001	**2,314,809**
Kosova B		
Unit B1	1,857,690	1,919,948
Unit B2	1,784,271	2,014,009
	3,641,961	**3,933,957**
Total	**5,725,962**	**6,248,766**
Internal Consumption	(469,988)	(403,666)
Internal Consumption - Kostt	(134,909)	(244,430)
	(604,897)	**(648,096)**
Net energy produced	**5,121,065**	**5,600,670**

The production of lignite in 2017 was 7.574.697 ton (2016: 8.800.848 ton).

Electricity losses:

After the unbundling of the distribution and supply divisions, KEK is no longer exposed to energy losses in the network.

29. RELATED PARTY TRANSACTIONS

In the ordinary course of business, KEK entered into transactions during the financial reporting periods with customers who are Government entities and individuals who are associated with or work for Government entities. The Company has also a related party relationship with its directors and executive officers. The monetary transactions with related parties are disclosed below:

Account	Description of transaction	As at December 31, 2017	As at December 31, 2016
Borrowings	Ministry of Finance	183,113	189,396
Interest expense	Ministry of Finance	2,232	4,440
Compensation (salaries)	Executive and non-executive officers	143	143

30. SUBSEQUENT EVENTS

After 31 December 2017 the reporting date until the approval of these financial statements, there are no adjusting events reflected in the financial statements or events that are materially significant for disclosure in these financial statements.

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