

**Financial statements and independent auditors' report**  
**Transmission System and Market Operator, J.S.C. (KOSTT JSC)**  
**December 31 2006**

# Content

	Page
Independent auditors' report	1
Balance sheet	3
Statement of income	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the financial statements	7

## Independent auditors' report

### To the Management of Transmission System and Market Operator, J.S.C.

We have audited the accompanying financial statements of Transmission System and Market Operator, J.S.C. (further referred to as "the Company" or "KOSTT JSC") which comprise of the Balance sheet as of 31 December 2006, and the Statement of income, Statement of changes in equity and Statement of cash flows for the six – months period from 01 July through 31 December 2006, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 19.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the following paragraphs, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

As it is disclosed in Note 7 to the accompanying financial statements, at December 31 2006 the balance of Company's receivables from its local related party – KEK JSC which are based on the approved 2006 operational budget and not spent by KOSTT JSC up to December 31 2006, amounts 703 thousand Euros. The recoverability of these receivables as of the balance sheet date and up to the issuance of this report remains uncertain and depends on the outcome from the negotiations between the Companies' managements. No impairment has been recognized in the Company's accounts as of December 31 2006. Hence, we were not able, applying standard and alternative procedures, to obtain reasonable assurance as to the validity of these receivables at the balance sheet date.

#### Opinion

In our opinion, except for the matters discussed in the preceding paragraph, the financial statements of the Company present fairly, in all material respects, the financial position as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

As of the balance sheet date and up to the issuance of this report the ownership status over the majority of the Company's properties is still unresolved.

Grant Thornton,  
Istanbul



Ajda Düzgün  
Partner

June 26 2007


## Balance sheet

	Notes	At December 31 2006	(Euro 000) At July 01 2006
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	31,461	27,002
		31,461	27,002
<b>Current assets</b>			
Inventories	6	976	499
Trade and other receivables	7	1,559	703
Cash and cash equivalents	8	687	25
		3,222	1,227
<b>Total assets</b>		<b>34,683</b>	<b>28,229</b>
<b>Shareholders' equity</b>			
Shareholders' equity	9		
Share capital		25	25
Share premium		28,204	28,204
Retained earnings		33	-
<b>Total shareholders' equity</b>		<b>28,262</b>	<b>28,229</b>
<b>Liabilities</b>			
<b>Non – current liabilities</b>			
Deferred grants	10	5,927	-
		5,927	-
<b>Current liabilities</b>			
Trade and other payables	11	494	-
		494	-
<b>Total liabilities</b>		<b>6,421</b>	<b>-</b>
<b>Total liabilities and shareholders' equity</b>		<b>34,683</b>	<b>-</b>

These financial statements have been approved by the Board of Directors of the Company, authorised for issue on June 25 2007 and signed on its behalf by:

Mr. Fadil Ismaili

Managing Director



Mr. Nebih Haziri

Finance Director



## Statement of income

	Notes	(Euro 000) Six months period ended December 31 2006
<b>Operating income</b>		
Transmission of electricity	12	1,785
Income from grants	10	74
Other operating income		6
		<b>1,865</b>
<b>Less: Operating (expenses)</b>		
Depreciation	5	(804)
Staff costs	13	(568)
Repair and maintenance	14	(132)
Materials and consumables		(53)
Fuel and lubricants expenses		(34)
Other operating expenses	15	(241)
		<b>(1,832)</b>
<b>Profit before tax</b>		<b>33</b>
Income tax (expense)	16	-
<b>Profit for the year</b>		<b>33</b>

## Statement of changes in equity

	Share Capital	Share Premium	Retained Earnings	(Euro 000) Total
At July 01 2006	25	28,204	-	28,229
Profit for the period	-	-	33	33
At December 31 2006	25	28,204	33	28,262

## Statement of cash flows

	Notes	(Euro 000) Six months period ended December 31 2006
<b>Operating</b>		
Profit for the year		33
<i>Adjustments for:</i>		
Depreciation		804
Income from grants		(74)
<i>Operating profit before working capital changes</i>		<u>763</u>
<i>Changes in operating assets and liabilities:</i>		
Inventory		64
Trade and other receivables		(855)
Trade and other liabilities		494
		<u>466</u>
<b>Investing</b>		
Acquisition of property, plant and equipment		(45)
		<u>(45)</u>
<b>Financing</b>		
Grants received		241
		<u>241</u>
<b>Net change in cash and cash equivalents</b>		<b>662</b>
Cash and cash equivalents at beginning	8	25
<b>Cash and cash equivalents at end</b>	<b>8</b>	<b><u>687</u></b>



# Notes to the financial statements

## December 31 2006

### 1 General

Transmission System and Market Operator (“the Company” or “KOSTT J.S.C”) was incorporated as an independent entity on 23 December 2005 following the transformation of Korporata Energjetike e Kosoves (“KEK”) and registered as a Joint Stock Company pursuant to UNMIK Regulation No. 2001/6 from 8 February 2001, under business registration number 70325350. The Company started its operations independently from 1 July 2006 as per the Agreement signed between KEK J.S.C and KOSTT J.S.C relating to the transitional, commercial and operational relationship between KEK J.S.C and KOSTT J.S.C on the transfer of responsibility for operations and maintenance of the Transmission Network to KOSTT J.S.C. The address of the Company’s registered office is: Transmission and Dispatch Building, Iljaz Kodra, 10000 Prishtina, Kosovo.

The Company is wholly owned subsidiary of Transmission System and Market Operator Holding J.S.C.

The Company’s principal activity is management and operation of the electricity system of Kosovo and transmission of electricity on the main high voltage electric networks. As a market operator, the Company is also responsible for the organization and administration of trades in electricity and manages the settlement process. The Company operates on local market and as of December 31 employs 164 persons.

### 2 Adoption of new and revised Standards

In the current period, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006.

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company*

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Company’s accounting periods beginning on or after 1 May 2006 or later periods but that the Company has not early adopted:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007),
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006),
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

Adoption of new and revised Standards (continued)

*Interpretations to existing standards that are not yet effective and not relevant for the Company's operations*

The following interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Company's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective from 1 May 2006), and
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).

The Company's management considers that the application of new standards, amendments of existing standards and interpretations of existing standards will not cause materially significant effects on the Company's financial statements in the period of their initial application.

### **3 Accounting policies**

#### **Basis of preparation**

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain non – current assets.

In preparation of these financial statements, the management of the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, further on, on disclosures related to contingent assets and liabilities as of the financial statements as well as on the disclosed amounts of revenues and costs during the reporting period that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These financial statements are prepared as of and for the six months period from July 01 2006 through December 31 2006. Current and comparative data are expressed in thousands of Euros (000 Euros) unless otherwise stated.

Following are the principal accounting policies adopted in the preparation of these financial statements:

#### **Foreign currency transactions**

Transactions in currencies other than Euro are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date except where forward exchange contracts have been entered into for repayment of liabilities, in that case, the rates contracted for are used. Gains and losses arising on retranslation are included in net profit or loss for the period.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## Notes to the financial statements (continued)

## Accounting policies (continued)

**Property, plant and equipment**

Property, plant and equipment originated prior to June 30, 2006, the effective date of transformation, were transferred to the Company at their book values.

Land and buildings held for use in the supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized.

Properties in the course of construction for production, or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Furniture, fixtures, equipment and vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and ~~properties under construction, over their estimated useful lives, using the straight-line method, as follows:~~

Buildings	20 years
Transmission Network	20 years
Plant and Machinery	7 – 15 years
Vehicles	5 years
Furniture, fittings and equipment	5 years

In respect of additions and disposals during the year, depreciation is charged from the month of acquisition and up to the month preceding the disposal respectively.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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

**Notes to the financial statements (continued)****Accounting policies (continued)****Impairment of non – financial assets**

The company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

**Stores, spares and loose tools**

Stores, spares and loose tools comprise materials, stores, spares, loose tools, fuel, lubricants and other materials.

Stores, spares and loose tools are stated at the lower of cost and net realizable value, the cost being determined using the weighted average method. 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.

Items in transit are valued at cost comprising invoice values plus other charges incurred thereon accumulated up to the balance sheet date.

A provision for slow moving materials and spare parts is accounted for the financial statements.

**Financial instruments**

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired.

Financial instruments are offset when the Company has legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

**Loans, advances and deposits**

These are recognized at cost, which is the fair value of the consideration given. However, an assessment is made at each balance sheet date to determine whether there is an indication that a financial asset or group of assets may be impaired. If such indication exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for the difference between the recoverable amount and the carrying value.

## Notes to the financial statements (continued)

## Accounting policies (continued)

**Trade and other receivables**

Trade receivables are carried at invoiced 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 receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

Bad debts are written off when identified.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current income tax*

The tax currently payable is based on taxable profit for the year in accordance with UNMIK regulation No. 2002/3. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rate of 20%. According to the current tax legislation, tax losses may be carried forward to be set off the next seven years following the year in which the tax loss was incurred.

*Deferred income tax*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off 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.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination.

## Notes to the financial statements (continued)

## Accounting policies (continued)

**Government grants**

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

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

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

**Retirement benefit costs**

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

**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.

**Provisions**

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

**Revenue and expense recognition**

**Revenue** is measured at the fair value of the consideration received or receivable. Revenue from the transmission of electricity is based on the provisional agreement between KEK J.S.C and the Company for the interim period from 01 July 2006 to 31 December 2006 on fixed fee basis. Revenue from the transmission of electricity will be based on the tariffs to be specified by the Electricity Regulatory Officer (ERO). Revenue is reduced for estimated line losses.

**Operating expenses** are recognised in the income statement upon utilisation of the service or at the date of the origin.

**Commitments and contingencies**

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

**Subsequent events**

Post-year-end events that provide additional information about a company's position at the balance sheet 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.

#### **4 Financial risk management**

##### **Credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if the counterparty fails completely to perform as contracted. Financial instruments that potentially subject the Company to concentration of credit risk are trade receivables from KEK JSC.

##### **Market risk**

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

##### **Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The company does not enter into interest rate currency swap contracts since it does not have any interest bearing loans.

##### **Liquidity risk**

Liquidity risk reflects the company's inability in raising funds to meet commitments. Management closely monitors the company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual customer.

##### **Foreign currency risk**

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the company is not exposed to any significant foreign currency risk.

##### **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 arms length transaction.

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

## Notes to the financial statements (continued)

As of and for the period from July 01 through December 31 2006

(All amounts are expressed in thousands of Euros, unless otherwise stated)

**5 Property, plant and equipment**

	Land	Buildings	Plant and machinery	Vehicles, furniture and other equip.	C.I.P.	Total
<b>At 01 July</b>						
Cost (or revalued)	1,724	16,953	7,201	310	814	27,002
Accumulated (depreciation)	-	-	-	-	-	-
<b>Net carrying amount</b>	<b>1,724</b>	<b>16,953</b>	<b>7,201</b>	<b>310</b>	<b>814</b>	<b>27,002</b>
<b>Movements for the period</b>						
<b>At 01 July</b>	<b>1,724</b>	<b>16,953</b>	<b>7,201</b>	<b>310</b>	<b>814</b>	<b>27,002</b>
Additions	3	17	5,201	43	-	5,264
Write offs	-	-	-	(1)	-	(1)
Internal transfers	-	628	-	29	(657)	-
(Depreciation) for the year	-	(462)	(305)	(37)	-	(804)
<b>At 31 December 2006</b>	<b>1,727</b>	<b>17,136</b>	<b>12,097</b>	<b>344</b>	<b>157</b>	<b>31,461</b>
<b>At 31 December 2006</b>						
Cost (or revalued)	1,727	17,598	12,402	381	157	32,265
Accumulated (depreciation)	-	(462)	(305)	(37)	-	(804)
<b>Net carrying amount</b>	<b>1,727</b>	<b>17,136</b>	<b>12,097</b>	<b>344</b>	<b>157</b>	<b>31,461</b>

Included into total amount of additions, the amount of Euro 5,219 thousand relate to items of property, plant and equipment received through Grant (see Note 8). The related depreciation charge, which refers to these assets in amount of Euro 62 thousands, is presented in income statement account also as amortization of deferred grants (see Note 8).

There are no items of property, plant and equipment, pledged as guarantee on funds borrowed, as of the balance sheet date. All assets are used for the purpose of Company's operating activities.

**6 Inventories**

	31 December 2006	01 July 2006
Materials and consumables	131	140
Spare parts	821	331
Petroleum oil and lubricants	18	21
Tools	4	4
Other	2	3
	<b>976</b>	<b>499</b>

During the period from 01 July through 31 December 2006, the Company received Grants in total amount of Euro 532 thousands (see Note 8).



**7 Trade and other receivables**

	31 December 2006	01 July 2006
<b>Trade receivables</b>		
<i>Local debtors</i>		
Related party - KEK JSC	824	-
	<b>824</b>	<b>-</b>
<b>Other current receivables</b>		
Receivables from KEK JSC for unspent part of 2006 Budget	703	703
Advances from suppliers	10	-
Receivables from employees	10	-
Prepaid income tax	12	-
	<b>735</b>	<b>703</b>
	<b>1,559</b>	<b>703</b>

At December 31 2006, the balance of trade receivables from the Company's related party – KEK JSC in the amount of Euro 824 thousands, represents the outstanding part of the total fixed fee on transmission of electricity for the interim period from July 01 to December 31 2006.

This fee, amounting in total Euro 1,785 thousands and payable in seven equal instalments, is determined based on the Agreement for transitional, commercial and operational relationship between KEK JSC and KOSTT JSC on the transfer of responsibility for operations and maintenance of the Transmission Network to KOSTT JSC (see also Note 10).

Receivables from KEK JSC in the amount of Euro 703 thousands originate also from the above-mentioned Agreement as a part of the approved operational budget for 2006 in the total amount of Euro 3,577 thousands that has not been spent by KOSTT J.S.C during the period ended at 31 December 2006.

**8 Cash and cash equivalents**

	31 December 2006	01 July 2006
Current accounts with Banks	684	25
Cash on hand	3	-
	<b>687</b>	<b>25</b>

Current accounts with banks bear interest at rate of 0.65% p.a.

**9 Share capital**

KOSTT J.S.C was incorporated as an independent entity on 23 December 2005 following the transformation of Korporata Energjetike e Kosoves ("KEK") and registered as a Joint Stock Company pursuant to UNMIK Regulation No. 2001/6 from 8 February 2001, under business registration number 70325350.

Transmission System and Market Operator Holding J.S.C. owns 100% of the share capital of the Company.

The initial capital, set at Euro 28,229 thousand, comprises of:

	31 December 2006	01 July 2006
Ordinary share capital	25	25
	25	25
Share premium		
- property, plant and equipment	27,002	27,002
- inventories	499	499
- receivables	703	703
	28,204	28,204
	28,229	28,229

As of 31 December 2006, the amount of Euro 25 thousands as ordinary share capital is fully paid. The property, plant and equipment as well as the inventories are transferred to the Company as per the Agreement between KEK J.S.C and KOSTT J.S.C relating to the transitional, commercial and operational relationship between KEK J.S.C and KOSTT J.S.C on the transfer of responsibility for operations and maintenance of the Transmission Network to KOSTT J.S.C.

**10 Grants****Deferred grant***Balance analysis*

At 31 December 2006 and 01 July 2006 the balance of deferred grants consists of as follows:

	31 December 2006	01 July 2006
Property, plant and equipment	5,157	-
Inventory	532	-
Cash	238	-
	5,927	-

*Movement during the year*

Following table summarizes the movement in deferred grant for the period from 01 July through 31 December 2006:

	2006
At 01 July 2006	-
<u>Additions:</u>	
- Equipment	5,219
- Inventory	541
- Cash	241
Release (see table bellow)	(74)
<b>Balance, as of 31 December 2006</b>	<b>5,927</b>

Grants (continued)

**Income from grants**

Following is the analysis of the released grant amount, accounted for as income in the period from 01 July through 31 December 2006 profit and loss:

	2006
- Depreciation of equipment	62
- Inventory	9
- Operating expenses' donations	3
	74

**11 Trade and other payables**

	31 December 2006	01 July 2006
<b>Trade creditors</b>		
Domestic suppliers	126	-
Foreign suppliers	251	-
	377	-
<b>Other current liabilities</b>		
Salaries related liabilities	91	-
VAT payables	21	-
Other	5	-
	117	-
	494	-

**12 Sales**

	2006
Revenue from transmission of electricity (Note 5)	1,785
	1,785

**13 Staff cost**

	2006
Gross salaries	516
Pension fund contributions	26
Contract employees wages	16
Other compensations to employees	10
	568

Other compensations to employees mostly refer to food compensations.

**14 Repair and maintenance**

	2006
Repairs	86
Current maintenance	46
	132

**15 Other operating expenses**

	2006
Security expenses	63
Electricity, telephone and water expenses	51
Business trips	42
Representation expenses	18
Staff training	13
Office materials and small inventories' expenses	12
Marketing expenses	10
Medical expenses	6
Rent expenses	5
Other expenses	21
	241

**16 Income tax**

Commencing 01 April 2002 and in accordance with UNMIK Reg. No. 2002/3, the Companies are required to pay tax at a rate of 20% on the taxable profit as calculated under this regulation.

Tax losses may be carried forward to be set off the next five years following the year in which the tax loss was incurred. The Company has incurred tax losses during the period, therefore no tax has been provided for the period.

The relationship between tax expense and accounting profit has not been presented in these financial statements as the Company has shown losses for tax purposes resulting in no tax liability for the current period.

Deferred tax asset amounting Euro 1,842 thousands has not been recognised in these financial statements on the deductible temporary differences due to uncertainty as to when future taxable profits will be available against which the deductible temporary differences can be utilised.

**17 Related party transactions**

Related parties are considered to include the holding company, associated undertakings, other related group companies, directors of the company and key management personnel. The company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables.

All transactions with the related parties have been carried out on commercial terms and conditions.

## 18 Contingencies and commitments

### Litigations

At 31 December 2006 there are no litigations raised against the Company. Accordingly and as of the date of the financial statements, no such provision for potential losses has been accounted for. Various legal actions and claims may be asserted in the future against the Company from litigations and claims incident to the ordinary course of business. Related risks have been analyzed by the Company's management as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the management of the Company believes that no material liabilities are likely to result.

### Commitments

During 2006, the Company entered into agreements with companies for financing capital expenditures in the amount of Euro 393 thousands, as well as financing various operating expenditures in the total amount of Euro 898 thousands. These commitments are partially fulfilled during 2006, and their accomplishment is expected in 2007.

At 31 December 2006, the remaining commitments that have not been invoiced by the suppliers and, accordingly, not recognized in these financial statements, amount Euro 1,111 thousands.

### Tax liabilities

The Company's books and records have not been audited by the tax authorities for the year ended December 31 2006 and therefore, the Company's tax liabilities may not be considered finalized. A provision for additional taxes and penalties, if any, that may be levied, cannot be determined with any reasonable accuracy, at this stage.

## 19 Subsequent events

Subsequently, after the balance sheet date, the Company entered into a Co-financing Agreement with KfW in the total amount of Euro 11.5 millions regarding the promotion of energy sector. In the Agreement it is determined that proceeds of the donations will be used for the rehabilitation of "Peja 3" Substation and associated transmission system works.

The Company also entered into an Agreement with KTA in the total amount of Euro 7.5 millions for capital support for co-financing several projects, among witch the major ones are rehabilitation of "Peja 3" Substation and refurbishment of "Kosova A" power plant. The Company has already received the first instalment amounting Euro 4.7 millions regarding rehabilitation of "Peja 3" Substation.

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