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KOSOVO

2011 QUARTER 2 REPORT (1 APRIL – 30 JUNE)

KORPORATA ENERGETIKE E KOSOVES (KEK)
KEK NETWORK AND SUPPLY PROJECT
CONTRACT NUMBER EPP-I-04-03-00008-00

JULY 2011

This quarterly report on the Korporata Energetike e Kosoves (KEK) Network and Supply Project covers the period 1 April through 30 June 2011. It was prepared by Tetra Tech ES, Inc. (Tt) under Task Order 4 of Contract EPP-1-00-03-00008-00. The authors gratefully acknowledge the support of the United States Agency for International Development's Kosovo Mission (USAID/Kosovo) for this project.

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Executive Summary

Major Milestones in Quarter 2

Dealing with Major Customers

The supply agreement KEK entered into with Ferronikeli in 2006 expired on 18 April 2011. That agreement was detrimental to KEK since the price negotiated between the Government and prior KEK international management was below cost. Tt supported KEK by developing an entirely new supply agreement with a tariff structure appropriate to a large (90 MW) customer with a high load factor. Tt advised KEK to serve such a customer at a regulated tariff under its public supply license rather than under its trading license. Tt supported KEK in its dealings with the Energy Regulatory Office (ERO) as well as in discussions with Ferronikeli to finalize an agreement that Tt drafted. On 14 April 2011, the ERO issued its decision on the 2011 KEK tariff application, approving the tariff that KEK applied for. On 18 April 2011, KEK and Ferronikeli signed the new agreement, resulting in new prices producing annual revenues of €28.2 million, €5.3 million (23%) more than the old tariffs.

On 7 June 2011, Ferronikeli experienced an uncontrolled metal leakage from one of its two furnaces, taking it out of service for the remainder of the month. The customer requested that this event be considered a force majeure event and that KEK reduce the demand charge in light of the incident, which had negative financial consequences. Tt supported KEK in a meeting with Ferronikeli and prepared a written response, which the KEK Managing Director sent to the customer. The letter indicated that the incident did not qualify as a force majeure event under the contract and, therefore, the June billing will be based on the contract terms.

Tt also supported KEK in developing a new supply agreement with Sharrcem, KEK's second-largest customer. The new contract was signed by KEK and Sharrcem on 1 April 2011.

ESCO Agreement for the North

The EU-facilitated dialogue between the Governments of Serbia and Kosovo continued during Q2, with energy remaining a key point of discussion. Tt maintained its support and advice to the KEK Managing Director and Head of the Kosovo delegation (Deputy Prime Minister Edita Tahiri) on Kosovo's strategy on energy. Although there appears to be broad consensus that the parties should move forward with the ESCO agreement, the Serbian delegation continues to raise old arguments – and proposals, such as the scope of ESCO's activities and geographic coverage – that hinder further progress and resolution of this issue.

Training

Tt delivered training workshops on Managing and Building Teams, Critical Thinking and Leadership and Management to 100 KEK employees from the Network and Supply Division, Internal Audit Office, and Field Enforcement Department. This training will contribute to an improvement in the efficiency of KEK management. Tt also developed a short training workshop on customer service targeted specifically for feeder specialists considering their unique position as the face of the company to many customers. Tt trained trainers at the KEK Training Center and managers of the Supply Division on the material and held practice runs. The Training Center will incorporate this training into its seven-day training program for newly hired feeder specialists. The KEK Customer Service Manager and his Deputy have also used the training materials and delivered 13 training sessions for feeder specialists since May 2011.

Other Notable Events and Accomplishments

Finance

Tt assisted KEK in finalizing the consolidated and unbundled financial statements for FY 2010 and submitting them to the auditors, including addressing the 2009 qualifications of KEK's financials related to non-current assets, tax assets, deferred taxes, disclosures of liquidity, and credit risk. It is expected that the auditors will issue their report in July 2011 and for the first time in KEK's recent history, the report will be non-qualified. Tt also supervised the execution of KEK's expenditure budget for the second quarter of 2011 and assisted KEK in preparing its Quarterly *Performance to Plan* report, which provides analyses on the execution of KEK's second quarter expenditure budget and the progress on the implementation of its 2011 Business Plan. Tt continued work on the design of an Integrated Cost Control (ICC) system to provide information support to the processes of budgeting, procurement and cost control. The system will also include a Contracts and Invoices Database (CID) and a new Accounts Payable (A/P) Module. The ICC will be instrumental in the enforcement of the approved cost control procedures.

New Assets Register

Tt supervised the generation of accounting journals containing all non-current asset transactions during 2010 and posting them to the general ledger. Tt then monitored the generation of reports on the addition, disposal and transfer of assets and asset depreciation for KEK's 2010 financial statements. We also helped KEK with the submission of the restated 2008 and 2009 asset reports and the new 2010 asset reports to the auditors. Tt completed the design of a major upgrade to the New Asset Register. Version 2 of the Asset Register has better functionality and generates automatically all reports required by the external auditors.

Design of a New Integrated Human Resources and Payroll System

Tt continued to work on the design of a new HR and Payroll System. The system will provide information support for the organizational changes related to the privatization of KEK; support the implementation of major improvements to KEK's payroll system; guarantee the verifiability, consistency, compatibility and timeliness of all HR and payroll data; provide an audit trail for all HR and payroll transactions; export employee information to the new Fixed Asset Register to help safeguard the company assets; support the performance review process; and provide data to CCP to support the process of monitoring the performance of feeder teams.

Billing and Collections

Collections for the second quarter of 2011 were higher (€5 million or 12%) than in the same quarter of 2010, due to a higher collection rate and a significantly lower level of commercial losses. The billing rate was 89% and the collection rate 113%, resulting in overall performance (collection of delivered energy) of 100%. For the same quarter last year, the billing rate was 85%, the collection rate 108%, and overall performance was 92%. Q2 2011 results indicate improvements on all key indicators. Unaccounted-for energy (commercial losses) declined significantly due to the intensive efforts of Tt working closely with the districts on a daily basis to detect and prevent theft.

Internally Displaced Persons (IDPs) Collective Centers

All electricity utilized by the IDP Collective Centers is now being paid. This is due to the Memorandum of Understanding (MoU) developed by Tt and signed by the Ministry of Labor and Social Welfare and the municipalities in January 2011. During Q2, the Ministry fulfilled its obligations, as did the Municipalities of Gracanica and Gjilan. The Mayor of Strpce refuses to honor the MOU

which he signed; however, the Ministry of Community and Returns paid for the Municipality's portion of the consumption for the four Centers in Strpce.

Internal Audit and Field Enforcement

Under Tt's guidance, the Internal Audit Office (IAO) completed 28 audits and investigations during the quarter.

- *Investigations:* 27 new audits were initiated.
- *Disciplinary Actions:* As a result of the investigations performed by the IAO, 9 KEK employees were proposed for termination and 32 for different forms of disciplinary action.
- *Customers Inspected:* 1,276 customers were inspected to determine the sources of commercial losses and to check the network and supply operations' effectiveness and efficiency.
- *System improvements:* The IAO performed a significant volume of work to improve KEK's management, operations and processes, and made 83 recommendations for process changes and system improvements.

Under Tt's guidance, the Field Enforcement Department (FED) launched an extensive campaign for resolving problems related to customers with large debts and high commercial losses.

- 2,177 customers were visited for inspections or disconnections.
- 430 "problematic" customers were disconnected with a total debt of €1,423,074.51, from which €385,227.57 was collected.
- 156 cases of electricity theft and other irregularities were discovered and submitted to the Legal and Supply Departments for processing,
- Through disconnections and loss reclamations in cases of electricity theft, the FED collected about €682,298 of direct additional revenue for KEK.
- Based on inspections performed, 9 KEK employees were proposed for contract termination and 11 received written warnings.

The IAO and the FED have submitted 40 criminal cases to law enforcement agencies in relation to electricity theft and other irregularities detected during their investigations.

Upcoming Events and Activities

Tt anticipates that the following important events will occur during Quarter 3 of 2011:

- Meetings with the four pre-qualified investors for the KEDS transaction.
- Contract signing for replacement of the electrostatic precipitators in Units A3, A4 and A5 of Kosova A TPP.
- Contract award for the construction of Pristina VII substation.
- Contract signing for new power purchase agreement between KEK and Iber Lepence, in connection with Ujmani HPP.
- Contract signing for new agreement between Trepca and KEK for the use of Trepca's electric facilities in Mitrovica.
- Contract signing for supply of parts required for a major overhaul of Unit B1, Kosova B TPP in 2012.
- Commencement of major overhaul of Unit B2, Kosova B TPP.
- Issuance of audited consolidated and unbundled financial statements for FY 2010.
- ERO to approve the Network Development Plan and the Connection Charging Methodology.
- Continuation of the EU-facilitated dialogue between Kosovo and Serbia, which will include energy issues.

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I Introduction

This report's format meets the requirements of Section A.6 (Reports), Paragraph B (Quarterly Report) of Task Order 4 under Contract EPP-1-00-03-00008-00. The objectives and tasks described in this quarterly report are based on the KEK Network and Supply Project's 2011 Work Plan. Appendix A shows activities completed, benchmarks achieved, and other achievements under the Work Plan. Appendix B describes the results of the project's performance-based management system.

The updated project objectives are:

- Objective 1: Support for technical preparation of the Distribution Company for privatization
- Objective 2: Assistance with post-privatization implementation for the Distribution Company
- Objective 3: Privatization support for the Thermal Power Plant Kosova B.

The Tt team's approach to achieving these objectives is based on two task areas and eight subtasks, each of which is associated with one or more of the project's objectives.

Subtask	Task Area 1	Objective		
		1	2	3
1	Support Management and Operation to Maintain Asset Value	X	X	X
2	Prepare Technical and Contractual Documentation for Investor Due Diligence	X		
3	Provide Advisory Support in Privatization Process	X		
4	Strengthen Skills and Technical Capacity of Counterparts	X	X	
5	Support Management Post-Privatization		X	
Subtask	Task Area 2	1	2	3
6	Prepare a Thermal Power Plant Kosova B Investment Requirement and Rehabilitation Feasibility Study			X
7	Prepare Technical and Contractual Documentation for Investor Due Diligence			X
8	Strengthen Skills and Technical Capacity of Counterparts			X

2 Progress Made during the Quarter 2

A number of important accomplishments were realized in Quarter 2 based on the recommendations, assistance and support provided by Tt's resident advisory team embedded at KEK and other short-term advisors.

Subtask I: Support Management and Operation to Maintain Asset Value

1.1 New Internal Policies and Procedures

- Tt prepared three new policies that were issued by KEK as executive orders during the quarter: a) procedure to approve the overtime of employees, b) implementation of the new revised budget and cost control manual, and c) new rules for priority customers.

1.2 Business Planning and Budgeting

- The Tt team supervised the preparation of the *Quarterly Performance to Plan Report* for the first quarter of 2011. The report contains detailed information on the performance of each of the four core divisions (Mines, Generation, Network and Supply) against the approved key performance indicators (coal production, overburden removal and coal stockpile for Mines; availability, gross generation, auxiliary consumption, net generation and capital investment for Generation; commercial losses, meter reading, meter installation, meter inspection and calibration for Network; and billing rate, bill delivery, and collection rate for Supply).
- Tt assisted with the analysis of the execution of KEK's Q1 2011 expenditure budget, the status of the procurement of goods, works and services, and the payments of invoices by KEK's Treasury. Special consideration was given to the applications for budget adjustments and the justifications of the requests for transfer of funds between budget lines and the use of the Budget Reserve Fund. Tt also supervised the execution of KEK's expenditure budget for the second quarter of 2011.
- Tt assisted with the analysis of the progress in implementing KEK's 2011 corporate business plan and the implementation of all division Q1 action plans in support of the business plan.
- Tt assisted with the analysis of the execution of KEK's long-term investment plan, including the implementation of all high-priority projects for the period 2011 to 2012. The team also assessed the efficiency of utilization of the loans granted by the Government of Kosovo to fund the major part of the plan.
- Tt continued work on the design of an Integrated Cost Control (ICC) system to provide information support in the processes of budgeting, procurement and cost control. The system will also include a Contracts and Invoices Database (CID) and a new Accounts Payable (A/P) Module. The ICC system will be instrumental in the enforcement of the approved cost control procedures.

1.3 Billing and Collection

Table 1 summarizes KEK's second quarter results for 2010 and 2011 metering, billing and collection performance for all customers, including those served at 110 and 220 kV. The values were extracted from the monthly reports to the Board of Directors.

Table 1: KEK Metering, Billing and Collections Performance, Q2 2010 and 2011

	Q2		Change
	2010	2011	
Ratio of energy billed vs. energy available for sale	84.6%	88.8%	4.2%
Percent of money collected vs. billed	108.5%	113.0%	4.5%
Percent collected vs. energy available for sale	91.8%	100.3%	8.5%
Collected revenue (millions of Euros)	€43.4	€48.4	€5.0

Collections for the second quarter of 2011 were higher (€5 million or 12%) than in the same quarter of 2010, due to a higher collection rate, and a significantly lower level of commercial losses. The billing rate was 89% and the collection rate 113%, resulting in overall performance (collection of delivered energy) of 100%. For the same quarter last year, the billing rate was 85%, the collection rate 108%, and overall performance was 92%.

Q2 2011 results indicate improvements on all key indicators. Unaccounted-for energy (commercial losses) has significantly declined due to intensive efforts of Tt working closely with the districts on a daily basis to detect and prevent theft.

Improving Performance in District Operations

Tt continues to maintain a daily presence in the districts to provide technical assistance and help build capacity within district management teams. During Q2 of 2011, Tt continued to support the districts on a regular basis and assist district management teams to implement regulations and policies, disconnect problematic customers, and check the effectiveness of disconnections.

Tt continued to support the district performance evaluation process, analyzing the weaknesses of different sub-districts, helping management teams and sub-district coordinators hold meetings with district staff, conducting training and proposing new ideas to decrease commercial losses, and recommending changes in staff. Tt continued to provide recommendations and encourage the initiation of disciplinary actions against employees pursuant to the terms of the District Regulations.

Since the number of zero and negative bills continues to be an issue, Tt continued to work with KEK Supply Division and districts to reduce, and ultimately eliminate, them. In support of this effort, Tt once again conducted a thorough analysis of data and field inspections, and identified errors made by field staff and billing analysts. A recommendation was submitted to KEK to punish those responsible and undertake a more comprehensive inquiry in this regard. A group of employees was tasked by Supply Division Director to work on this issue and provide a report, which is still pending.

Tt also continued to support KEK as follows during the quarter:

- To regularize unregistered customers and seal their metering points, especially in newly built apartment blocks.
- To persuade KEK to disconnect customers with more than 5,000 Euro of debt.
- to support activities related to A+ customers.
- To monitor the new debt settlement policy.

- To identify and disconnect a number of customers who never paid their bills – after disconnections, the majority of these customers began paying their bills regularly.

Upon Tt's advice and due to poor performance, KEK terminated the Supply Manager of Peja District and the Network Manager of Mitrovica District was demoted. The new supply managers of Peja and Mitrovica districts were selected and appointed with Tt's consent. In order to improve the poor performance of the Peja District, Tt prepared weekly instructions to the Peja District Manager that detailed each activity that the Peja District Manager is to take. Tt also assigned one of its operations specialists as an advisor to work on a permanent basis in Peja district to provide additional support to the KEK management team.

In preparation for the upcoming Ramadan period, KEK undertook actions to regularize the electricity supply of mosques and other Islamic religious facilities. Consequently, Tt instructed KEK districts to disconnect all non-paying mosques and other similar customers, regularize any non-registered customers, and resettle debt for those mosques that cannot pay the total amount of their debt. A reporting form was prepared by Tt and submitted to all relevant KEK employees, who were instructed to update and send that report back on weekly basis.

Tt also undertook the following specific activities during the quarter:

- Tt is supporting KEK to implement its pilot project in Drenas sub-district to decrease commercial losses. The project is ongoing.
- Tt investigated the physical condition of KEK premises across the districts and made recommendations for improvement.
- Due to budget restraints, the Government of Kosovo is not able to pay on time the electricity consumed by budgetary organizations; therefore, Tt is continuing to keep an eye on this issue.
- Tt raised an issue of old debt of Finish KFOR and as a result €30,000 was paid.
- Tt facilitated agreements for debt resettlement with the Mitrovica regional water supply company, the Prizren regional water supply company, the Prizren regional hospital and the Prizren municipality.
- A new daily report form for daily collection and disconnections was prepared by Tt and piloted first in Mitrovica District with good results.
- Tt continued to work with KEK management to make changes in the KEK sub-district organizational structure. In this respect, Tt proposed to unify supply sub-districts and network zones, and make them responsible for all energy and operations of that unit. The proposal was taken into consideration and became effective as of 1 May 2011. Tt monitored and supported the selection process of new sub-district coordinators and the appointment or allocation of other relevant employees. The appointment process should be finalized by 1 September.
- Upon Tt's advice, sub-district coordinators were rotated in some districts.

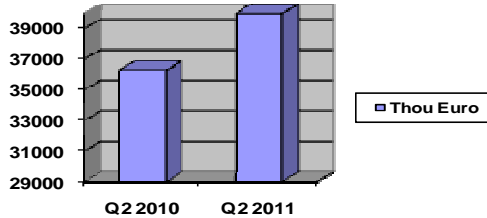
During this period Tt conducted training for district employees on the implementation of new organizational structure, decision making in the context of their day-to-day work, and the new daily report form for collection and disconnections. Seventy eight KEK employees were trained; three of them were female.

To better illustrate KEK's performance during the second quarter, Tt conducted a comparative analysis of the Q2 data of 2011 with data from the same period of 2010 as well as the six-month comparison analysis.

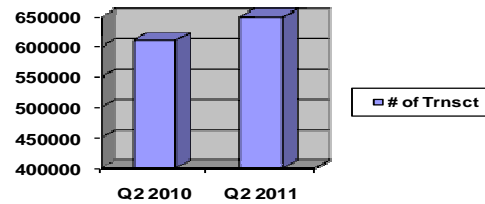
Second Quarter 2010 vs. Second Quarter 2011. Excluding 110 kV customers, collections (€40.3 million) were 11% higher in the second quarter of 2011 than in the same period of the prior year,

while the number of transactions increased by 9.5% and reached 668,844. The number of paying customers increased by 812 and reached 612,812 customers in the second quarter.

Collections (000€)



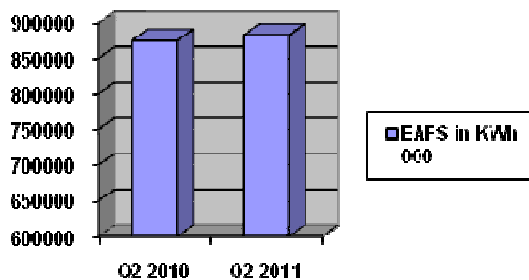
Number of Payments



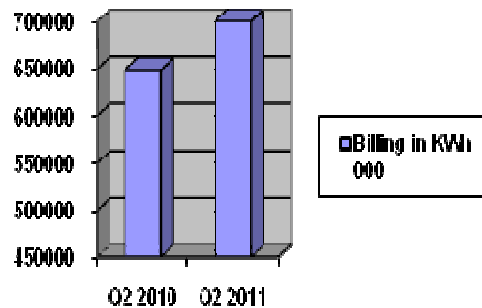
KEK's progress compared to the second quarter of 2010 is due to both the decrease of commercial losses and the increase of collections. In the second quarter of 2010, the billing rate (amount of Energy Billed as a percent of Energy Available for Sale) was 74% and the collection rate was 91%, producing an overall performance (collection of delivered energy) of 68%.

For the comparable period in 2011, the billing rate is 81%, the collection rate 93%, and overall performance 75%. The 7 percentage point improvement in overall performance is a result of a higher billing rate as well as an increase of the collection rate. Due to Tt daily support and follow up, commercial losses decreased in 2011 by 7%, but remain as one of the greatest challenges KEK is facing. The principal causes are an old metering system and the failure to discipline employees who do not perform their responsibilities.

Energy Available for Sale

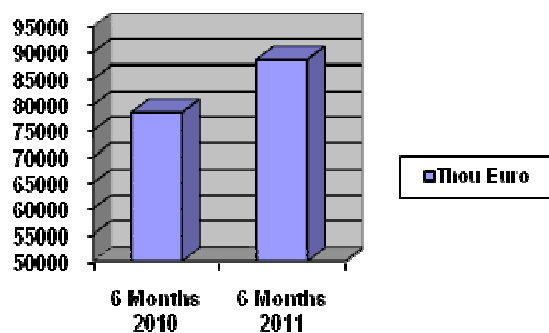


Energy Billed

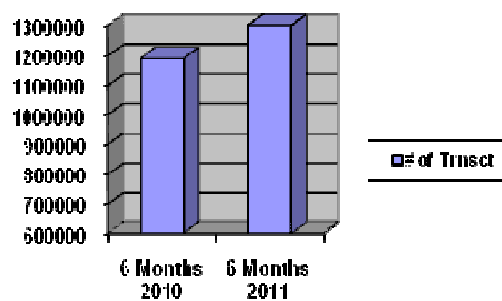


First Half of 2010 vs. First Half of 2011. In the first half of 2011, at the district level, collections increased by €10 million (12.8%) compared to the same period of 2010, while transactions increased by 156,171 or 13%. The number of paying customers increased by 14% (more than 153,000 customers) and exceeded 612,812 customers in first 6 months.

Collections (000€)

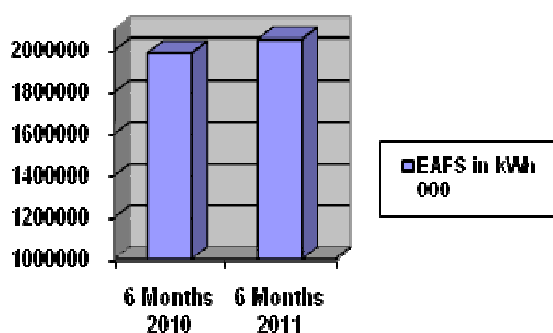


Number of Payments

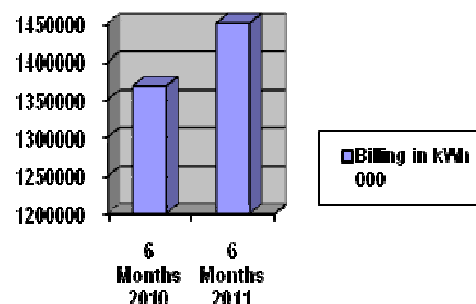


In the first six months of 2010, the billing rate for the districts was 69%, the collection rate was 83%, and overall performance (collection of delivered energy) was 58%. For the same period in 2011, the billing rate is 74%, the collection rate 85% and overall performance 63%. The 5 percentage point improvement is the result of an increase in the collection rate (2%) and reduction of commercial losses by 5%.

Energy Available for Sale



Energy Billed



Source of Collections

Table 2 displays the sources of collections for the first six months of 2011 in terms of both the number of payments and Euros collected.

Table 2: KEK Collection Sources First Half 2011

First Half 2011	# of Payments	%	Euro (000)	%
Customer offices	1,175,608	87%	58,542	57%
KOS-Giro	77,188	6%	13,881	13%
Bank transfers	16,108	1%	8,993	9%
Payroll deductions	70,276	5%	1,235	1%
Direct debit	6,734	1%	3,705	4%
Social Cases			2,172	2%
Total districts (CCP)	1,345,914	100%	88,528	86%
Direct (110 kV) customers	18	0%	14,995	14%
Total collections	1,345,932	100%	103,524	100%

Notes:

1. Total Cash Collections (in Euros) balances to Energy Accounting Report to Board of Directors
2. Number of Payments from Payroll Deductions balances to CCP. Amount includes two payments per month for most employees (1 for current bill, 1 for old debt)
3. Social Case Subsidy payment allocated 1/12 each month

The information above is being compiled each month and can be used to measure the impact of the newer payment mechanisms such as KOS-Giro and direct debit.

KOS-Giro Payment Mechanism

Table 3 shows the payment volumes and amounts processed through KOS-Giro since this mechanism was implemented.

Table 3: Use of the KOS-Giro Payment System

Use of the KOS-Giro Payment System		
Quarter	Number of Payments	Amount (€ 000)
Q1 2008	3,490	1,822
Q2 2008	5,258	2,158
Q3 2008	5,339	2,286
Q4 2008	7,086	3,093
Q1 2009	7,929	4,320
Q2 2009	9,029	4,171
Q3 2009	11,298	3,868
Q4 2009	17,186	5,592
Q1 2010	22,563	7,175
Q2 2010	26,748	5,335
Q3 2010	28,352	4,776
Q4 2010	33,743	6,592
Q1 2011	37,498	7,979
Q2 2011	39,690	5,902
Source: KEK Supply Division		

Household and small commercial customers' participation continues to grow, in both the number of payments and amount collected. The increase in the number of payments in recent quarters reflects this fact. The addition of Western Union to the KOS-Giro System in late 2009 is one of the factors contributing to the increased volume of payments given the significant usage of the Western Union system by households in Kosovo.

Direct Debit System

Additional customers continue to be added to the direct debit payment mechanism since it was made available to all customers in January 2010. Nearly 4% of the amount KEK collected during the first half of 2011 came through direct debits. This is the result of the support of KEK's efforts to have several commercial entities with multiple locations (IPKO, PTK, all commercial banks, Kujtesa) enroll all their facilities in direct debit. As of June 2011, 1,190 customer accounts were paid through direct debit.

Minority Issues

It continued to make progress on normalizing service in minority areas to turn non-paying minority area consumers into regular KEK customers. It monitors the performance of customers subject to the 133 Community Agreements. The following report summarizes the results from the inception date (second half of 2009) of the various agreements through 30 June 2011.

MINORITY COMMUNITY AGREEMENTS
OVERVIEW OF PERFORMANCE RESULTS

As of 30 June 2011

▪ Number of Customers	21,098
▪ Debt Prior to Agreement	€31.3 million
▪ Number of Bills Issued Since Agreement	482,354
▪ Number of Payments since Agreement	336,321
▪ Payment Transaction Percentage	70%
[% of Line 4 divided by Line 3]	
(KEK average = 49%)	
▪ Amounts Billed Since Agreement (000)	€12,411
(€ value of Line 3)	
▪ Amounts Paid Since Agreement (000)	€10,154
(€ value of Line 4)	
▪ Payment Percentage	82%
[% of Line 7 divided by Line 6]	
(KEK average = 86%, households 82%)	
▪ Number of Customers that Never Paid	1,537
[% of Line 9 divided by Line 1]	(7% of total)

As the results show, the newly regularized customers continue to pay quite well compared to the rest of KEK's customers. During Q2, KEK made good progress toward cleaning up the CCP data base in many of the minority areas. Approximately 1,000 "customers" were archived, 800 of which never made a payment and most likely did not exist. Tt continued to interface with the minority communities, the Orthodox Church, Ministry of Community and Returns, local officials, and KFOR on all issues that arise in minority areas.

Internally Displaced Persons (IDP) Collective Centers

Tt continues to work with central government ministries, local government officials, and the international community to provide funds to cover the cost of electricity provided to the IDP Collective Centers. In January 2011, all parties signed the Memorandum of Understanding (MoU) prepared by Tt to document the agreement among the stakeholders wherein:

- The municipalities must sign an agreement with KEK and register the Centers as customers.
- The Ministry of Labor and Social Welfare will pay €1,000 per month as its contribution to all the Centers for electricity.
- The municipalities pay for up to 330 kWh per month per family, less the amount paid by the Ministry.
- The individual Centers must be responsible for controlling their usage of electricity. They must be disconnected once they reach the limit of 330 kWh per month per family unless the residents pay for that excess consumption.

By the end of January, the Ministry, the Municipality of Gjilan and the Mayors of Strpce and Gracanica had all signed the MOUs and completed all payment arrangements.

All electricity utilized by the IDP Collective Centers is now being paid. The Ministry of Labor and Social Welfare fulfilled its obligations as well as the Municipalities of Gracanica and Gjilan. The Mayor of Strpce refuses to honor the MoU which he signed; however, the Ministry of

Community and Returns paid for the Municipality's portion of the consumption for the four Centers in Strpce.

Social Case Subsidy for Energy Consumed in 2010

Tt supported KEK in developing a Memorandum of Understanding (MOU) with the Ministry of Labor and Social Welfare and the Ministry of Economic Development specifying the mechanism for implementing the allocation of the €4.5 million subsidy to eligible recipients. The MOU was signed by all parties in April.

Customer Care Package (CCP) Presentation for Potential Investors

Tt developed a briefing presentation to provide potential investors with an overview of KEK's Customer Care Package (CCP). The presentation focuses on the business aspects and basic functionality of the system, outlining what the new investor can expect from the system when it takes over. It outlines the business processes of metering, meter reading, billing collection, customer information, energy accounting, and interface with the financial systems. The briefing presentation was provided to the Data Room, where it is accessible to the qualified investors.

1.4 Accounting and Financing

Tt continued to advise KEK on finance and accounting issues, including improving the quality of financial reporting, the preparation of unbundled financial statements for each of the company's core divisions, the replacement of some of the modules of the Customer Accounting System (CAS), and preparing the company for privatization. Specifically, Tt undertook the following activities during Q2:

Unbundling of Accounting

- Assisted KEK in the preparation of the unbundled financial statements for FY 2010.

Introducing Improvements to CAS and Financial Accounting

- Designed and monitored the development and implementation of the second version the new asset register, which constitutes a major upgrade to the module's functionality and reporting capabilities, including:
 - Checking the consistency of data on deferred income from grants for assets and asset funding
 - Analysis of the depreciation of assets partially funded by grants
 - Recording and reporting "partial write off" and "partial sale" of assets
 - Post closing registration of assets found during the annual inventory
 - Automatic generation of all reports on the additions, disposals and transfers of assets and their depreciation during the year required by the auditors.
- Supervised the posting of 2010 asset journals to the general ledger, and the generation of reports on the additions, disposals, and transfer of assets to be included in KEK's 2010 financial statements.
- Continued work on the design of a new HR and Payroll System. The system will provide information support for the organizational changes related to the privatization of KEK; support the implementation of major improvements to KEK's payroll system; guarantee

the verifiability, consistency, compatibility and timeliness of all HR and Payroll data; provide an audit trail for all HR and Payroll transactions; and export employee information to the new Fixed Asset Register to help safeguard the company assets, support the process of performance evaluation and provide data to CCP to support the process of monitoring the performance of Feeder Teams.

- Designed new database structure of the Payroll sub-module based on concepts and methodologies applicable in KEK
 - Made presentation to the IT and the Finance Division.
- Continued work on the design and development of a new centralized source document database to input all invoices and other accounting documents into all CAS modules.
 - Continued work on the source document database and the replacement of the accounts payable module.

Financial Reporting and External Audit

- Tt assisted KEK in finalizing the 2010 consolidated and unbundled financial statements and presenting them to the external auditors.
- Tt participated in the concluding meetings between KEK and the external auditors on the audit of the consolidated and unbundled financial statements for FY 2010. We discussed the final version of the 2010 trial balance and financial statements, and the actions KEK has taken to address the weaknesses in internal controls and accounting for business transactions, which resulted in qualifying the auditor's opinion on the fair presentation of the company's financial position and performance in the 2009 financial statements.
- The external auditor's report on KEK's 2010 financial statements is expected to be completed in July 2011.

Budgeting and Cost Control

- Tt continued work on the design of an Integrated Cost Control (ICC) system to provide information support in the processes of budgeting, procurement and cost control. The system will also include a Contracts and Invoices Database (CID) and a new Accounts Payable (A/P) Module. The ICC system will be instrumental in the enforcement of the approved cost control procedures.

Other

- Tt participated in the meetings between the CFO and the privatization transaction advisor on issues related to the financial position and performance of KEK.
- Tt assisted KEK's Accounting Methodology Department with the development of an accounting methodology for calculating tax assets and disclosure of information about the liquidity and credit risk of KEK.

I.5 Legal and Regulatory

It continued to provide legal advice and support to KEK's management on a variety of issues, which included:

- Continuing to advise KEK on its dispute with Turbocare over the purchase of a used transformer for the Kosova A thermal power plant (TPP), to include drafting a Board Paper that analyzed a settlement proposal presented by Turbocare.
- Advising KEK on agreements for 2011-2012 energy imports, using the EFET General Agreement and customized election sheet.
- Finalizing revisions to all internal employment regulations in order to comply with the provisions of the new Labor Law. It is anticipated that this suite of documents will be approved by the Board of Directors in Q3.
- Continuing to provide legal advice to KEK project managers on the implementation of the contracts for refurbishing equipment in the overburden removal system I, to include 1) refurbishment of two bucket wheel excavators by the original manufacturer, Thyssenkrupp, 2) refurbishment of two conveyor belts by Eco Trade, and 3) refurbishment of two spreaders by FAM/Intering, which will be deployed to the new Sibovc SW mine.
- Continuing to provide legal assistance to KEK's efforts to regularize electricity service to minority communities in the northern part of Kosovo.
- Advising KEK on its procurement of a contract for the repair or replacement of the electrostatic precipitators of Units A3, A4 and A5 of the Kosova A TPP, to include drafting and negotiating the contract terms. It is anticipated that the contract will be signed in Q3.
- Finalizing the terms of the new supply agreement between KEK and Ferronikeli – the agreement was signed early in Q2.
- Drafting new power purchase agreement between KEK and Iber Lepence regarding the production of Ujmani HPP – it is anticipated that the agreement will be signed in Q3.
- Drafting new agreement between KEK and Trepca, for the use of Trepca's electric facilities in Mitrovica.
- Drafting a new set of procedures and rules to replace the old A+ category of customers, with a new category called "Priority Customers."
- Revising the existing KEK cost control procedures, to incorporate new provisions relating to the application of liquidation damages to non-performing contractors.
- Drafting and filing an application for judicial review to the Supreme Court in connection with KEK's ongoing dispute with the Kosovo Tax Authorities for alleged unpaid corporate income taxes dating back to 2005 and 2006 – the total amount exceeds 13 million Euros (including late payment interest and penalties).

- Drafting the following contracts: 1) refurbishment works on the auxiliary boiler of the Kosova B TPP, 2) contract for supply of parts required for overhaul of Unit B1, Kosova B TPP in 2012, 3) contract for repair of feedwater pumps from Kosova B TPP, 4) new electricity supply agreements for all KFOR facilities, and 5) construction of Pristina VII substation – which is currently in procurement.
- Continuing to closely monitor the implementation of the GoK's May 2009 decision to proceed with the expropriation of land near Hade village. As previously reported, Tt has noted, with concern, that the process is not progressing at the required pace. The delay is now causing difficulties for KEK's mining operations.
- Drafting the tender documentation and contract terms, and negotiating the same in connection with the sale of fly ash, using the low-pressure rotor from Kosova B TPP.

Tt provided support to the KEK regulatory staff during Q2 on the following matters:

- Tt continued to support KEK on its 2011 Tariff Application by responding to information requests from the ERO. On 14 April 2011, The ERO issued its decision on the application, deciding not to grant KEK a tariff increase. Tt prepared the KEK response to the tariff decision raising the following significant issues:
 - KEK objected to the arbitrary reduction of the allowance for commercial losses. In the prior tariffs, there is an allowance of 20% for these losses, which is equal to the actual experience during 2010. KEK agreed with the ERO to set a more aggressive target of 18%. However, in its decision, the ERO reduced the allowance for 2011 to 15.9%, an arbitrary and unreasonable value. This is a critical issue given the upcoming privatization of KEDS since Tt is focused on having the loss allowance set at a reasonable level to provide the new investor with an opportunity to make improvements.
 - The ERO introduced the concept of a “Tariff Balancing Account” which would have the effect of reducing tariffs in 2012 by €11 million based on the ERO's assessment of KEK's estimated over-recovery of Allowed Revenues in 2011, an amount KEK does not agree with. Tt pointed out that the ERO failed to include cost recovery related to assets acquired prior to 2006. The Law on the Energy Regulator (effective October 2010) clearly states that these assets are to be included in cost recovery. The 2011 revenue related to these assets is €34 million, more than offsetting the €11 million amount computed by the ERO.
 - KEK again pointed out the ERO's refusal to move toward cost-reflective tariffs. It is clear that household tariffs are far below cost, while the other tariff classes are subsidizing them. Even without an overall tariff increase, the ERO could have rebalanced the tariffs by increasing the household tariffs and reducing the other tariffs by a like amount.
- The 14 April 2011 tariff decision effectively settled the complaint that KOSTT initiated with the ERO in February 2011 alleging that KEK 1) refused to pay a portion of invoices for transmission services in 2010, 2) refused to sign the Connection Agreement prepared by KOSTT, and 3) failed to pay the 2008 and 2009 reconciliation invoices submitted by KOSTT. The primary issue was one that Tt raised in 2009 – KEK does not have the financial resources to pay KOSTT any amount in excess of the amount included for cost recovery in retail tariffs. Tt supported KEK in its discussions with the ERO on this issue. In its decision, the ERO agreed with the KEK position and did not order KEK to pay any amounts for prior years above what it previously paid. Furthermore, the ERO reduced the KOSTT tariffs by over 30% effective 1 April 2011. In 2010, KEK paid

KOSTT €12.5 million, while in 2011 the new tariffs result in net payments of only €8.7 million.

- Although KEK filed a specific application to the ERO in December 2010 for approval of a tariff for customers served at 220 kV, the ERO did not issue a decision on that application but rather rolled it into the overall tariff decision. In its 14 April 2011 tariff decision, the ERO approved a composite tariff of €4.14 cents per kWh (KEK proposed 4.2 cents) as well as the tariff design wherein 50% of the cost is recovered in the form of a contract demand charge and 50% is recovered in an energy charge. This is a significant win for KEK since the new tariff produces revenue of €28.2 million for the first 12 months of the contract while the prior tariff would produce €22.9 million, resulting in €5.3 million of additional revenue or a 23% increase.
- In order to approve a regulated tariff for Ferronikeli, an eligible customer, the ERO was required by law to assess the level of competition in Kosovo. On 9 March, the ERO issued a consultation paper discussing the criteria that should be used to measure the effectiveness of competition in the electricity sector of Kosovo. In the consultation paper, there were two criteria identified: number of independent suppliers and share of the market served by independent suppliers. The benchmarks proposed to determine effective competition were three independent suppliers and the share of the market served by those suppliers must exceed 30%. KEK submitted responses to the consultation paper, essentially agreeing with the criteria and benchmarks. The ERO determined that there is no competition in the Kosovo and, therefore, was able to approve the 220 kV tariff for Ferronikeli, an eligible customer.
- It continued to support AEAI consultants in the completion of their Independent Loss Study during Q2. When the draft report was provided to the ERO, they had a significant number of questions and concerns. It supported AEAI in its response to several rounds of questioning from the ERO. In June 2011, the Loss Study Report was finalized and submitted to the Data Room for the use of potential investors in their due diligence.
- During Q2, the ERO initiated License Monitoring of KEK and KOSTT. It supported KEK in all meetings and field visits of the ERO where they reviewed the Generation Licenses for Kosovo A and B, the Distribution Network License, the Trading License, and the Public Supply License. It also assisted KEK in responding to all information requests of the ERO in a timely manner. Issues discussed in detail included technical and commercial losses, ABC load shedding, group disconnections, individual disconnections, dispute settlement, periodic reporting, unbundled costs, and performance monitoring. The ERO completed its field work in May and indicated that it will issue a report of the results of its license review; however, no report was issued as of the end of Q2.
- During the meetings on license monitoring, the ERO indicated it needed to respond to concerns that members of the Assembly raised on the need to continue with the ABC load shedding program. It prepared a white paper titled “Why does Kosovo Need a Transparent Process to Manage Supply Shortages” for submission to the ERO to help it respond to issues raised by the Assembly.
- It prepared an analysis of the cost to serve KFOR facilities based on the premise that they are not permanent KEK customers, but represent marginal load in Kosovo. Using unbundled tariff information for customers served at 35 kV, 10 kV and 0.4 kV and utilizing the cost of imported power (the marginal cost) as opposed to the average cost of wholesale power, revised tariffs were determined as follows:

- Delivery at 35 kV 8.6 Euro cents per kWh
- Delivery at 10 kV 9.0 Euro cents per kWh
- Delivery at 0.4 kV 11.1 Euro cents per kWh

Following discussions between the KEK Managing Director and the Head of the ERO, Tt prepared a letter to send to all KFOR facilities (29 in total) notifying them of the new prices to be effective 1 June 2011. A specific customer contract was also drafted by Tt and provided to each KFOR facility in late June. The new tariff is estimated to produce additional annual revenue of €900,000. This amount will enable KEK to acquire additional imported power, and will require less load shedding for households and businesses.

- Tt prepared a new Power Purchase Agreement for the Ujmani Hydropower Plant and supported KEK in its discussions with Iber Lepenc representatives. The proposed pricing structure is focused on having the facility available to the KEK system as much as possible while allowing KEK to determine when the facility generates based on dispatch instructions. This is accomplished by designing the tariffs to recover 70% of the cost in the form of an availability payment and 30% in the energy charge. As of the end of Q2, KEK awaits the final comments of Iber Lepenc prior to finalizing the contract.
- During Q2, Tt analyzed the metering and energy consumption of Kosovo A, Kosovo B, and the Mines for the year 2010. Although the energy to those facilities is measured, there is no billing for the energy. In order to properly price the output of those facilities for unbundled cost reporting, it is important to recognize the cost of the energy used by those facilities, which amounts to €13 million per year. This is especially important given the upcoming separation of KEDS from KEK. The energy and pricing information developed by Tt will be used by the auditors to prepare the unbundled financial reports.
- The Kosovo’s Auditor General issued a report titled “Office Audit Report for Import, Local Purchases and Exchange of Electricity by the Kosovo Energy Corporation for 2010.” Issues raised included:
 - Level of spending for imported power was below the budgeted amount
 - Load shedding occurred, although all import money was not spent
 - Internal controls on transactions
 - Purchases from local small generators

Tt prepared a response for KEK addressing each issue raised. None of the issues raised involved significant monetary amounts; however, it was important to point out several misperceptions contained in the report.

1.6 Internal Audit and Anti-corruption

As reported in Q1, despite serious obstacles created by the inadequate decisions of the Internal Audit Committee (IAC), the Internal Audit Office (IAO) completed the employment process for the position of Principal Operations Auditor. After the expiration of his three-month probation period, the latter’s performance was positively evaluated by the IA Officer. In spite of the positive achievements, the IAC, for reasons unknown reasons, instructed the Head of HR Department to sign another probation period contract with the Principle Operations Auditor and after expiration of the second probation, proceed with an external vacancy announcement. With the abovementioned actions, the IAC violated both the Standard Operations Policies and KEK’s HR Regulations. After detailed clarifications were provided by Tt, the problem was

resolved and the Principle Operations Auditor was offered and signed a standard employment contract.

During this quarter, three employees left the IAO, which significantly reduced the office's available manpower. . With Tt's guidance and assistance, the IA Officer performed a swift regrouping of available resources and managed not only to achieve, but in a number of cases exceed, quarterly and half year targets for 2011. These results were highlighted by the IAC during its last meeting in its review of the implementation of the Annual Internal Audit Plan.

In Q2 Tt trained 12 employees of the IAO on risk identification and audit preparations and 4 employees from the Field Enforcement Department (FED) in electricity theft risk reduction in measurement installations.

Among the large-scale audits performed in Q2 were the 1) operational audits of Network and Supply, 2) inspections of several large projects implemented in the Generation Division, and 3) audits of the activities of the Information Services and Communication Departments. The results of some of the audits are summarized below.

Audit of Network and Supply

The IAO completed comprehensive audits of the Pristina and Gjakova districts, and performed selective audits in Ferizaj, Peja, Gjilan and Mitrovica districts. Inspections revealed that the high number of unjustified "zero bills" continues to be a widespread problem. As mentioned in Q1 report, based on the IAO's proposals, the Managing Director had issued a special warning to all district personnel, mandating strict implementation of the applicable regulation and punishment of all feeder team specialists who are not in compliance with the rules. In spite of this, the subsequent audits performed in Q2 confirmed that no significant improvements had occurred.. Indeed, the audit pointed to District personnel's continued failure to properly read meters,AN to include so called "coffee shop" or false readings.

On average, KEK registers 75,000 customers as having no electricity consumption each month. A Verification of these data resulted in identifying 40% of such readings as being inaccurate. The IAO and the FED had numerous meetings with the Supply Division Management, which resulted in a decision to activate the estimated billing function of the CCP system. It was later discovered that the Supply Division set the wrong criteria for the CCP system and it was generating distorted results. For example: even if a meter reader inserted in the reading list that the customer had zero consumption, the system would still generate estimated billing. This logically increased the number of customer complaints and the Supply Division attempted to use it as a justification for abolishing the estimated billing approach. After the IAO and the FED field revealed the root cause for these anomalies, the Supply Division Management agreed to proceed with proper implementation of estimated billing. A follow-on inspection will take place in the first part of Q3.

Inspections conducted by IAO and FED in the Districts identified the following reoccurring weaknesses in KEK's supply and network operations:

- Gross negligence in actions related to commercial loss identification and prevention
- Poor quality of customer data inputted and maintained in the customer care system
- Significant underperformance in the disconnection of indebted customers
- High numbers of unregistered customers connected to the KEK network
- The slow speed and poor quality of new customer registrations
- Inadequate knowledge of the network structure and schemes of electricity supply
- Gross neglect of KEK's approved policies and procedures.

It should be noted that even though the rate and effectiveness of disconnections, and the new customer registration process remain problematic, these two areas did witness significant improvements in Q2. These improvements, in turn resulted in tangible improvements to the overall performance of the company.

ABC Module and A+ Customer Verification

The IAO, together with the FED, performed inspections of the ABC module operation and implementation of the company policies related to A+ or priority customers. These audits revealed a number of serious issues:

- The number of feeders in the CCP and the ABC module do not match.
- The ABC categorization is often flawed, with feeders improperly allocated based on fictitious data.
- There is inadequate, and occasionally inappropriate, mapping of customer-transformer-feeder.
- In many cases customers are assigned and connected to the A+ feeders without fulfilling the applicable requirements. There are many individual customers and even transformers improperly connected to those feeders. At the time of the inspections, there were 681 customers connected to A+ feeders, of which 580 were connected without proper authorization. In many cases A+ feeders even had illegal customers. In addition, a significant number of A+ feeders had high commercial losses, debt and other types of violations.

Based on the IAO findings, the Network Division will initiate a cleanup process for the ABC module. In this respect, and as reported elsewhere, It helped KEK to develop an executive order and new set of rules and procedures that clarify the criteria required for customers to become and maintain priority customer status. The executive order was approved by KEK's Managing Director and its implementation initiated at the end of Q2.

Unsealed Customer Regularization

Progress on implementing the regularization of unsealed customers was extremely sluggish in the first half of the quarter, particularly in Pristina, Prizren and Peja districts. This prompted a number of investigations by the IAO and FED, which revealed organizational weaknesses and allocation of insufficient manpower as the reasons for the slow progress. In order to encourage district management to focus more time and resources on this activity, the IAO and FED presented examples of how commercial losses and unauthorized consumption had been significantly decreased in those areas where this regularization had been completed. After a reorganization of existing resources, Pristina and Prizren districts experienced similar success. However, because of previous delays, the activity will not be completed until September.

Resolving the Problem Related to Unregistered Customers

In Q2 It continued to assist the IAO and the FED in the implementation of "Regulation 66," which is an initiative to register all users of the KEK network who are consuming electricity as KEK customers. With the support of both units, the Network Division managed to complete the process and register all the identified customers, resulting in significant loss reduction for KEK.

Audit of KEK Employees as Electricity Consumers

The IAO, in cooperation with the FED, conducted a number of audits of KEK employees' premises. In nine cases, KEK employees were found to be stealing electricity. All nine of them were proposed for dismissal and the cases submitted to law enforcement agencies.

Inspection of Large Commercial Customer Transformer Ratios

The FED conducted inspections of large commercial customer transformer ratios. Of the 87 customers who were inspected, half of them had transformer ratios that were significantly higher than levels registered in the CCP database. The actual energy consumption of those customers inspected was, on average, 200% above the amount being billed by KEK – this resulted in commercial losses equal to approximately €1 million. Audits have now been initiated to determine the reasons for these violations and reclaim loss calculations are underway. The FED has suggested that all districts inspect transformer ratios.

Meter Time Clock Audit

Under Tt's guidance, the FED conducted meter time clock inspections. The team inspected up to 600 commercial customers, 95% of which had open time clocks and were able to change the time as they saw fit, and 50% of them had other significant violations. For instance, time clocks were set in a way that consumption during the expensive peak hours would be counted as off-peak consumption, when prices are lower. In the majority of the cases their low tariff hours were significantly increased on account of reducing high tariff hours as well. As a result of KEK's failure to restrict customer access to these devices, KEK may be losing up to €1 million in revenue every month. The FED is working with the Network Division on finding a technical solution for this problem.

Water Treatment System at the Power Plant Kosovo B

In early 2011, Siemens completed the rehabilitation of the water treatment system at the Power Plant Kosovo B. The quality and composition of the water is critical factor in ensuring the integrity and longevity of the generation unit – specifically the turbine rotors. Therefore, in order to assess the situation after completion of the rehabilitation works, IAO conducted an audit, which included sending water samples for laboratory analyses. The audit revealed that the water treatment system's two laboratories were generating significantly different results. For further verification, IAO took additional samples for an independent analysis at a chemical laboratory in Macedonia. Its results differed from the ones generated by the automatic and manual laboratories at Kosova B. Additional samples may be sent for further analyses, and/or KEK may invite recognized experts for on-site assessments and/or Siemens may be asked for their input.

Audit of Public Relations (PR) Department Activities

In Q2 the IAO completed an audit of the PR Department. The analysis revealed serious weaknesses in almost all areas starting from strategy development to the public campaign, outsourcing of the public campaign, and assessing the impact of the public campaign. KEK does not possess either a short- or long-term PR strategy. The activities of the PR Department that are directed towards improving KEK's public image, and general public awareness of KEK's activities are largely reactive, ill-planned and not results-oriented. The Department is not efficiently using its existing resources (such as the KEK website) and is not bringing creative ideas to its work. Based on the findings, the audit recommended wholesale changes to the Department, to include removing its manager, in order to improve its performance. These findings have already been discussed with KEK management, albeit on a provisional basis. A final review and agreed action plan for implementing the recommendations will occur in Q3.

Audit of Procurement of IT-Related Materials

Based on the KEK Managing Director's request, the IAO performed an investigation of tender preparation and procurement processes of IT hardware and software. The audit revealed a number of violations during the planning and procurement stages. In a number of the cases the technical specifications were written in a manner that favors HP manufactured products – by way of example, the specifications contained requirements that were not justified and could not be fulfilled by any other manufacturer, other than HP. The specifications also contained the exact weight and size of computers to be procured – this level detail was unnecessary and contrary to Kosovo procurement legislation. The response of IT employees to these findings was that such specifications were necessary to secure better service quality since only HP had licensed service providers in Kosovo; therefore, KEK IT was inclined to purchase only HP equipment. However, upon further review, the IAO found that the HP service quality was not acceptable, for instance in certain cases KEK waited up to six months or more for replacement or repair of recently purchased equipment. The IAO recommended that a warning be issued to the IT Manager. The findings were discussed and ultimately accepted by the audited entity.

Internal Audit and Field Enforcement

Under Tt's guidance, the Internal Audit Office (IAO) completed 28 audits and investigations during the quarter.

- *Investigations:* 27 new audits were initiated.
- *Disciplinary Actions:* As a result of the investigations performed by the IAO, 9 KEK employees were proposed for termination and 32 for different forms of disciplinary action.
- *Customers Inspected:* 1,276 customers were inspected to determine the sources of commercial losses and to check the network and supply operations' effectiveness and efficiency.
- *System improvements:* The IAO performed a significant volume of work to improve KEK's management, operations and processes, and made 83 recommendations for process changes and system improvements.

Under Tt's guidance, the Field Enforcement Department (FED) launched an extensive campaign for resolving problems related to customers with large debts and high commercial losses.

- 2,177 customers were visited for inspections or disconnections.
- 430 "problematic" customers were disconnected with a total debt of €1,423,074.51 from which €385,227.57 was collected.
- 156 cases of electricity theft and other irregularities were discovered and submitted to the Legal and Supply Departments for processing.
- Through disconnections and loss reclamations in cases of electricity theft, the FED collected about €682,298 of direct additional revenue for KEK.
- Based on inspections performed, 9 KEK employees were proposed for contract termination and 11 received written warnings.

The IAO and the FED have submitted 40 criminal cases to law enforcement agencies in relation to electricity theft and other irregularities detected during their investigations.

1.7 Network, Human Resources, Information Services, Communications

Network Division

- *Supporting KEDS Privatization* – Tt continued to support KEK in all its interactions with AEAI (Loss Study), Mott McDonald (various enquiries and requests for data), and IFC (comments on the Information Memorandum).
- *Operations Support* – Tt worked with KEK staff on several routine operational matters, coaching and assisting in the management and resolution of problems, in order to ascertain adherence to regulations, ensure timely progress, and proper closure. Examples of such matters include:
 - Support for the implementation of the new Ferronikeli contract
 - Utility relocation at Velika Hoqa
 - Development of a new contract for A+ or priority customers
 - Facilitating the process regarding electric service for antennas (for the Ministry of Interior)
 - Pilot reporting of disconnections & connections in Pristina District
 - Management support for rerouting existing electric facilities and providing future electric service for the Morine-Merdare Motorway.
- *Tendering and Procurement* – Tt assisted KEK with the tendering and procurement processes related to the following.
 - *Tendered*
 - Meter testing equipment
 - Pristina 7 substation 110/10(20) kV
 - *Awarded*
 - 30,000 simple electronic meters
 - *Contracted*
 - 2x40 MVA, 110/10(20) kV transformers
 - Supplies for installation of half-indirect meters
 - Communication service for 8,000 remote read meters
 - 300 full indirect meters.
- *Network Division Management* – Tt continues to support KEK with the monthly departmental management meetings and the semi-monthly project management meetings. Tt is assisting the management team to adopt an increasingly strategic approach with capital projects. Specific initiatives include:
 - Increase of transformation capacity at four 110 kV substations
 - Elimination of three 35 kV substations
 - Increase of transformation capacity at nine 35 kV substations by the installation of transformers released from other substations due to the previous two measures
 - Full implementation of protection and local SCADA at all 110k V substations.
- *2010-11 Network Reinforcement* – Tt continues to assist KEK with verifying the justification of every sub-project under this contract. Tt plans to oversee the execution of this project to ensure that estimated benefits are achieved. Three of the 41 approved sub-projects are in the execution phase. The expected end date of this project is Q4 2012.

- *Regularization Projects* – Tt continued to assist KEK with the monitoring and execution of two projects focused on regularizing customers.
 - *Regulation 66 Customer Regularization* – The scope of this project is to regularize approximately 2,000 customers who were registered temporarily under “Regulation 66.” About 1,520 customers have been regularized to date.
 - *Unregistered Customers* – The regularization of 2,048 unregistered customers was initiated and completed in Q2 2011.

- *Network Development Plan* – The 2010 Network Development Plan is still awaiting ERO approval. No further changes are expected at this time.

- *Connection Charging Methodology* – A new updated draft was submitted for final approval by the ERO. The changes included modifications to deep connection charges and the removal of information related to examples and typical charges from the document. This information will be included in KEK’s website and will be subject to change depending on influencing factors.

- *Reconstruction of Palaj 110/35 kV Substation* – Tt supported KEK in all technical and project management aspects of this ongoing project. Tt will continue this support over the entire life of the project which is expected to be completed in Q4 2011.

- *Pristina 7 110/10(20) Substation* – Tt supported KEK in the preparation of final updates to technical specifications. An international tender was announced. Tt provided ongoing support to KEK in preparing responses to questions from potential bidders. The bids are due to be submitted in Q3 2011.

- *Construction of Gjilani-5 110/10(20) kV Substation* – Tt continued to support KEK on all technical and project management aspects of this ongoing project. KEK is responsible for engineering and project management inputs at all stages of this project. The project is expected to be completed by Q3 2012.

- *Long-Term Capacity Management Study (Least-Cost Generation Plan)* –After an internal review of the first draft, it was decided to extend the scope of this project. The final draft of the new Long Term Capacity Management Study (LTCMS) was completed and is being reviewed internally by Tt. Under the updated scope, the study analyzes and compares two main scenarios of the Kosovo electric power system expansion plan. Scenario 1 envisages the Kosovo power system as a separate system. Although the required level of electricity import is still taken into account, both the forecasted electricity demand and potential capacity additions and costs are considered for the Kosovo power system separately. Scenario 2 envisages that the Kosovo power system will be efficiently coordinated with Albanian, Macedonian and Montenegrin power systems. The study focuses on the expected plant-level costs of base load electricity generation by power plants that could be realistically commissioned by 2030 and evaluates possible least-cost options to meet the electricity demand of Kosovo until 2030. The LTCMS is expected to be finalized in Q3 2011.

- *Loss Calculations and Network Modeling* – Tt supported KEK with further model refinement, data verification, and facilitated discussions with IT to enable easy access to meter data which will enhance accuracy of loss estimation.

- *Master distribution plan development* – Due to resource constraints and prioritization, further steps have been postponed. The revised tentative schedule will be developed in Q3 2011.

Information Services (IS) Division

As part of its ongoing support for the IS Division,

- Tt continued to supervise the development of the following sub-modules of the **Integrated Cost Control System**:
 - Budgeting Module
 - Budget structure and organization, and budget line items
 - Budget development and adjustments
 - Budget commitment
 - Procurement Module
 - Procurement plan
 - Tender processing
 - Contracts register and delivery and payment schedules
 - Invoices and Payments Module
 - Invoice register and invoice approval
 - Payments.

- Tt continued to monitor the development of the new **HR & Payroll Module**:
 - Tt monitored the development of the HR part of the database based on the recommended design for its structure and organization
 - Tt completed the design of the structure and organization for the payroll portion of the database.

- Tt continued to work on the design of the **Centralized Network and Supply Integrated Database (NaSID)**:
 - Tested the structure of the tariff sub-module
 - Prepared a script to fill the appropriate data and to import the information on tariffs from CCP database for the tariff sub-module.

Human Resources (HR) Department

As part of the ongoing development of this department, Tt:

- Finalized and secured approval for the new organizational structure for the Network and Supply Divisions and the Customer Service Department.

- Completed the process for the new early retirement scheme for employees ages 55 and over and disabled employees under the age of 55. In total, 30 employees have applied to participate in the scheme, including 5 disabled employees; as a result of the process the company's staff has been reduced by 30 positions.

- Reviewed and analyzed all recommended disciplinary measures and bonuses to determine compliance with the KEK District Regulations, and oversaw the implementation of these recommendations against non-performing employees.

- Analyzed the situation of all sick and disabled employees in KEK and discussed solutions for the employees who are on a long-term sick leave.

- Supervised and made recommendations to KEK management on job postings, interviews and the recruitment process for various KEK positions.

- Supported HR to recruit five Kosovo Serb candidates for feeder specialist positions in KEK.
- Assisted HR in proceeding with the hiring of qualified individuals from Hade village in order to facilitate and expedite the expropriation of property in Hade, which is required for the expansion of the Sibovc SW mine.
- Developed the “KEK Payroll Manual,” which details the new pay system for the company employees at the managerial level.
- Provided supervision of and assistance to, the HR Department on drafting job announcements, job descriptions, interviewing, recruitment, implementing disciplinary measures, and preparing of payroll and salary deductions.
- Supervised the selection process, created new job descriptions, and provided recommendations on the recruitment of key Supply Division and Customer Service Department positions.
- Held meetings with the Ministry of Education representatives and National Qualification Authority director regarding the process of the pilot project and possibilities of speeding up the procedures for the KEK Training Center’s accreditation.

Security

Tt continued to assist KEK on security matters during this quarter. Tt:

- Continued to make regular ad-hoc visits to all KEK districts, the open mine, key asset depots, warehouses, and workshops to observe the execution of security duties.
- Continued to monitor the implementation of the amendment to the BESA contract to empower guards with the right to search, apprehend and detain any persons on KEK property suspected of suspicious activities, including KEK employees.
- Continued to supervise the management of the use of KEK vehicles to ensure compliance with the transportation executive order that clarifies how and when KEK vehicles should be used, stipulates the allocation of vehicles to designated officials and department/district pools, and clarifies various authorizations and approval processes. To date, the order’s implementation has resulted in the continuous saving of 10,000 to 12,500 liters of fuel across the fleet, per month.
- Worked to identify all existing KEK vehicle assets dating back to 2009 (830 in all), including assets transferred to outsourced entities. Investigations and on-the-ground enquiries determined that a large number of KEK assets were not registered within the assets database – 107 “in service” and 17 “non-functional” vehicles were identified for new registration purposes.
- Supervised the selection of qualified bidders for the provision of IT surveillance equipment that will be used to secure KEK assets at all warehouses and workshops, monitor vehicle movement to and from KEK premises, and monitor employee movement.

- Supervised the selection of qualified bidders for the construction of 21 checkpoint booms that will enable more secure access point control.
- Finalized the process of a second auction of 51 non-functional, 6 seriously damaged and 35 old KEK vehicles scheduled for July 2011. Only 12 vehicles from the first auction were not sold – an application for their sale as scrap has been initiated.
- Structured new patrol routes at the Sibovc SW mine due to expansion at the mine and the need for additional foot patrols along the unprotected northern zone where an increase in theft attempts has been identified. Repositioning of some guards from the southern zone is being discussed – this may also need the incorporation of some additional guards as the boundaries expand. Tt liaised with KEK’s security provider to define key observation posts and examine existing employee availability to accommodate these new patrol routes.
- Developed and delivered a project management training session to address the management weaknesses that Tt identified in the BESA Security senior staff assigned to KEK. Specifically, these included their lack of ability to adjust to changing circumstances in the field and reassign duties in order to meet new challenges. The training delivered in May and June 2011 focused on having the BESA staff develop and present specific proposals to resolve a work-related issue. Fifteen BESA managers participated in the training, which should improve their ability to deal with daily challenges at KEK and make relevant on-the-spot decisions.

1.8 Management and Operational issues

- For the most part, KEK’s Board of Directors continues to perform well and support management’s actions to improve KEK’s performance. The Board, however, continues to interfere in employment and contractual issues.
- KEK’s managing director (MD) continued to perform well and was very cooperative. He is under continuous pressure from both internal and external forces to hire individuals, not to disconnect customers, invest in villages tied to politicians, not to terminate poor performing or corrupt employees, restate terminated employees, and to influence tenders and their outcome. Fortunately, he understands that he has the full support of the advisors and has resisted all of these pressures to a great extent. His employment contract will be up for renewal in Q3. Tt has developed a performance review of the MD, which will be presented to the Chairman of the Board in Q3, and Tt will be supporting the MD’s reappointment.
- Tt’s relationship with the chairman of KEK continues to be very positive. He recognizes the role and the importance of Tt’s advisers in improving KEK’s performance, and has continuously encouraged and recognized the cooperation of KEK’s managing director with the Tt advisers.

Tt provided guidance and support to the KEK Managing Director in his oversight of the Generation and Coal Production Management Teams – particularly in relation to key operational decisions, such as procurement of new electrostatic precipitators and refurbishment of the air compressor of Kosova A TPP, variable-speed drives and electromotors for the feedwater pumps at Kosova B TPP.

Subtask 2: Prepare Technical and Contractual Document for Investor Due Diligence

2.1 KEK Unbundling Documentation

Tt has already developed the pertinent agreements and shared them with the Kosovo Electricity Distribution & Supply Company (KEDS) and Kosova e Re Power Plant (KRPP) transaction advisory teams.

2.2 Draft Agreements

Tt has developed and shared the pertinent agreements with the KEDS and KRPP transaction advisory teams. During Q2 the focus was on the interim power purchase agreement between KEK and KEDS (pending closure of the KRPP transaction) – the KEDS transaction advisors have opted for a bulk supply agreement (BSA). In this respect, Tt met with the legal advisor who has been tasked with developing the BSA and provided written comments on the first and second drafts. This document is a work in progress and efforts are ongoing.

2.3 Legal/Regulatory

Tt developed a draft regulatory statement that should form an integral part of the transaction documents for the sale of KEDS; these were shared with representatives from the IFC and the KRPP transaction advisory team. During Q2, Tt provided comments on a document drafted by IFC advisors, which proposes changes to the existing tariff methodology aimed at complementing the pending transaction. In addition, and as part of the ongoing review of existing tariffs, Tt provided input on the draft TSO pricing rule that is being developed by AEAI for the ERO. Similarly, it is anticipated that the draft DSO Pricing Rule, which is also being developed by AEAI, will need to be reviewed early in Q3.

Tt reviewed the proposed Market Model to be implemented after the unbundling of KEK and KOSTT and provided comments to the Working Group. These discussions are ongoing.

2.4 Investor Due Diligence

Per Tt's recommendation, a new KEK coordinator for KEDS' privatization was appointed by the KEK managing director in November 2010. The individual concerned continues to do an excellent job.

Tt assisted KEK in finalizing arrangements for the KEDS physical and virtual data rooms, both of which were opened or activated during Q2. In this context, Tt provided comments on the confidentiality agreements and data room rules being proposed by IFC, and advised KEK in connection with the same. Tt also provided comments on the Information Memorandum drafted by the IFC and its technical advisors.

Tt continues to attend meetings with KEK and IFC to discuss financial matters and technical issues related to KEK's distribution network. In addition, Tt continued to provide input for the loss study (for AEAI), which was finalized in Q2.

It is anticipated that the four pre-qualified bidders for the KEDS transaction will start their due diligence in earnest in Q3 – to include meeting with, and requesting information and data from, KEK.

Subtask 3: Provide Advisory Support in Privatization Process

3.1 Tender Process Responses

Four bidders were qualified for the KEDS transaction in Q2. Accordingly, it is expected that activity relating to the transaction and tender process will intensify during Q3 – as the transaction documents take form and due diligence is performed. Tt stands ready to provide assistance and data to the transaction advisors in connection with any questions raised by the qualified bidders, and attend meetings with these bidders as and when they visit KEK to conduct their due diligence.

3.2 Bid Submission, Evaluation and Award

There were no actions to report for the quarter.

Subtask 4: Strengthen Skills and Technical Capacity of Counterparts

4.1 Distribution Company Staff Coaching

Tt actively supported the Network Division’s management staff by assisting with strategic and tactical issues, and ensuring proper follow-up and adequate quality in the resolution of issues. These activities were carried out by Tt with the objective of achieving on-the-job training.

4.2 Coaching on Billing, Managing Customer Accounts and Collection

During the quarter, Tt conducted training for district employees on the implementation of the new organizational structure, decision making in the context of their day-to-day work, and the new daily report form for daily collection and disconnections. Seventy eight KEK employees were trained; three of them were female.

Tt also trained 12 employees of the IAO in risk identification and audit preparations as well 4 employees from the FED in electricity theft risk reduction in measurement installations.

4.3 Training on Management Principles, Customer Service

Tt delivered several training workshops on management principles in April and May 2011 in order to improve the level of efficiency among KEK’s management.

- The “Managing and Building Teams” training workshop was delivered to the management of the Supply Division on 12 April (regional directors and district managers) and to the management of the Network Division (executive director and department managers) on April 20. Both workshops were very successful: the

participants were engaged the entire time, and they actively participated in training exercises and group discussions. The following skills and techniques were practiced during the workshop: how to be an effective team member, how to provide and receive feedback, how to run meetings effectively, and how to set SMART goals, develop meeting agendas and plans. A total of 32 employees attended the 2 training courses, including 6 women.

- The “Critical Thinking” training workshop was delivered to the management of Network Division (executive director and department managers) on April 19. The training course was very successful, the participants were engaged and completed several training exercises. The participants learned a bottom-up approach to grouping ideas, the top-down approach to developing summarizing ideas, three ways of reasoning (induction, deduction and abduction), and how to make compelling introduction by following a SCQA sequence (situation, complication, question and answer). Sixteen employees attended, including 4 women. This training course was also delivered to the management and staff of the Internal Audit Office and the Field Enforcement Department on 18 May. The training course was especially appropriate for this group due to their nature of field work and necessity to develop detailed reports. The sixteen participants (15 men and 1 woman) were engaged the entire time and successfully completed all training exercises.
- The “Leadership and Management” training workshop was delivered to district managers of supply on 16 April. The training course was very successful: the 20 participants (18 men and 2 women) stayed engaged the entire time, and actively participated in group discussions and exercises. They discussed the qualities of good leaders, learned about different theories of leadership and management and the responsibilities of managers, practiced leadership, cooperation and decision making skills, practiced delegation, discussed ways to reward employees, and team development phases. The same workshop was also delivered to the management of Network Division on 17 May with 12 men and 4 women participating.

Tt developed and delivered a project management training session to address the management weaknesses that Tt identified in the BESA Security senior staff assigned to KEK, specifically, their lack of ability to adjust to changing circumstances in the field and reassign duties in order to meet new challenges. The training was delivered in May and June 2011 and focused on having the BESA staff develop and present specific proposals to resolve a work-related issue. Fifteen BESA managers participated in the training, which should improve their ability to deal with daily challenges at KEK and make relevant on-the-spot decisions.

Tt met with KEK Supply Division managers to preview and obtain feedback on a draft training course on Performance Management and Appraisal as part of its work with KEK to develop and implement a performance evaluation for KEDS. Eleven KEK employees participated in this meeting including the KEK Supply Division Director and KEK District Managers. They reviewed and provided feedback on a number of handouts including the proposed rating system, applicable core competences, types of data to be collected for performance appraisal, draft annual objective form, and the proposed annual performance appraisal.

4.4 Training of Trainers

At the request of the Supply Division Director, Tt developed a short training workshop on customer service targeted specifically to feeder specialists, who have a unique position as the face of the company to many customers. Tt met with the staff of the KEK Training Center and

managers of the Supply Division in April 2011 to present the draft material and solicit input. Participants provided valuable comments, edits and examples to the draft training course.

The revised training course “Customer Service for Feeder Specialists” was delivered to the four staff of the KEK Training center followed by a practice run. The Training Center will incorporate this training into its seven-day training program for newly hired feeder specialists. The KEK Customer Service Manager and his deputy also used the training materials and have delivered 13 training sessions for the feeder specialists since in May 2011. According to the Manager, the training course has been very useful for guiding feeder specialists’ interaction and communications with customers.

Subtask 5: Support Management Post-Privatization

As the tendering process for KEDS is at an early stage, there are no actions to report for this subtask.

Subtask 6: Prepare a Thermal Power Plant Kosova B Investment Requirement and Rehabilitation Feasibility Study

6.1 Kosova B TPP Investment Requirement and Rehabilitation Feasibility Study

As previously reported, the final version of the Kosova B TPP’s Investment Requirement and Rehabilitation Feasibility Study was approved in September 2010.

Subtask 7: Prepare Technical and Contractual Documentation for Investor Due Diligence

7.1 Documentation for Data Room

It continued to provide support and advice to the KEK employee who is the main contact point and coordinator for documentation requested by the KRPP Project Implementation Unit, and the KRPP transaction advisors. However, there was little activity on this transaction during the quarter.

7.2 Asset Sale/Lease and Power Purchase Agreements

There were no actions to report for the quarter.

7.3 Responses to Tender Process Issues

There were no new actions to report for the quarter.

As previously reported, Tt's stated position is that all of KEK's existing generation and mining assets, to include the Kosova A TPP either under a lease/ownership or an operations and management arrangement, should be included in the KRPP transaction. In this respect, while the draft RFP includes the majority of existing KEK mining and generation assets, it unfortunately omits the Kosova A TPP and operations in the Sitnica mine.

Subtask 8. Strengthen Skills and Technical Capacity of Counterparts

8.1 Training on Feasibility Study Methodology

There were no actions to report for the quarter.

8.2 Kosova B TPP Privatization Round Table Discussions

There were no actions to report for the quarter.

3 Status of Results Achieved under the Performance-based Management System

Please see Appendix B for a discussion of the progress made this quarter against the planned results under the Performance-based Management System. This section discusses the barriers that are hampering the achievement of better project results.

3.1 KEK Board of Directors

In contrast to the previous Board of Directors, the current Board has shown a willingness to cooperate with Tt and displays greater awareness of corporate governance issues and the scope of its role and responsibilities. However, Board members remain vulnerable to manipulation by internal and external parties as well as other Board members. One continuing issue of concern is that the new government may want to replace part or the entire KEK Board despite the fact that their mandate does not expire until the end of 2011. However, the risk of this occurring is diminishing with time.

3.2 Procurement

Tt has regularly reported on the problems caused to KEK's operations by Kosovo's inflexible procurement regulations. In these circumstances, Tt has always recommended that the EU's Procurement Regime for Utilities (2004/17/EC) be applied in Kosovo. This issue has now been partly addressed with recent amendments to the Procurement Law. The amendments largely exempt future private investors for both KRPP and KEDS from the provisions of the Procurement Law. The amendments also introduce additional, more flexible procedures that KEK can utilize even before privatization, which is helpful. However, KEK remains largely subject to PPA supervision on key issues, such as obtaining approval for conducting negotiations without competition.

3.3 Employee Issues

The approach of Kosovo's courts continues to be a problem, specifically with respect to legal challenges on employment matters. Employees who are dismissed by KEK on disciplinary grounds frequently challenge KEK's decision, request re-instatement, and are granted re-instatement by the courts. However, the new Labor Law, which was promulgated in Q4 of 2010, states that with the exception of discrimination claims, employees found to be unlawfully terminated should not be reinstated, but should only receive financial compensation. Time will tell whether this provision is respected.

As consistently reported in previous quarters, the Regulations for Operations in KEK Districts provide clear benchmarks for assessing poor or unsatisfactory performance by employees and introduce a zero-tolerance approach to serious disciplinary offences. However, KEK management is reluctant to fully enforce the terms of the District Regulations. This hesitancy continues. For example, during Q2 Tt recommended that the Peja District Manager should be dismissed for continued non-performance. However, KEK Management was reluctant to take

this step. In other cases, non-performing District Managers, Supply or Network Managers have been simply re-appointed to other positions within KEK Corporate Headquarters as opposed to being dismissed from the company.

Similarly, the new Disciplinary Code provides adequate tools to discipline and dismiss non-performing employees, and those found to be guilty of misconduct. However, KEK management appears reluctant to fully enforce the terms of the Disciplinary Code.

4 Proposed Solutions to New or Existing Problems

4.1 Dispute Regarding KEK's Corporate Tax Liability

Problem: The Kosovo Tax Administration (TAK) is forcing KEK to recognize and pay taxes on non-existent revenues from the sales of electricity to minority customers, insolvent companies, and warned and disconnected customers who have not been paying their debts, despite all measures taken by KEK.

TAK failed to recognize the "bad debt" recorded in the books of KEK and confirmed by the external auditors Grant Thornton and Deloitte & Touche during the audits of KEK financial statements for 2005, 2006, 2007 and 2008.

As a result, after adjustments that the tax auditors made to KEK's financial results, KEK appeared to owe TAK large amounts of corporate profit tax. This tax was further increased with penalties and charges for KEK's failure to declare it in due time. KEK filed an appeal of this matter with the TAK Appeals Division on 12 January 2010. On 30 April the Appeals Division issued a ruling that recognized the existence of "bad debt," but limited the amount only to the debt of customers taken to court and refused to include amounts owed by households that have been warned and disconnected for non-payment and uncollectible amounts from minorities. It has concluded that this ruling is not consistent with the current law and does not accurately reflect the situation in Kosovo. KEK filed a second appeal on 7 June 2010 with the Independent Appeals Board against the findings for 2005 and 2006.

Due to the fact that there is as yet no written ruling interpreting the requirements of the law on corporate tax, it is subject to misinterpretation. At the same time, the procedure for recognizing bad debt for the purposes of value added tax (VAT) was clearly defined in a ruling by the Minister of Economy and Finance, which was approved by the Government of Kosovo on 8 April 2009 (Decision No. 02/60) and KEK has been using it for more than a year.

Proposed solution: KEK is pressing for the Independent Appeals Board to expedite their review of KEK's appeal so that a final resolution can be reached. However, the case has now been pending before the Board for over one year without any progress. In the meantime, the Tax Administration has issued a levy on all payments, with the exception of loan monies and subsidies, which are made directly from the Ministry of Finance to KEK. In addition, during Q2 the Tax Administration issued a levy on KEK's bank account, with the instruction that the disputed tax liability of 13 million Euros be transferred forthwith. Fortunately, after urgent discussions between KEK and the Tax Authority, the levy against the Bank account was withdrawn. Given the inaction of the Appeals Board, It assisted KEK with drafting a request to the Supreme Court for a judicial review of the dispute, to include a request for an interim injunction against the Tax Authority to restrain it from taking any further enforcement action pending a determination on the substantive issues. The request was filed with the Supreme Court in June and is currently pending.

4.2 Delays in Expropriation – Hade Village

Problem: Government Decision No. 08/66 of 29 May 2009 approved KEK’s request for the expropriation of land in the vicinity of Hade Village, as part of the ongoing development of the new Sibovc South West mine. Subsequently, the Ministry of Environment and Spatial Planning (MESP), in conjunction with other stakeholders – notably KEK, the Municipality of Obiliq, and the Ministry of Economy & Finance (MEF) – formed a Working Group/Committee to implement the terms of the decision.

Given that it has been over two years since the decision and KEK has not yet been allowed to take possession of the land, Tt is increasingly concerned at the slow progress of the expropriation proceedings. Over the past twelve months, the Working Group/Committee has spent significant time considering a variety of demands submitted by Hade residents, which have included the right to be employed by KEK. The vast majority of these demands was not foreseen by the provisions of the Law on Expropriation (No. 03/L-139) and should not be allowed to delay the expropriation process. However, KEK has been forced to compromise on many issues in order to facilitate the process.

Owing to the abovementioned delays, KEK has been forced to adjust its mining operations, which, in turn, has resulted in inefficiencies and may cause future difficulties. If there is a continued delay in the expropriation process, it will seriously endanger the development of the new Sibovc South West mine and the continuity of coal supply to the Kosova A and B plants. KEK cannot afford any further delays in this process.

Proposed solution: *In previous quarters it was reported that* Tt had advised the KEK Board to respond positively to the GoK’s recommendation and agree to hire qualified individuals from Hade village in accordance with the law and KEK’s regulations when the expropriation of the land for the SSW mine is completed – this step was completed. In parallel, Tt is also impressing upon all relevant ministries the urgency of this matter and the need to proceed expeditiously with the expropriation process in accordance with the applicable law.

4.3 Lack of Progress in Addressing the Issues in Northern Kosovo

Problem: There has been no tangible progress in regularizing the customers in the north and Serbia has not been constructive about moving forward with the ESCO agreement after two years of discussions. Even though Serbia has been told that having a second distribution operator in the north is not an option, its representatives continue to demand creating a second distribution operator in the north or as their fallback position, despite the fact that KEK has informed them their demands are against the laws of Kosovo and that it cannot do anything illegal. They continue to insist on allowing the ESCO to serve Serb customers in the south and to unilaterally import electricity for the north as KEK’s agent. In addition, they have also now raised the issue of requesting the reinstatement of all Kosovo Serb KEK employees that left the company in 1999, or compensation in lieu.

The IFC is moving forward with the KEDS privatization process and four investors have now been prequalified. Given this timeframe and the need for due diligence in the north, it is not clear how the investors will be given access to the assets in the north to perform their due diligence. If access is not provided to the investors, the IFC may have to remove the assets in the north from the privatization list. Effectively, this will lead to the perception that Kosovo is partitioned.

Proposed solution: Energy issues should remain on the top of the agenda for the ongoing EU-facilitated dialogue in Brussels between the Governments of Kosovo and Serbia. In particular, the EU must press upon the Serbian delegation the need to move forward with the ESCO agreement only in northern Kosovo without further delay.

5 Documentation of Best Practices that Can be Taken to Scale

The following procedures were produced under the project in Quarter 2 and are best practices that can be used on other similar projects.

- Electricity supply agreements for large customers – Ferronikeli and Sharrcem.
- Contract for supply of parts – overhaul of B1 Unit, Kosova B TPP in 2012.
- Contract for replacement of ESP – Unit A5, Kosova A TPP.
- Application for judicial review – corporate tax liability of KEK.
- Electricity supply agreement for KFOR facilities.
- Power purchase agreement with Iber Lepence _Ujmani HPP.

6 Coordination with Other USAID Implementing Partners and Other Donors

The Tt team coordinated with several other USAID partners, especially other donors and Deloitte, on a number of activities during Quarter 2:

- Tt continued to coordinate with Deloitte advisors on issues regarding the privatization of KEDS and the KRPP Project. Draft documents were shared with Deloitte for comment before their submission as final. During Q2 the primary issues addressed were the Market Model and the Bulk Supply Agreement.
- Tt cooperated and shared information with the IFC (and its technical advisors) as the transaction advisor for the KEDS privatization, and also with the KRPP Transaction Advisory Team.
- Tt cooperated with Checchi Consulting – a USAID implementing partner – on the implementation of its MoU with KEK regarding enforcement of electricity debt cases.
- Tt cooperated with Booz Hamilton – a USAID implementing partner – on the implementation of its MoU with KEK regarding the provision of heavy equipment training.
- Tt continued to maintain regular contact with AEAI advisors on the Independent Loss Study. During Q2 KEK supported AEAI in responding to questions from the ERO on the draft report. This report was finalized during Q2 and is now in the Data Room.
- Tt continued to liaise with Deloitte advisors at the Tax Administration on various issues, including KEK’s corporate tax and VAT liability.
- Tt cooperated with Deloitte advisors at the Ministry of Finance in connection with the level of import subsidies and loan monies available to KEK.
- Tt maintained its communications with OSCE, EULEX, UNMIK, COM KFOR, Swedish KFOR, and US KFOR on the issue of minority area policies, including internally displaced persons.
- Tt continued to maintain regular contact with the WB, IMF, KfW, EU, UNMIK, EULEX, OSCE, ICO, and other stakeholders, and has been responsive to their requests.

Tt met with a newly appointed OSCE representative responsible for monitoring energy issues. He was provided information on the energy supply situation, ABC load shedding, and minority area issues.

7 Upcoming Events

- Meetings with the four pre-qualified investors for the KEDS transaction.
- Contract signing for replacement of the electrostatic precipitators in Units A3, A4 and A5 of Kosova A TPP.
- Contract award for the construction of Pristina VII substation.
- Contract signing for new power purchase agreement between KEK and Iber Lepence, in connection with Ujmani HPP.
- Contract signing for new agreement between Trepca and KEK for the use of Trepca's electric facilities in Mitrovica.
- Contract signing for supply of parts required for major overhaul of Unit B1, Kosova B TPP in 2012.
- Commencement of major overhaul of Unit B2, Kosova B TPP.
- Issuance of audited consolidated and unbundled financial statements for FY 2010.
- The ERO will approve the Network Development Plan and the Connection Charging Methodology.
- Continuation of the EU-facilitated dialogue between Kosovo and Serbia, which will include energy issues.

Appendix A. List of Activities and Deliverables

Nr.	Subtask 1: Support Management and Operation to Maintain Asset Value Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
1.1	Assist with the development and implementation of new internal policies and procedures.	Ongoing	Tt prepared three new policies that were issued by KEK as executive orders during the quarter 1) procedure to approve overtime for employees, 2) implementation of the new revised budget and cost control manual, and 3) new rules for priority customers.
1.2	Support business planning and budgeting.	Ongoing	Tt supervised the execution of KEK's expenditure budget for the second quarter of 2011 and assisted KEK in preparing its <i>Quarterly Performance to Plan</i> report, which analyzes the execution of KEK's second quarter expenditure budget and the progress on the implementation of its 2011 Business Plan.
1.3	Recommend improvements to billing and collection and monitor their implementation in the field on a daily basis.	Ongoing	Readings, bill delivery, and disconnections are continuously monitored by Tt. The performance of the districts is evaluated each month.
1.4	Provide support to accounting and financing.	Ongoing	Tt assisted KEK with finalizing the consolidated and unbundled financial statements for FY 2010 and submitting them to the auditors, including addressing the 2009 qualifications of KEK's financials related to non-current assets, tax assets and deferred taxes and disclosures of liquidity and credit risk.

Nr.	Subtask 1: Support Management and Operation to Maintain Asset Value Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
1.5	Provide assistance in legal and regulatory affairs.	Ongoing	<p>Tt continued to provide legal advice to KEK senior management and various project managers on a number of discrete issues during Q2 as summarized in this report.</p> <p>Tt's assistance in regulatory affairs during Q2 included 1) support in the tariff review process, 2) finalizing the new 220 kV tariff, 3) input to ERO on the level of competition in the electricity sector, 4) support to KEK in the ERO license monitoring process, 5) development of tariffs for KFOR facilities, and 6) preparation of a justification for continuation of the ABC load shedding program.</p>
1.6	Provide active support to Internal Audit and Anti-corruption.	Ongoing	<p>Tt assisted the IAO with the completion of 28 audits and investigations and the initiation of 27 new audits. As a result of the investigations performed by the IAO, 41 KEK employees were proposed for different forms of disciplinary action. With Tt's assistance, KEK was able to discover 156 cases of electricity theft and other irregularities, and initiate legal procedures for criminal prosecution. With Tt's guidance, the FED has taken actions that allowed KEK to collect €682,298 of direct additional revenue.</p>
1.7	Provide support to other functions in KEK on an as-needed basis, e.g., Network, Human Resources, Information Services, Public Relations and Communications.	Ongoing	<p>Tt continued to support KEK in all its interactions with AEAI (Loss Study), and IFC (comments on Information Memorandum).</p> <p>Tt initiated the design of a new HR and Payroll System.</p> <p>Tt developed the "KEK Payroll Manual" which details the new pay system for the company employees at the managerial level.</p> <p>Tt developed and delivered a project management training session to address the management weaknesses that Tt identified in the BESA Security senior staff assigned to KEK.</p>

Nr.	Subtask 1: Support Management and Operation to Maintain Asset Value Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
1.8	Advise KEK top management on other management and operational issues.	Ongoing	It provided advice on management and operational issues. Regular meetings were held with the Managing Director and with Supply, Network, CFO, and Corporate Services executives. Meetings were also held on an as-needed basis with mining, generation and procurement executives.

Nr.	Subtask 2: Prepare Technical and Contractual Document for Investor Due Diligence in KEK DistCo (KEDS) Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
2.1	Prepare KEK unbundling documents and related transfer papers.	Per TA's Request	First drafts completed, save for populating the schedules.
2.2	Prepare draft agreements between the electricity market participants.	April 2010	First drafts completed.
2.3	Prepare Legal/Regulatory documentation related to the privatization transaction.	Per TA's Request	Completed the following deliverables: 1) Draft Regulatory Statement 2) Draft Collection Agreement 3) Draft KEDS Privatization Law 4) New wording for the draft Energy Law, to address the property rights of KEDS/KEK. New legislation has since been enacted that incorporates this wording. 5) New wording for the draft Electricity Law, to address the theft of electricity. New legislation has since been enacted that incorporates this wording.

Nr.	Subtask 2: Prepare Technical and Contractual Document for Investor Due Diligence in KEK DistCo (KEDS) Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
2.4	Assist KEK to prepare data for the Investor Due Diligence.	Per TA's Request	Tt compiled an index to the documents collected in the KEDS Data Room, provided a copy to the IFC for their review and comment, and facilitated the provision of various documents requested by the IFC and the KEDS privatization project implementation unit. Tt has assisted KEK with reviewing, updating and expanding the index.

Nr.	Subtask 3: Provide Advisory Support In Privatization Process Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
3.1	Assist KEK with the timely preparation of responses to all technical, legal and financial issues raised during the tender process.	Per TA's Request	No action required at this time.
3.2	Provide active support to the Transaction Advisor during the process of bid submission, evaluation and award.	Per TA's Request	Tt met with the transaction advisor and provided information on KEK's financial position and performance.

Nr.	Subtask 4: Strengthen Skills And Technical Capacity Of Counterparts Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
4.1	Provide assistance and coaching to the KEDS staff on a daily basis in developing leadership skills, including communicating expectations, motivating employees, time management, meeting management, presentation skills, and planning and organization.	Ongoing	Tt actively supported the Network Division's management staff by assisting with strategic and tactical issues and ensuring proper follow up and adequate quality in the resolution of issues. These activities were carried out by Tt with the objective of achieving "on-the-job" training.

Nr.	Subtask 4: Strengthen Skills And Technical Capacity Of Counterparts Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
4.2	Provide day-to-day coaching on billing, managing customer accounts, and collection.	Ongoing	<p>Tt trained 78 district employees on the implementation of the new organizational structure, decision making in the context of their day-to-day work and the new daily report form for daily collection and disconnections.</p> <p>Tt also trained 12 employees of the IAO in risk identification and audit preparations as well 4 employees from the FED in electricity theft risk reduction in measurement installations.</p>
4.3	Conduct training on management principles, customer service and other areas as deemed necessary.	December 2010	Tt delivered training workshops Managing and Building Teams, Critical Thinking and Leadership and Management to 100 KEK employees from the Network and Supply Division and the Internal Audit Office and Field Enforcement Department.
4.4	Convene round table discussions and workshops on important topics to support the privatization process.	December 2010	No action at this stage.
4.5	Identify potential trainers and train them to deliver all training courses developed and offered by the Tt team.		Tt developed a short training workshop on customer service targeted specifically for feeder specialists. Tt trained trainers at the KEK Training Center and managers of the Supply Division on the material and held practice runs.

Nr.	Subtask 5: Support Management Post-Privatization Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
5.1	Develop and assist with the implementation of a transition plan for the Finance and Accounting Function.	One month after closing the privatization transaction.	Completed
5.2	Develop and assist with the implementation of a transition plan for the Legal Function.	One month after closing the privatization transaction.	Will be defined once a specific work plan is developed by KEDS and the incoming private sector investor.

Nr.	Subtask 5: Support Management Post-Privatization Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
5.3	Develop and assist with the implementation of a transition plan for the Regulatory Affairs Function.	One month after closing the privatization transaction.	Will be defined once a specific work plan is developed by KEDS and the incoming private sector investor.
5.4	Develop and assist with the implementation of a transition plan for the Human Resources Function.	One month after closing the privatization transaction.	Will be defined once a specific work plan is developed by KEDS and the incoming private sector investor.
5.5	Development and assist with the implementation of a transition plan for the Billing and Collection Activities.	One month after closing the privatization transaction.	Will be defined once a specific work plan is developed by KEDS and the incoming private sector investor.

Nr.	Subtask 6: Prepare A Thermal Power Plant Kosova B Investment Requirement And Rehabilitation Feasibility Study Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
6.1	Prepare TPP Kosova B Investment Requirement and Rehabilitation Feasibility Study.	October 2010	The final version was approved by USAID and circulated to stakeholders and the KRPP Transaction Advisory Team during Q3 2010.

Nr.	Subtask 7: Prepare Technical And Contractual Documentation For Investor Due Diligence Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
7.1	Assist KEK and Transaction Advisors with collating documentation for the data room.	Upon request	It provided support to the designated KEK employee who acts as the main contact point/coordinator for documentation requested by the KRPP Project.

Nr.	Subtask 7: Prepare Technical And Contractual Documentation For Investor Due Diligence Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
7.2	Provide assistance and input to the Transaction Advisors in connection with asset sale or lease agreement(s), and power purchase agreement.”	Upon request	It has developed two draft power purchase agreements for the sale of the Kosova B TPP's output and shared these with the KRPP transaction advisors.
7.3	Timely preparation of responses to all technical, legal and financial issues raised during the tender process.	Upon request	It continued to provide its input to the KRPP Transaction Advisory Team and the World Bank representatives on what assets it believes should be included in the KRPP transaction.

Nr.	Subtask 8: Strengthen Skills And Technical Capacity Of Counterparts Specific Objectives / Accomplishments	Completion Date (End-of-month)	Major Activities Completed/ Status of Deliverables
8.1	Conduct training on the methodology to evaluate performance, characteristics of the new technology and the methodology for economic and financial analysis used in the Feasibility Study.	Three months following the completion of the Feasibility Study	No action at this time.
8.2	Convene round table discussions on important issues raised during investor Due Diligence (see Subtask 7) to support the TPP Kosova B privatization process.	Three months following the completion of the Feasibility Study	No action at this stage.

List of Outputs prepared in Q2

Legal

- Comments on Bulk Supply agreement between KEK and KEDS – post privatization
- Auxiliary Boiler Contract – Kosova B TPP
- Comments on Confidentiality Agreement for KEDS investors
- Contract for supply of parts – overhaul of B1 Unit, Kosova B TPP in 2012
- Contract for replacement of ESP – Unit A5, Kosova A TPP
- Contract for replacement of ESPs – Units A3 and A4, Kosova A TPP
- Template employment agreement _KEK management
- Application for judicial review – corporate tax liability of KEK
- Comments on the information memorandum _KEDS privatization
- Power point presentation to key ministers on KEK
- Electricity supply agreement for KFOR facilities
- Letter to Office of Auditor General
- Revised cost control procedure _incorporating new provisions on liquidated damages
- Template employment agreement _KEK non management
- Employment manual _part 2: Districts Code
- Employment manual _part 3: Disciplinary Code
- Employment manual _part 4: Ethics Code
- Employment manual _part 5: Redundancy
- Draft contract for construction of Pristina VII substation
- Employment manual _part 1: Labor Code
- Opinion on Remzi Jashari
- Board paper on settlement offer from Turbocare
- Briefing paper _following technical dialogue in Brussels (Kosovo/Serbia)
- Contract for use of electrical equipment with Trepca
- Tender documentation for sale of fly ash
- Tender documentation for sale of used LP rotor
- Contract for repair of rotors for feedwater pumps – Kosova B TPP
- Power purchase agreement with Iber Lepence _Ujmani HPP
- Executive order on procedure to approve over time
- Executive order on the implementation of the new revised budget and cost control manual
- Executive order on new rules on priority customers (old A+ customers).

Network

- Pristina 7 Substation - Tender Package: Technical Specs, Draft Contract, Appendixes
- Communication Service for 8000 Remote Read Meters - Tender Dossier

Supply

- Supply Agreement for Ferronikeli
- Supply Agreement for Sharrcem
- Overview of CCP for Investors
- KEK Comments to ERO on Tariff Decision

- KEK Response to ERO on 220 KV Tariff Consultation Paper
- KEK Response to ERO on Competition Consultation Paper
- White Paper on the Need to Continue the ABC Load Shedding Program
- Notification to KFOR on their new tariff
- KEK Response to the Auditor General Report on Energy Purchases
- KEK Response to Ferronikeli Letter on Force Majeure
- Instructions for Peja district manager
- Agreement with Prizren Regional Water Company
- Second Agreement with Prizren Regional Water Company
- Agreement with Prizren Municipality
- Agreement with Prizren Regional Hospital
- Agreement with Mitrovica Regional Water Company
- New Daily Collection Form.

Training

- Critical Thinking
- Leadership and Management
- Building and Management Teams
- Customer Service for Feeder Specialists
- Performance Evaluation.
- Project Management for Security Managers

Appendix B. Performance-Based Management System Results

I. Key Indicators (KI) (Reported Quarterly)

No.	Objectives Supported by These Results	Task Reference Supported by These KI	Definition of Indicator and Unit of Measure	2006 Actual/ Calculation	2007 Actual	2008 Actual	2009 Actual	2010 Actual	Q2 2011 Actual	First Half 2011 Actual
1	1, 2, 3	1	Reduce commercial losses as compared with previous year (ratio of commercial losses vs. energy available for sale)	31%	30%	20%	21%	22%	11%	20%
2	1, 2, 3	1	Reduce technical losses (ratio of technical losses vs. energy delivered to distribution)	18.2%	17.4%	16.6%	17.7%	17.1%	15.8%	16.9%
3	1, 2, 3	1	Ratio of energy billed vs. energy available for sale	69.1%	69.9%	79.8%	79.3%	78.5%	88.8%	80.4%
4	1, 2, 3	1	Ratio of revenue collected versus billed	74.2%	76.6%	75.6%	81.4%	87.8%	113.0%	93.6%
5	1, 2, 3	1	Revenue collected as a percentage of value of energy available for sale [ratio of revenue collected vs. billed] x [ratio of energy billed vs. energy available for sale]	51.3%	53.5%	60.3%	64.5%	68.9%	100.3%	75.3%
6	1, 2, 3	1	Collected revenue in Euros	€96 M	€110.8 M	€135 M	€160.3 M	€178 M	€48.4M	€103.5M

2. Milestone Indicators

Subtask	Description	Milestones	Reporting Frequency	Status
1	Support Management and Operation to Maintain Asset Value	2010 Business Plan approved by the BOD 2010 Budget approved by the BOD Tariff filing for 2010 Performance against the budget Draft audited financial statements Billing and collection reports to the BoD Unbundled financial statements Credit facility agreements Internal audit summary report	Quarterly	Completed. Completed. Completed, but no tariff increase ordered by ERO. Report completed and submitted to the BOD. Completed. Provided. Completed. Completed. Completed.
2	Prepare Technical and Contractual Documentation for Investor Due Diligence	Draft legal unbundling agreement Draft KEK/KEDS (KEDS regulated power sales agreement Draft KEK/KEDS, deed transferring assets & liabilities from KEK to KEDS Briefing paper - transfer of 110 kV system to KEDS/KEK Draft full requirements electricity service agreement between KEDS and New Mine/Generation Co. Draft regulatory statement Draft collection agreement between KEDS and GoK/MEF Draft KEDS Privatization Law Draft share purchase agreement between GoK/investor Draft index of data room documentation. Create KEDS asset registers and compile asset ownership documentation	Quarterly	Completed Completed. Completed. Completed. Completed. Completed. Completed. Ongoing. Completed. Ongoing.
3	Provide Advisory Support in Privatization Process	Timely preparation of responses to all technical, legal and financial issues raised during the tender process.	Quarterly	Ongoing.

Subtask	Description	Milestones	Reporting Frequency	Status
4	Strengthen Skills and Technical Capacity of Counterparts	Per training indicators	Quarterly	See training indicators
5	Support Management Post-Privatization	Producing transition plan for the Finance and Accounting Function. Producing transition plan for the Legal Function. Producing transition plan for the Regulatory Affairs Function. Producing transition plan for the Human Resources Function. Producing transition plan for the Billing and Collection Activities.	Quarterly	No action at this stage.
6	Prepare a Thermal Power Plant Kosova B Investment Requirement and Rehabilitation Feasibility Study	Feasibility study report, including technical and financial feasibility for rehabilitation and potential efficiency improvement of Power Plant B, investment requirements, recommendation, and implementation schedule	Quarterly	Completed.
7	Prepare Technical and Contractual Documentation for Investor Due Diligence	Timely preparation of responses to all technical, legal and financial issues raised during the tender process.	Quarterly	Ongoing.
8	Strengthen Skills and Technical Capacity of Counterparts	Per training indicators	Quarterly	See training indicators

3. Training Indicators - Performance (Reported Quarterly)

No.	Task Order Objective Reference	Definition of Indicator & Unit of Measure	2006 Actual/ Calculation	2007 Actual	2008 Target Actual	2009 Target Actual	2010 Target Actual	2011 Target Actual	Q1 2011 Actual																								
1.	1, 2 &3	Number of people who received training in technical energy field	0	231	Target 60 (M=42 and W=18) Actual 54 (M=54 and W=0)	Target 60 (M=48 and W=12) Actual 36 (M=32 and W=4)	Target 40 (M=35 and W=5) Actual 425 (M=399 and W=26)	Target 40 (M=35 and W=5)	<table border="1"> <thead> <tr> <th></th> <th>Men</th> <th>Women</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Q1 2011</td> <td>10</td> <td>-</td> <td>10</td> </tr> <tr> <td>Q2 2011</td> <td>16</td> <td>0</td> <td>16</td> </tr> <tr> <td>Q3 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Q4 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Year 2011</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Men	Women	Total	Q1 2011	10	-	10	Q2 2011	16	0	16	Q3 2011				Q4 2011				Total Year 2011			
	Men	Women	Total																														
Q1 2011	10	-	10																														
Q2 2011	16	0	16																														
Q3 2011																																	
Q4 2011																																	
Total Year 2011																																	
No.	Task Order Objective Reference	Definition of Indicator & Unit of Measure	2006 Actual/ Calculation	2007 Actual	2008 Target Actual	2009 Target Actual	2010 Target Actual	2011 Target Actual	Q2 2011 Actual																								
2.	1, 2 &3	Number of people who received training in energy-related business management field	0	149	Target 100 (M= 70 and W=30) Actual 69 (M=61 and W=8)	Target 60 (M=30 and W=30) Actual 261 (M = 196 and W =65)	Target 200 (M=150 and W=50) Actual 141 (M=112 and W=29)	Target 200 (M=150 and W=50)	<table border="1"> <thead> <tr> <th></th> <th>Men</th> <th>Women</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Q1 2011</td> <td>31</td> <td>2</td> <td>33</td> </tr> <tr> <td>Q2 2011</td> <td>174</td> <td>19</td> <td>193</td> </tr> <tr> <td>Q3 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Q4 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total Year 2011</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		Men	Women	Total	Q1 2011	31	2	33	Q2 2011	174	19	193	Q3 2011				Q4 2011				Total Year 2011			
	Men	Women	Total																														
Q1 2011	31	2	33																														
Q2 2011	174	19	193																														
Q3 2011																																	
Q4 2011																																	
Total Year 2011																																	

4. Contextual Indicators - Impact (Reported Quarterly)

No	Task Order Objective Reference	Definition of Indicator & Unit of Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Target	FY Q3 2011 Actual
1.	1&2	Percentage (%) of served demand (ratio of “un-served energy” to “supplied energy plus unserved energy”) based upon data provided by the KEK Capacity Management Department.	12.92 %	10.24 %	14.70 %	8.54%	3.53%	5%	6.41%

Note: The Fiscal Year (FY) runs from 1 October of one year to 30 September of the following year; Q1 of the Fiscal Year is the fourth quarter (October to December) of the calendar year.

Appendix C. Supporting Documentation

Energy Accounting Report – Quarter 2

ENERGY FLOWS - THROUGH TRANSMISSION Total January - June 2011 (All flows in MWH)

Flows Into KOSTT:			Flows Out Of KOSTT:	
<u>A&B Generation</u>		<u>PP Kosova A</u>		
Gross	2,974,070	Gross	1,020,757	KOSTT delivery to Direct Customers (3)
Aux (on-site only)	245,521	Aux (on-site only)	90,048	
Net	2,728,549	Aux at PP Kos. A in excess of Net	42,671	
		<u>PP Kosova B</u>		
HPP Ujmani	45,166	Gross	1,953,313	KOSTT delivery to LOMAG
		Aux (on-site only)	155,473	Total
		Aux at PP Kos. B in excess of Net	41,237	
Kosova Coal	0	<u>Coal production</u>	4,014,948	
		<u>Overburden production</u>	5,254,311	
Interconnections In	1,548,664	Net Import (In-Out)	180,037	KOSTT Delivery to 7 Districts 52 mtrs @ 22 s/s
		Losses (% of Flow In)	64,337 1.49%	2,416,332
Total In:	4,322,379			Interconnections Out
				1,368,627
				Total Out:
				4,258,042

ENERGY FLOWS - DSO including 220 and 110 kV
Total January - June 2011
(All flows in MWH)

Flows In To KEK (Gross)

Delivery From KOSTT	
KOSTT delivery to Direct Customers (3)	333,348 MK
KOSTT delivery to LOMAG	139,736 MK
KOSTT Delivery to 7 Districts	2,416,332 Mk
Total	2,889,415

Small HPP Connected in Distribution	
Lumbardh	16,030 R
HPP Dikance+HPP Radavc+WP Golesh	6,133 R
Total	22,163

Flow Through non 110 kV	
Delivery to 7 Districts and LOMAG	2,556,068
Small Hydro Inflow	22,163
Total	2,578,230

Allocation of Losses		
	MWH	Euro (000)
Technical Losses		
110 kV Xtrmer to 10 kV	159,314	5,155
0.4 kV from ESTAP	252,916	8,112
Total	412,230	13,267
% of Total Technical Losses for KEK excluding N. Mitrovica	16.76%	
% of Technical Losses at 7 Districts excluding N. Mitrovica	17.74%	
Unaccounted for Energy Losses	438,224	23,899
(Energy component of commercial losses)	17.00%	
Total	850,454	37,166
(% Flow Thru Non 110 kV)	32.99%	

Average Wtd Trf is 56.2 Euro / MWH from April 2011 as per ERO tariffs order.
Cost of purchased losses is 29.6 (Euro / MWH) from April 2011 as per ERO tariffs order.

Total In to KEK (Gross)	2,911,578
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Losses Total	850,454
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Flows Out Of KEK Distribution

Customer Billing (by CCP)	
Residential	1,034,600 F
Commercial	306,603 F
Industrial (35&10KV)	120,307 F
Public Lighting	6,225 F
Total	1,467,735

KOSTT delivery to Direct Customers (Billed but not in CCP)	333,348 F
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KEK Internal Use:	
KEK Mines	53,203 R
Aux for Gen in excess of Net	83,908 R
Distribution (Self Consumption)	4,252 F
Total	141,363

Minorities	
N. Mitrovica (Unbillable)	118,679 R
Total	118,679

Total Out:	2,061,124
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Note:

- 1) Average Wtd Trf is 56.2 Euro / MWH from April 2011 as per ERO tariffs order.
- 2) Cost of purchased losses is 29.6 (Euro / MWH) from April 2011 as per ERO tariffs order.

RESULTS BY DISTRICT
Total January - June 2011
(Energy flows in MWH, Monetary amounts in 000 €)

Responsible Area	Input to KEK	Technical Losses	KEK Internal Use:	Minorities Unbillable & Uncollectable	Energy Available For Sale (EAFS)	Energy Billed		Collections € (000)	Indicators Based on January-March 2011 Data			
						MWH	€ (000)		Billed as % of EAFS	Collection As % of Billed	% Collected Versus EAFS	% Energy Accoun. Versus Input to DSO.
	R	R	F	R/F	Calculated	F	F	F	Calculated	Calculated	Calculated	Calculated
Pristinë	766,923	128,101	1,856	0	636,966	484,316	32,791	33,247	76.03%	101.39%	77.09%	80.10%
Prizren	335,778	64,433	544	0	270,801	218,896	13,872	13,314	80.83%	95.98%	77.58%	84.54%
Pejë	264,691	45,015	476	0	219,200	159,247	10,618	9,556	72.65%	90.00%	65.38%	77.35%
Ferizaj	296,662	56,097	251	0	240,314	187,336	11,981	10,407	77.95%	86.87%	67.72%	82.14%
Gjilan	205,370	33,209	459	0	171,702	155,531	9,619	8,540	90.58%	88.78%	80.42%	92.13%
Mitrovicë	343,757	41,848	300	118,679	182,929	121,922	7,817	5,657	66.65%	72.37%	48.23%	82.25%
Gjakovë	227,073	43,053	366	0	183,654	140,486	8,872	7,815	76.49%	88.09%	67.39%	80.99%
Sub TOTAL	2,440,255	411,756	4,252	118,679	1,905,568	1,467,735	95,569	88,537	77.02%	92.64%	71.36%	82.06%
% of Technical Losses at 7 Districts excluding N. Mitrovica		17.74%										
Land of Mines & Generation (Energy delivered and billed to tariff customers is included in PR Dis.)	137,975	474	137,111	0	390				0.00%	#DIV/0!	#DIV/0!	99.72%
Sub TOTAL	2,578,230	412,231	141,363	118,679	1,905,958	1,467,735	95,569	88,537	77.01%	92.64%	71.34%	83.00%
% of Total Technical Losses for KEK excluding N. Mitrovica		16.76%										
Direct Customers billed but not in CCP	333,348				333,348	333,348	14,987	14,995	100.00%	100.05%	100.05%	100.00%
TOTAL	2,911,578				2,239,305	1,801,082	110,556	103,532	80.43%	93.65%	75.32%	
7 Districts + 3 Direct Customers	2,773,603				2,238,915	1,801,082	110,556	103,532	80.44%	93.65%	75.33%	

Customer Billing	Total January - June 2011									
	Energy Billed				Collection		Customer Debt per month € (000')			
	MWH	%	EURO	%	EURO	%	January	February	July	August
Household	1,034,600	57%	57,214	52%	49,658	48%	368,480	371,016	371,016	371,016
Commercial	306,603	17%	28,968	26%	29,026	28%	374,778	374,778	374,778	374,778
Industrial & Public Lighting	126,532	7%	9,387	8%	9,852	10%	370,176	370,176	370,176	370,176
(3) Direct Customers	333,348	19%	14,987	14%	14,995	14%	369,350	369,350	369,350	369,350
Total	1,801,083	100%	110,556	100%	103,532	100%	369,234	369,234	369,234	369,234

Note:

- 1) The energy billed to tariff customers located at LOMAG is included in Prishtina District.
- 2) Customer debt accumulated in a given month is equal to the difference between billing and collection for this month.
- 3) Column P 'Collections € (000)' might be subject to changes because of later adjustments due to payments done through bank accounts (including Kos Giro).

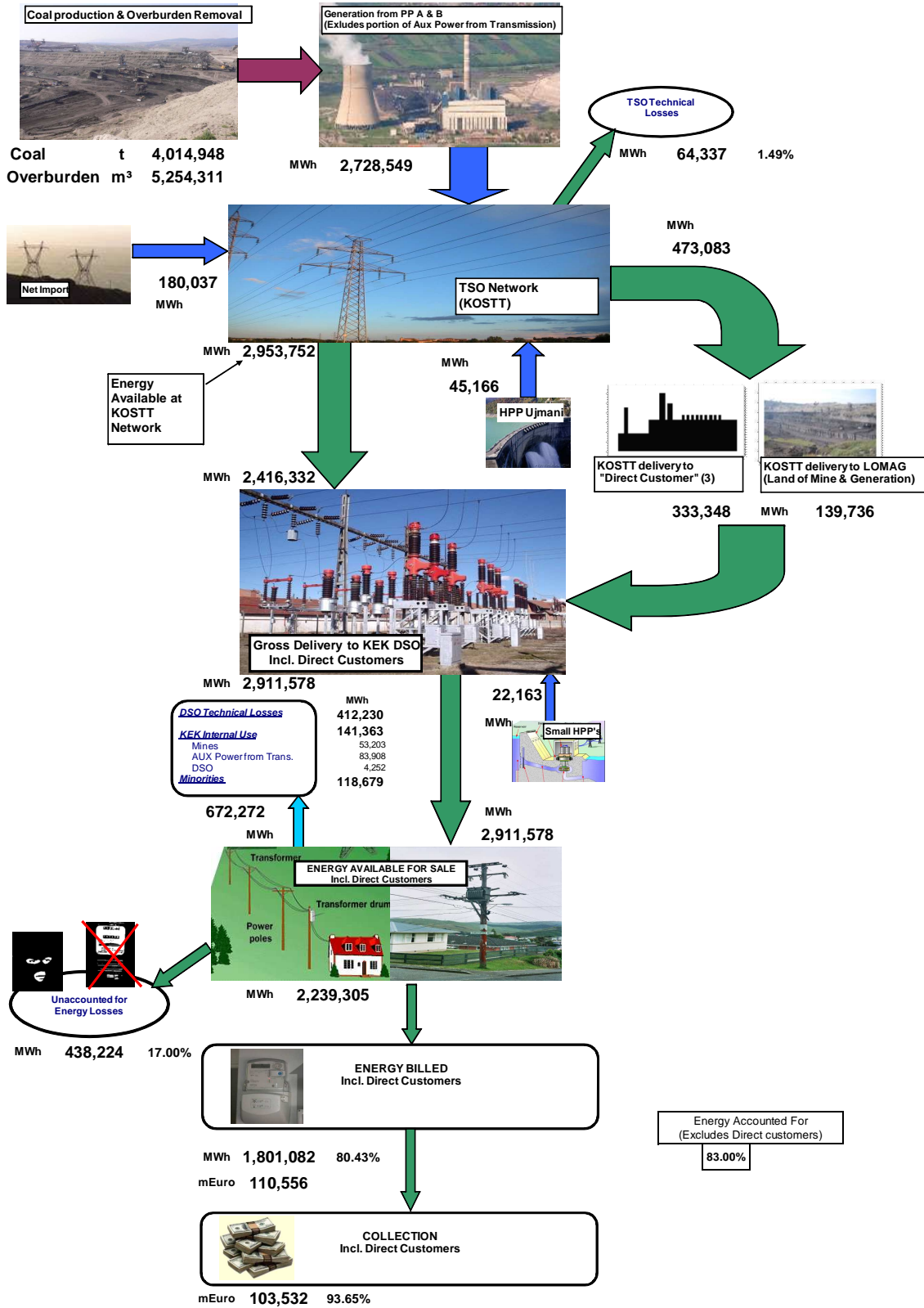
NOTE CONCERNING ENERGY ACCOUNTING REPORT – RESULTS BY DISTRICT

The format of the Energy Accounting Report Results by district page has changed since July 2010, affecting the presentation and calculation of data used in the Performance-based Management System. The report's "Results by District" page has four columns on the far right of the sheet that contain indicators of performance. Since September 2010, the indicators have been computed using the data in the columns to the left, as was the practice from 2006 through the end of 2009. The indicators shown in the March 2010 year to date and June 2010 year to date reports were computed using "lagged" data, which were used to measure the performance of district personnel. The lagged data compared billing in one month with collection in the subsequent month to measure the performance of districts.

As far as the PBMS measures are concerned, the Energy Accounting Report "indicators" are not relevant since all reporting to USAID since 2007 has consistently been based on the actual base data as shown on the left side of the page.

ENERGY FLOW THROUGH SYSTEM

Total January - June 2011



Unservd Demand Report – Quarter 2

TABLE 1: Actual FY 2008 (October 2007 - September 2008)

[MWh]	2007			2008									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)	388,862	467,904	522,047	523,567	459,620	452,155	394,926	353,068	294,030	318,849	321,106	379,584	SubTot.	4,875,718	
Un-served demand (Load shedding)	59,015	74,761	126,784	134,529	93,087	58,668	49,117	45,878	64,010	33,903	70,233	30,421	SubTot.	840,406	
Quarterly PUD			1,378,813 260,560 15.89%			1,435,342 286,284 16.63%			1,042,024 159,005 13.24%			1,019,539 134,557 11.66%			
													PUD = UD / (UD + SD) * 100%		14.70%

Calendar Year PUD Q1+Q2+Q3+Q4 2008	4,921,392
	724,855
	12.84%

TABLE 2: Actual FY 2009 (October 2008 - September 2009)

[MWh]	2008			2009									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)	424,452	461,502	538,533	575,293	522,811	526,077	386,131	351,686	321,742	336,304	346,483	352,296	SubTot.	5,143,310	
Un-served demand (Load shedding)	43,814	45,297	55,898	74,681	35,229	46,737	34,202	24,363	23,923	35,292	40,192	24,410	SubTot.	484,038	
Quarterly PUD			1,424,487 145,009 9.24%			1,624,181 156,647 8.80%	113.2% 45.3%		1,059,559 82,488 7.22%	101.7% 48.1%		1,035,083 99,894 8.80%	101.5% 25.8%		
													PUD = UD / (UD + SD) * 100%		8.60%

Calendar Year PUD Q1+Q2+Q3+Q4 2009	5,241,899
	389,202
	6.91%

TABLE 3: Actual FY 2010 (October 2009 - September 2010)

[MWh]	2009			2010									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)	447,956	506,950	568,170	599,918	524,740	529,168	428,294	388,455	351,084	364,140	378,480	369,064	SubTot.	5,456,419	
Un-served demand (Load shedding)	22,184	22,184	5,805	19,372	32,979	18,508	25,645	18,542	11,385	3,627	13,584	6,177	SubTot.	199,992	
Quarterly PUD			1,523,076 50,173 3.19%	106.9% 65.4%		1,653,826 70,859 4.11%	101.8% 54.8%		1,167,833 55,572 4.54%	110.2% 32.6%		1,111,684 23,388 2.06%	107.4% 76.6%		
													PUD = UD / (UD + SD) * 100%		3.54%

Calendar Year PUD Q1+Q2+Q3+Q4 2010	5,465,263
	194,911
	3.44%

TABLE 4: Actual FY 2011 (October 2010 - September 2011)

[MWh]	2010			2011									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)	468,007	480,994	582,919	630,726	541,259	542,352	416,012	402,665	337,141				SubTot.	4,402,075	
Un-served demand (Load shedding)	22,604	12,313	10,175	25,846	41,163	32,895	43,043	23,210	12,900				SubTot.	224,149	
Quarterly PUD			1,531,920 45,092 2.86%	100.6% 10.1%		1,714,337 99,904 5.51%	103.7% -41.0%		1,155,818 79,153 6.41%	99.0% -42.4%		- - #DIV/0!	0.0% 100.0%		
													PUD = UD / (UD + SD) * 100%		4.85%

Calendar Year PUD Q1+Q2+Q3+Q4 2011	2,870,155
	179,057
	5.87%

TABLE 5: Actual FY 2012 (October 2011 - September 2012)

[MWh]	2011			2012									USAID Fiscal Year PUD		
	10	11	12	1	2	3	4	5	6	7	8	9	SubTot.		
Served demand (Gross Consumption)													SubTot.	-	
Un-served demand (Load shedding)													SubTot.	-	
Quarterly PUD			- 0.0%	0.0%											
													PUD = UD / (UD + SD) * 100%		#DIV/0!

Unservd Demand is 6.41% in Q2 2011 compared to 4.54% in Q2 2010.

- The data for above table are provided by the KEK Capacity Management Department.
- Consumption is defined to be "Input to Distribution + Trepca + Newco Feronikeli Production + Sharri + Kosova Thengjilli + TS Palaj&Bardhi Drenas + Self Consumption + Kosova A PP SS, note that these numbers will be different from the numbers for the "Input to Distribution TOTAL" from the Energy Accounting Reports to the KEK Board of Directors.
- Consumption in the future is based on the energy forecast that KEK has already prepared as part of the KEK business plan process.
- Data not available is indicated as "n/a" in the cell.
- The data are arranged based on USAID Fiscal Year (that is FY 2009 starts on 1 October 2008 and ends on 30 September 2009)
- The Consumed Energy includes the transmission losses of KOSTT (which are a little over 2%).

Note: Prior year data has been restated based on a review of actual data. All changes were insignificant.

Training Information – Quarter 2

The following 193 people received training in the energy-related business management during Quarter 2 of 2011.

Training Topic: Decision Making and New Structure of Sub Districts

Training Date: April 26 – April 28, 2011

Trainer: Irakli Babukhadia

Trainees:

No	Name	Gender
1	Idriz Ibraj	M
2	Jakup Smajli	M
3	Namik Bajraktari	M
4	Ymer Çarkaxhiu	M
5	Rexhë Blakaj	M
6	Nexhmedin Elezi	M
7	Shpetim Stojkaj	M
8	Besim Loshi	M
9	Afërdita Lama	F
10	Dritan Frati	M
11	Agim Qela	M
12	Alban Mazreku	M
13	Milot Kursani	M
14	Visar Hasi	M
15	Genc Pylla	M
16	Genc Kërleshi	M
17	Vehebi Sofiu	M
18	Hymet Mydti	F
19	Ibrahim Elezi	M
20	Artan Kazazi	M
21	Valbone Beka	F
22	Sherfi Sallahaj	M
23	Selam Dolumezi	M
24	Valon Gashi	M

Training Topic: New Structure of Subdistricts

Training Date: May 13; 17; 20; 23; 26, 2011

Trainer: Gela Kereselidze

Trainees:

No	Name	Gender
1	Islam Mehmeti	M
2	Zoran Stanjevic	M
3	Mehmedali Saliha	M
4	Perparim Cakolli	M
5	Fidan Hetemi	M
6	Lutfi Y.	M
7	Murtez Kastrati	M
8	Faruk Hashni	M
9	Ilaz Selmani	M
10	Muharrem Haliti	M
11	Isuf Rexhepi	M
12	Ekrem Metushi	M
13	Habib Guri	M
14	Izet Kurti	M
15	Jeton Topxhiu	M
16	Ramadan Rexhepi	M
17	Lulzim Shala	M
18	Agron Haxhiu	M
19	Safet S.	M
20	Isuf Topalli	M
21	Jashar Ahmeti	M
22	Xhevdet Meniqi	M
23	Adnan Bajrami	M
24	Ragmi Hoda	M
25	Ramadan Ahmeti	M
26	Xhavit Zariqi	M

27	Muharrem Sejdiu	M
28	Salih Haliti	M
29	Shpend Sylejmani	M
30	Ymer Ymeri	M
31	Ilaz Jakupi	M
32	Faton Rexhepi	M
33	Hysni Aliu	M
34	Bardhyl Murati	M
35	Xhelal Bislimi	M
36	Isuf Paloja	M
37	Xhevdet Meniqi	M
38	Hysen Hyseni	M
39	Adnan Hajrizi	M
40	Adem Ademi	M
41	Murat Ternava	M
42	Safet Sadiku	M
43	Idriz Asllani	M
44	Izet Kurti	M
45	Kenan D.	M
46	Ruzhdi Sadiku	M
47	Blerim Qela	M
48	Gazmend Peci	M
49	Remzi Murseli	M
50	Besim Voca	M
51	Jakup Jakupi	M
52	E. Muharemi	M
53	V. Jonuzi	M
54	Ramadan Rexhepi	M

Training Topic: Building & Managing Teams**Training Date:** April 12; 20, 2011**Trainer:** Tatyana Marshall**Trainees:**

No	Name	Gender
1.	Naim Sahiti	M
2.	Gani Zeqiri	M
3.	Ismet Latifi	M
4.	Sabri Ternava	M
5.	Milot Kelmendi	M
6.	Idriz Ferati	M
7.	Mimoza Dugolli	F
8.	Fadil Begu	M
9.	Nexhmedin Gashi	M
10.	Agron Kamberi	M
11.	Vehbi Sofiu	M
12.	Idriz Ibraj	M
13.	Izet Rushiti	M
14.	Ramadan Ahmeti	M
15.	Agron Haxhiu	M

16.	Aferdita Lama	F
17.	Avni Alidemaj	M
18.	Leonora Hysenaj	F
19.	Selman Hoti	M
20.	Burbuqe Baruti	F
21.	Kjan Guri	M
22.	Flamur Goranci	M
23.	Naim Dervishi	M
24.	Sabri Grejqevci	M
25.	Afrim Miftari	M
26.	Ardian Hasani	M
27.	Lutfije Dervishi	F
28.	Arta Qorolli	F
29.	Sadik Latifaj	M
30.	Shukri Aliu	M
31.	Rashi Krasniqi	M
32.	Arif Vitija	M

Training Topic: Leadership & Management
Training Date: April 16, and May 17, 2011
Trainer: Tatyana Marshall

Trainees:

No	Name	Gender
1.	Agron Kamberi	M
2.	Shemdi Bunjaku	M
3.	Florim Sylejmani	M
4.	Vehbi Sofiu	M
5.	Hymrete Mydyti	F
6.	Ibrahim Elezi	M
7.	Idriz Ibraj	M
8.	Jakup Smajli	M
9.	Namik Bajraktari	M
10.	Aferdita Lama	F
11.	Driton Ferati	M
12.	Agim Qela	M
13.	Izet Rushiti	M
14.	Xhavit Zariqi	M
15.	Habib Guri	M
16.	Ramadan Ahmeti	M
17.	Ragmi Hoda	M
18.	Armend Imeri	M

19.	Agron Haxhiu	M
20.	Jusuf Topalli	M
21.	Avni Alidemaj	M
22.	Leonora Hysenaj	F
23.	Selman Hoti	M
24.	Burbuqe Baruti	F
25.	Kjan Guri	M
26.	Flamur Goranci	M
27.	Naim Dervishi	M
28.	Sabri Grejzevci	M
29.	Afrim Miftari	M
30.	Ardian Hasani	M
31.	Lutfije Dervishi	F
32.	Arta Qorolli	F
33.	Sadik Latifaj	M
34.	Shukri Aliu	M
35.	Rashi Krasniqi	M
36.	Arif Vitija	M

Training Topic: Critical Thinking
Training Date: April 19, 2011 & May 18, 2011
Trainer: Tatyana Marshall

Trainees:

No	Name	Gender
1.	Avni Alidemaj	M
2.	Leonora Hysenaj	F
3.	Selman Hoti	M
4.	Burbuqe Baruti	F
5.	Kjan Guri	M
6.	Flamur Goranci	M
7.	Naim Dervishi	M
8.	Sabri Grejzevci	M
9.	Afrim Miftari	M
10.	Ardian Hasani	M
11.	Lutfije Dervishi	F
12.	Arta Qorolli	F
13.	Sadik Latifaj	M
14.	Shukri Aliu	M
15.	Rashi Krasniqi	M
16.	Arif Vitija	M

17.	Arber Mulaku	M
18.	Agron Uka	M
19.	Isa Hajra	M
20.	Ruhan Mala	M
21.	Besnik Ferati	M
22.	Mentor Hyseni	M
23.	Labinot Sadiku	M
24.	Mentor Krasniqi	M
25.	Ndue Nikaj	M
26.	Bekim Hertica	M
27.	Illir Zeqiri	M
28.	Enver Krasniqi	M
29.	Isa Malsiu	M
30.	Zyrafete Ahmeti	F
31.	Hajdar Hoxha	M
32.	Bekim Morina	M

Training Topic: Project Management
Training Date: May 12, 2011 through June 09, 2011
Trainer: Richard Orsmond

Trainees:

No	Name	Gender
1.	Granit Hasani	M
2.	Blerim Hasani	M
3.	Xhelal Cocaj	M
4.	Besnik Binaku	M
5.	Jeton Hazari	M
6.	Saqip Kurteshi	M
7.	Fadil Krasniqi	M
8.	Afrim Ibrahimimi	M
9.	Fatmir Ismajli	M
10.	Arian Kadriu	M
11.	Fatos Ceta	M
12.	Ilir Binaku	M
13.	Hekuran Gjonbalaj	M
14.	Visar Smajlaj	M
15.	Jatmir Uka	M

The following are the details of the 16 persons who received training in the technical energy field during Quarter 2 of 2011.

Training Topic: Preparation for Inspection
Training Date: 02-03 May, 2011
Trainer: Givi Jgarkava

Trainees:

No	Name	Gender
1	Mentor Krasniqi	M
2	Labinot Sadiku	M
3	Alban Qeku	M
4	Halil Bektishi	M
5	Hajdar Hoxha	M
6	Veton Krasniqi	M
7	Riza Dembogaj	M
8	Enver Krasniqi	M

Training Topic: Identification of High Risk Areas in Utility Operations
Training Date: 06 June, 2011
Trainer: Givi Jgarkava

Trainees:

No	Name	Gender
1	Mentor Hyseni	M
2	Ndue Nikaj	M
3	Arben Spahiu	M
4	Mentor Krasniqi	M

Training Topic: El Theft Risk Reduction in Measurement Installations

Training Date: 14 June, 2011

Trainer: Givi Jgarkava

Trainees:

No	Name	Gender
1	Arber Mulaku	M
2	Isa Hajra	M
3	Agron Uka	M
4	Ruhan Mala	M