

ELECTRICITY SUPPLY / TRADE LICENSE

GRANTED TO:

"KOSOVO ENERGY CORPORATION" J.S.C

The Supply Division ("KEK")

Registration Number:

ERO_Li_08/06

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Annex 1- Data on the owned material resources

PART I TERMS OF THE LICENSE

1. **The Energy Regulatory Office (hereinafter referred to as "ERO")**, in exercise of the powers granted by Articles 15.2(a), 28.2 (f) and 37 of the Law on the Energy Regulator (2004/9), Article 16.2 of the Law on Energy (Law 2004/8) and Articles 23, 36 and 37 of the Law on Electricity (2004/10) hereby issues, to: **Kosovo Energy Corporation (KEK) J.S.C, The Supply Division** (hereinafter referred to as the "**Licensee**") **a license for the supply / trade of electricity**, subject to the conditions set out in Part II.
2. The territory covered by this license is Kosovo pursuant to UN (United Nations) Security Council Resolution 1244 (1999) (hereinafter referred to as the "**Territory**").
3. The Licenses is issued for purchase of electricity for capacity exceeding 100 MW up to 400 MW.
4. Upon fulfillment of the public service obligation determined in Article 51.3 of the Law on Energy Regulator, the Licensee shall be permitted to:
 - a) sell capacity and electricity to eligible customers at unregulated prices;
 - b) according to Article 23.3 of the Law on Electricity, purchase capacity and electricity from producers and other traders at unregulated prices;
 - c) purchase capacity and electricity from the public supplier at a regulated price if the customer's demand is reduced below the contracted capacity;
 - d) sell capacity and electricity to the public supplier at regulated price;
 - e) import, export and transit capacity and electricity in accordance to Article 36 of the Law on Electricity;
 - f) bill and collect payment for producers, eligible customers and traders;
 - g) handle the complaints of its customers.
5. Before the Licensee engage in any of supply functions under Article 4, the Licensee shall register its activity under Article 30 of the Law on Energy Regulator and UNMIK Regulation No 2001/6 On Business Organizations and provide to ERO a relevant document of registration.
6. The Articles and conditions of this license are subject to modification or termination or withdrawal in accordance with their terms and with Articles 35, 36, 37 and 39 of the Rule on Licensing Activities of Energy Activities in Kosovo.
7. This license shall come into force on 04 October 2006 *and*, unless withdrawn, shall remain valid for a period of two (2) years until 04 October 2008 with possibility of extension based on the Rule on Licensing of Energy Activities in Kosovo.

Stamped with the common stamp of the Energy Regulatory Office on _____

Signature (on behalf of the Board of ERO)_____

PART II THE CONDITIONS OF THE LICENSE

Article 1. Definitions and Interpretation

1. For the purpose of this license, the terms and expressions listed below shall have the following meaning:

"Affiliate" means, in relation directly or indirectly to the Licensee any Holding Company or Subsidiary of the Licensee, or any Subsidiary of a Holding Company of the Licensee, in each case within the meaning of the legislation applicable in Kosovo.

"Cross Border Trade" means the business of the Licensee and any Affiliate or related enterprise of the Licensee of the import export or transit of capacity or power carried out under the terms of this licence, and any associated billing, collection, and customer service activities.

"Distribution Code" means the set of technical rules issued by Transmission System Operator and approved by ERO, pursuant to Article 15.2 (i) of the Law on Energy Regulator.

"Distribution System" has a meaning as provided by Article 3 of the Law on Electricity.

"Distribution System Operator" has a meaning as provided by Article 3 of the Law on Electricity;

"Electricity enterprise" has a meaning as provided in Article 3 of the Law on Electricity;

"Eligible customer" has a meaning as provided in Article 3 of the Law on Electricity;

"Financial year" is the period from 1 January up to 31 December of the same calendar year.

"Grid Code" is the set of technical rules issued by the Transmission System Operator pursuant to Law on Electricity and approved by ERO pursuant to Article 15.2 (i) of the Law on the Energy Regulator.

"Holding company" means any company defined as such in accordance to the legislation applicable in Kosovo.

"Legislation" means Law on Energy (2004/8), Law on Energy Regulator (2004/9), Law on Electricity (2004/10) and other primary legislation, or secondary legislation issued in execution of primary legislation regulating energy sector;

"Market Operator" means a legal person responsible for the organization and administration of trade in electricity and payment settlements among producers, suppliers, and customers;

"Market Rules" means the rules approved by ERO governing transactions in electrical energy between the Market Operator and other electricity enterprises, including where appropriate the interaction between these parties and the Transmission System Operator for the purposes of maintaining the physical balance of the market. This includes any transitional transaction arrangements that may be approved by ERO.

"Metering Code" means the set of technical rules issued by Transmission System Operator pursuant to Law on Electricity approved by ERO, pursuant to Article 15.2 (i) of the Law on Energy Regulator.

"Non-eligible customer" means a customer who is obliged to purchase electrical energy from the Public Supplier;

"Power Purchase Agreement" means any agreement referred to in Article 21.3 of the Law on Electricity.

"Public Supplier" means a legal person licensed to conduct the business of public supply of electricity in Kosovo, in accordance with Article 21 of the Law on Electricity.

"Subsidiary" means any company owned or controlled by another company, defined in accordance to the legislation applicable in Kosovo.

"Supplier" means a legal person licensed to sell electricity to eligible consumers in Kosovo, as described in Article 22 of the Law on Electricity.

"Supply" means the business of the Licensee and any Affiliate or related enterprise of the Licensee of the sale of electricity to eligible consumers in Kosovo, as described in Article 22 of the Law on Electricity, and any associated billing, collection, and customer service activities.

"Trader" means a legal person licensed for the trade of electricity in accordance with Article 23 of the Law on Electricity;

"Trade" means the business of the Licensee and any Affiliate or related enterprise of the Licensee as a Trader in accordance to the Part I, Article 4 of this license.

"Transmission System" has a meaning as provided by Article 3 of the Law on Electricity;

"Transmission System Operator" has a meaning as provided in Article 3 of the Law on Electricity.

2. Terms used in this license shall have the same meanings as the terms used in the Legislation.
3. In reference to paragraph 2, any modification or re-enactment of the legislation after the date when this license comes into force, shall apply.
4. Unless otherwise specified:
 - a) any reference to a numbered Article or to a numbered Annex is respectively a reference

- to the Article or the Annex bearing that number in this license;
- b) any reference to a numbered paragraph is a reference to the paragraph bearing that number in the Article or Annex in which the reference occurs.
5. The heading or title of any Part, Article, Annex or paragraph shall not affect the construction thereof.
 6. Where an obligation is imposed to the Licensee with a specific deadline for performance that obligation shall continue to be binding and enforceable after that time limit without prejudice to all rights and remedies that may be imposed against the Licensee if such Licensee fails to perform within the time limit.
 7. The provisions of paragraph 6 shall apply in any case of document, direction or notice to be submitted or service to be performed pursuant to this license and directions issued by ERO.

Article 2: Separate Accounts for the Trade , Supply, and Cross Border Trade Businesses

1. The Licensee shall prepare annual regulatory accounts in accordance with Regulatory Accounting Guidelines issued by ERO and shall deliver to ERO a copy of the annual audited accounts so prepared as soon as reasonably practicable, and in any event no later than three (3) months after the end of the financial year to which the accounts relate.
2. The Licensee shall, in its internal accounting, keep separate accounts for the Supply, Trade, and Cross Border Trade businesses, which when requested from time to time by ERO, must be delivered in the form and at the times specified by ERO. The regulatory accounts shall be in accordance with such Regulatory Accounting Guidelines as may be issued by ERO from time to time
3. The Regulatory Accounting Guidelines or directions notified by ERO to the Licensee under paragraph 2 may, inter alia:
 - a) specify the form of the regulatory accounting statements/records, including but not limited to, profit and loss accounts, balance sheets, recognized gains and losses statements, cash flow statements and statements of the amounts of any revenues, costs, assets, liabilities, reserves or provisions which have been either charged from or to any other business or determined by allocation or apportionment between the Supply , Trade, and Cross Border Trade businesses and any other business.
 - b) specify the nature and content of the regulatory accounting statements/records, including information on specified types of revenue, cost, asset or liability and information on the revenues, costs, assets and liabilities attributable to specified activities.
 - c) specify the regulatory accounting principles (including the basis for the allocation of costs).
4. The Licensee shall not, in relation to the regulatory accounting statements in respect of a financial year, change the bases of charge, apportionment or allocation from those applied in respect of the previous financial year, unless ERO has previously issued directions for the

purposes of this Article directing the Licensee or ERO gives its prior written approval to the change in such bases.

5. The Licensee shall comply with any directions issued by ERO for the purpose of this Article.

Article 3: Prohibition of Subsidies and Cross-subsidies

The Licensee shall ensure that the supply business, the trade business and the Cross Border Trade business do not give any subsidy or cross-subsidy (direct or indirect) to, nor receive any subsidy or cross-subsidy (direct or indirect) from each other or any other business of the Licensee and/or any Affiliate or related enterprise of the Licensee and/or any other person.

Article 4: Prohibition of Discrimination

The Licensee shall disclose to ERO at any time the circumstances of the sale/purchase to such purchasers including (without limitation) volumes, load factors, conditions of interruptability, and the dates and durations of the relevant agreements.

Article 5: Compliance with the Distribution Code, the Grid Code, the Metering Code and the Rule on General Conditions of Energy Supply

1. The Licensee shall comply with the provisions of the Distribution Code, the Grid Code and the Metering Code insofar as applicable to it.
2. The Licensee shall comply with the Rule on General Conditions of Energy Supply issued by ERO, insofar as applicable to its businesses.
3. If requested by the Licensee, following consultations with the Licensee, Generators, the Distribution System Operator and Transmission System Operator, ERO may provide the Licensee with a specific time schedule of implementation of this Article. Such time schedule may apply to such parts in the Codes and to such extent, as specified in such schedule.

Article 6: Security and Safety

1. The Licensee shall keep each of its customers informed of the postal address, telephone number, facsimile number and electronic mail address of an enquiry service established and operated for the purposes of receiving reports from any person about any matter or incident that:
 - a) causes or is likely to cause danger or requires urgent attention, in relation to the Supply of electricity; or
 - b) affects or is likely to affect the security, availability or quality of service of the Distribution System through which the relevant customer is supplied with electricity.
 - c) is related to any other complaint made by the customer or any information requested by the customer.
2. The enquiry service referred to at paragraph 1 must be:

- a) provided without charge to the customer;
 - b) available to receive and process telephone reports and enquiries at all times on every day of each year; and
 - c) operational no later than such date as ERO shall specify.
3. The Licensee may discharge the duty imposed by paragraph 1 by providing the requisite information to each of its customers:
- a) on the occasion of the customer first commencing to take a Supply from the Licensee; and thereafter either:
 - (i) where bills or statements in respect of charges for the Supply of electricity are rendered to the customer, on a quarterly or more frequent basis (it being sufficient that the information is included on or with any bill or statement); or
 - (ii) in any other case, on an annual basis;
 - b) and by publishing such information in such manner as will secure adequate publicity for it.
4. The Licensee shall establish the communication link with the Transmission System and Market Operator by assigning the person who will in its name communicate with Transmission System Operator and Market Operator. The address, telephone number, fax number or electronic mail address of such person shall be provided to the Transmission System and Market Operator.
5. The Licensee shall, in so far as is practicable, take steps to inform each of its customers of any change to the address, telephone number, facsimile number or electronic mail address of the service referred to at paragraph 1 prior to such change becoming effective.

Article 7: Overall and Minimum Standards of Performance

1. The Licensee shall conduct its Supply/ Trade business in Kosovo under this license in the manner that is appropriate to achieve the overall and minimum standards of performance proposed by it and approved by ERO from time to time.
2. Within six (6) months after this license is issued, the Licensee shall prepare and submit to ERO for its approval a proposal for standards of performance to its businesses which shall:
 - a) Identify the standards of overall performance to which it shall be obliged to adhere in respect of the Supply/Trade businesses;
 - b) State the minimum standards of performance in relation to specific matters to which it shall be obliged to adhere in respect of the Supply/Trade businesses from time to time and
 - c) Specify the financial compensation which it shall make to Supply/Trade businesses customers in the event that the minimum standards of performance referred to in sub-paragraph b, are not complied with.

3. ERO may approve an extension to the deadline set forth in paragraph 2 in response to a justified request by the Licensee.
4. The Licensee shall implement the approved standards and quality of service and shall propose to ERO for its approval, procedures for monitoring compliance with the same. The Licensee shall comply with the approved procedures.
5. The Licensee shall review and, if appropriate, propose to ERO amendments to the approved standards and/or procedures developed in accordance with this Article as directed by ERO.
6. The Licensee shall provide to ERO not later than 31 March each year a report on the performance of the business against the performance standards. The report will include such information and analysis as ERO may require from time to time for the purposes of establishing whether or not the Licensee's overall performance meets, the performance standards established pursuant to this Article.
7. The Licensee shall also by 31 March each year publish in such a manner as ERO may direct statistics identifying the extent to which its performance meets, or fails to meet, the performance standards established pursuant to this Article.

Article 8: Procedures for the Detection and Prevention of Theft, Damage and Meter Interference

1. The Licensee shall take all reasonable steps to detect and prevent:
 - a) the theft of electricity at premises which are supplied by it;
 - b) damage to or fault in any electric plant, electric line or electricity meter through which such premises are supplied;
 - c) interference with any electricity meter through which such premises are supplied; and
 - d) any unrecorded consumption of electricity at premises which are supplied by it.
2. The Licensee shall, as soon as possible, inform the owner of the relevant electric plant, electric lines or meter of any incident where it has reason to believe:
 - a) there has been damage to or a fault in any electric plant, electric line or meter; or
 - b) there has been interference with any meter to alter its register or prevent it from duly registering the quantity of electricity supplied; or
 - c) the consumption of electricity at premises which are supplied by it has not been recorded.
3. Where the Licensee has reason to believe that any incident reported to the owner in accordance with paragraph 2 has been caused by the act of any person it shall, on complying with the requirement of that paragraph, provide the owner with such information as is reasonably required for the purposes of investigating the incident and resolving any safety concerns arising out of it.
4. In this Article:

“Theft of electricity” means the dishonest use, waste or diversion of electricity.

Article 9: Market Rules

1. The Licensee shall be a party to, and shall comply with, the Market Rules insofar as applicable to it.
2. ERO may issue directions relieving the Licensee of its obligation under paragraph 1 in respect of such parts of the Market Rules and to such extent as may be specified in those directions.

Article 10: Health and Safety

1. The Licensee shall take all reasonable steps to protect persons and property from injury and damage that may be caused by it when carrying out the licensed activities.

Article 11: Labour

The Licensee shall comply with all legislation applicable to labour relations and work safety whether in force at the date hereof or in the future.

Article 12: Change in Control of the Licensee

The Licensee shall notify ERO of any intended change in control of the Licensee at least sixty (60) days in advance of such a change. Change in control may not take place unless ERO has approved it.

Article 13: Provision of Information to ERO

1. The Licensee shall submit to ERO, in manner and at such times as ERO may require, such information and such reports as ERO may consider necessary in the light of any Article or condition of this license or for the purpose of performing the functions assigned or transferred to it under Article 29 of the Rule on Licensing of Energy Activities in Kosovo or other applicable Legislation.
2. The information shall be prepared to a level of audit as may be required by ERO from time to time.
3. The power of ERO to require information under paragraph 1 is without prejudice to the power of ERO to require information that is considered confidential under or pursuant to any other Article or condition of this license or under or pursuant to the applicable Legislation.
4. If the Licensee request that certain information shall be considered as confidential it is its obligation to mark such information as confidential and justify to ERO such request.
5. The Licensee shall provide to ERO any signed contract for cross border trade of electricity, supply contracts, Power Purchase Agreements and any contract signed pursuant to the Power Purchase Agreement.

6. The Licensee shall deliver to ERO quarterly and annual reports about its Supply/Trade business and compliance with the license's Articles and conditions in accordance to the Reporting Manual issued by ERO.
7. The Licensee shall submit to ERO details of any change in information submitted with application for this license.
8. In this Article:

“Information” means material in any form and includes, without limitation, any books, documents, records, contracts, accounts (statutory or otherwise), estimates, returns or reports of any description and any explanations (oral or written) in relation to such information as may be requested by ERO.

Article 14: Reasons for License Termination, Withdrawal and Modification

1. ERO may terminate this license in accordance to Article 39 of the Rule on Licensing of Energy Activities in Kosovo provided that the obligations of the Licensee shall be carried out by another Licensee or that customers are not disadvantaged by such termination. Such termination may take place in case of:
 - a) expiration of the term of the licence;
 - b) a request received from the licensed electricity enterprise in respect of its own license;
 - c) dissolution of the legal person holding the license;
 - d) upon decision of a court declaring the insolvency of the Licensee or court decision to terminate the energy activity due to the Licensee's declaration of liquidation;
 - e) where the licensed energy activity has not been conducted for more than six (6) months, except where the suspension of activity is at the approval of ERO;
 - f) where provisions of Article 44 of the Rule on Licensing of Energy Activities in Kosovo are met; and
 - g) if any amount payable in respect of a fee for this license is unpaid thirty (30) days after it has become due and remains unpaid for a period of another thirty (30) days after ERO has given the Licensee notice in writing that the payment is overdue, provided that no such notice shall be given earlier than the day after the day on which the amount payable became due.
2. ERO may withdraw this license in the following cases, stipulated in Article 44.5 of the Rule on Licensing of Energy Activities in Kosovo, provided that the obligations of the Licensee shall be carried out by another Licensee or that customers are not disadvantaged by such withdrawal:
 - a) the Licensee defaults or violates Articles, conditions or obligations in the license and such defaults and violations have not been remedied within the deadline given by ERO or seriously damage the quality, safety and reliability of the service that the Licensee was obliged to provide;
 - b) license monitoring by ERO finds failure to fulfil administrative requirements and such failure has not been remedied within the deadline provided by ERO;

- c) the Licensee presented materially false information upon which the license grant was based.
3. In accordance with Article 35 of the Rule on Licensing of Energy Activities in Kosovo, ERO may modify this license in the following cases:
 - a) at the request of the Licensee;
 - b) where required to protect the energy system in Kosovo, in connection with security of supply, security of life and health of citizens or protection of environment;
 - c) in order to adhere to new requirements set forth in international agreements and national laws, regulations and other applicable legislation;
 - d) as a sanction for violation of license terms and conditions, pursuant to Article 44 of the Rule on Licensing of Energy Activities in Kosovo.

Article 15: Fees

1. The Licensee shall pay to ERO any initial and annual fees provided by the Schedule of Fees issued and adopted by ERO.
2. Initial fee shall be paid calculated based on capacity requested by Applicant as per Part I, Article 3 of this license in accordance to the Annex A of the Schedule of Fees.
3. Failure to pay the annual fees and other fees at the dates scheduled by the Schedule of Fees may lead to license withdrawal.

Article 16: Administrative Fines and Measures

1. In case of violation of any provision of the Legislation, of any Article or condition of this license and any of ERO's instructions to the Licensee, ERO shall have the power, pursuant to Article 56.2 of the Law on Energy Regulator and Rule on Administrative Measures and Fines, either to prevent the Licensee from repeating the illegal action or, if the action has stopped, to issue a regulatory decision requiring that a particular action has to be taken or to impose an administrative fine to the Licensee and/or the members of its Board of Directors and/or its executives.
2. Prior to issuance of a fine, ERO shall issue a notice of license violation to the Licensee and shall provide the Licensee with an opportunity to respond to ERO, in writing, within fourteen (14) days of the notification, and to remedy the violation.
3. A fine shall be imposed on the Licensee, in accordance to Article 57 of the Law on Energy Regulator and Rule on Administrative Measures and Fines.
4. The amount of the fine will be evaluated in accordance to the Rule on Administrative Measures and Fines. In any case, if the fine mentioned in paragraph 3 is imposed on the Licensee, it must not exceed 15% of the Licensee's gross revenues from the business conducted under this license in the previous financial year.

5. If the fine mentioned in paragraph 3 is imposed on a member of Board of Directors or an executive of the Licensee, it must not exceed 300% of the monthly remuneration received by that person from the Licensee.
6. In the case of repeated violations, the fine imposed may be three times greater than the amount authorized in paragraph 4 or 5.
7. When imposing a fine, in accordance to this Article, ERO shall take into account the degree of social harm of the action, the prior behavior of the Licensee or person concerned, and the financial standing of the Licensee or person.
8. If a fine imposed by ERO is not paid, ERO shall initiate court proceedings for the collection of the fine as a civil debt.

Article 17: Settlement of Disputes

1. Any dispute arising out or in connection with the licensed activity shall be settled in accordance with the Rule on Dispute Settlement Procedure in the Energy Sector issued by ERO.
2. Decisions of ERO regarding the modification, withdrawal or termination of the license, as well as those regarding any fines resulting from breaches of the license or of the applicable legislation, may be appealed by the Licensee to the court of competent jurisdiction.